

BETWEEN THE SHEETS

...FROM THE ANNUAL REPORT

CALGRO M3 HOLDINGS

Affordable housing still profitable

LOW-INCOME HOUSING appears to be the only sector of the residential property market where developers are still making money. The latest annual report of housing developer Calgro M3 shows the AltX-listed company's exposure to the lower end of the housing market helped prop up the substantial losses reported by its middle and upper income cluster developments.

Calgro's cluster division – residential complexes mostly located in Johannesburg's north-western suburbs, typically priced between R600 000 and R1,6m – reported an operating loss of R12,6m in the year to end-February 2009.

In stark contrast, Calgro's integrated housing division – affordable housing developments in Soweto and surrounds, typically priced below R340 000 – made an operating profit of R21m over the same period. That brought total operating profit for its 2009 financial year to R8,3m. Though that's way down from the R47,5m profit reported in 2008 acting CEO Ben Malherbe says Calgro still managed to achieve a positive performance in the midst of challenging economic conditions.

Malherbe says the company has restructured its medium- and high-income

segments of its business, allowing the company to "land bank" properties until this end of the market starts to recover.

Meanwhile, Calgro plans to shift its focus to affordable housing developments, where Malherbe says sales haven't dried up to the same extent as they have in the middle and higher ends of the market. He says while affordable housing sales have no doubt also been hit by SA's National Credit Act and stricter bank lending, demand still outstrips supply by far, with affordable housing generally being viewed as a necessity rather than a luxury.

In addition, Malherbe believes Government's commitment to build 2,2m houses by 2014 – plus banks' lending commitments to lower income households in terms of the Financial Services Charter – should support strong growth in affordable housing activity over the next few years.

Says Malherbe: "SA's current housing backlog sits at 2,5m homes, growing by 200 000 annually. The opportunities for housing developers willing to help eradicate the problem in the integrated and affordable housing segment of the market



are therefore endless."

Calgro is expected to break ground on its biggest affordable housing project to date within the next few months.

The development – known as Fleurhof – is located on a massive tract of land 12km southwest of the Johannesburg CBD and will eventually consist

of 6 500 homes. Malherbe says Fleurhof will generate turnover of an estimated R1,6bn over the next three to four years.

Calgro's most recent coup was to sell a 30% stake in Fleurhof for R30m to a private equity housing, which is owned by International Housing Solutions (IHS), a joint venture between US mortgage lender MuniMae and Irish property group Howard Eurocape. Calgro's deal with IHS also involves a further advance of R50m in the form of a shareholders' loan. Malherbe says the deal with IHS will inject capital into the business at a time when market conditions are uncertain and traditional development funding isn't that readily available.

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