

Global housing financing partner "open for business"

International Housing Solutions South Africa (IHS) is bucking the trend in that despite the turmoil in global markets it has successfully launched its R1,3 billion South Africa Workforce Housing Fund and is actively seeking new deal flows. Elize Stroebel, its country director, says the company has moved to new and larger offices and more than doubled its team in South Africa in order to take advantage of the phenomenal opportunities the downturn in the property cycle has created for low-income housing.

"We have a number of fantastic developments under way, including the Greatermans Precinct in downtown Jozi, which is set to launch soon, as well as projects in Springvalley in Pretoria and Carnival City in Gauteng, which are both set to come on stream in the next few months," she says.

"We are perfectly positioned to partner with developers who are now able to access well located land at reasonable prices far more easily. And, because we are not bankers but business partners, we can mitigate the risks by helping to provide the correct product to match current conditions. We operate on an equity basis rather than on interest based income, which helps developers share the load." Stroebel says equity investments in housing projects is relatively new in South Africa as most funders provide debt-based instruments to projects.

"IHS is different in that it provides the majority of the equity needed in a development deal, which, simply put, is the total cost of the project less the portion that will be funded by debt (generally provided by commercial banks) and any other sources of funds."

She says that in the current challenging economic environment, the equity that IHS provides allows developers to grow their businesses and manage their own capital more efficiently. With banks putting pressure on developers to borrow less, equity has become all the more important. "With a global group like ours as developer partner, developers can share the risk on projects, thereby reducing the exposure for them. It is certainly preferable to 'going it alone' especially with regards to large-scale projects," she says.

"This approach in effect negates the need for interest to be paid at all. For IHS as an equity investor, the return will come in its share of the profit should the project be successful." Another advantage we have over development financiers is that we have in-depth experience and global perspective and best understand the challenges from a global view."

She notes that this experience allows IHS to structure optimal joint venture partnerships with developers. The housing developments that IHS invests in will typically be in the form of joint venture equity with experienced developers and real estate sponsors on projects that have an average three to- five-year hold period before being sold to individual buyers, or through portfolio sale of apartment buildings that may have a longer hold period. In a typical development, IHS's capital provides approximately 80% of a project's funding requirements through equity. Stroebel says that in most cases the development equity repayment is structured with a progressive waterfall to ensure that investor and developer incentives are aligned in order to optimise the profits for all parties. ●