HOUSING INVESTMENT LANDSCAPES
SOUTH AFRICA

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South Africa

This country report forms part of the Centre for Affordable Housing Finance's Investor Programme which aims at addressing key information asymmetries regarding who, why and how investments are made in the African housing sector. With the intention of identifying and championing increased investment in affordable housing, the report includes insights and analysis into the depth and breadth of investment in South Africa's housing and housing finance sector. The overall goal of this project is to quantify the breadth of investment activity with respect to housing and housing finance across Africa and to establish a mechanism to track this on an ongoing basis. This project has collected data and highlights gaps and opportunities in the investment landscape. With the aim of stimulating greater investment in affordable housing and connecting investors with potential investments, this report profiles investors and investment instruments with the greatest impact on the housing finance market within the Southern Africa Development Community (SADC).

Growing financial sector experience and increasingly sophisticated financial instruments are driving investor interest in African real estate. This includes new market opportunities related to a rising urban middle class, an increasingly localised construction material industry and innovations in housing finance such as the emergence of Real Estate Investment Trusts (REITs) and mortgage liquidity facilities across Africa. However, a key barrier to this growth remains the chronic lack of rigorous data in relation to the housing sector financing infrastructure. This is particularly true for the housing sector, given that the stimulation of targeted investments requires highly differentiated data that illustrates market segmentation. In providing market intelligence that makes the case for investment in underserved markets (segmenting and quantifying the demand side; and scoping, understanding, and tracking the supply side), we can support a better policy environment and increased private sector activity in affordable housing markets. In this way, we catalyze scale interventions.

Without this data, targeted interventions become challenging and result in unresponsive housing finance packages, the high occurrence of non-performing loans (NPLs) and poor uptake of new residential developments.

Please note that the following report presents conclusions to the extent that available data is representative of broader trends.
1 Introduction

South Africa has one of the most developed housing markets on the continent. The country has a sophisticated business environment with low barriers to entry, strong state institutions, a sufficiently diversified economy and mature capital markets. The country’s financial regulatory framework is also well aligned with Basel II and Basel III standards.

Both the public and private sectors are heavily involved in the South African housing industry. The government’s Reconstruction and Development Programme (RDP) began in 1994 and has since delivered over 2.8 million housing units and created over 1.2 million serviced plots. As of 2017, an estimated 29.4 percent of the total housing stock was public. The affordable housing market in South Africa makes up the majority of properties on the deeds registry with 60 percent of these falling under ZAR 600 000.

The private sector has been active in terms of financing and developing housing. Thanks to the country’s relatively robust capital markets, long-term sources of funding have been directed to the housing markets and allowed institutional investors to place money in residential assets.

Nevertheless, the country still faces an ever-increasing backlog with a housing deficit estimated at 2.3 million units. The demand for affordable housing is expected to carry on unabated as the country continues to grow and urbanise (the current urbanisation rate is 2.04 percent and approximately 65 percent of the population live in urban centers).

2 Profile of Investors

The investment landscape in South Africa is diverse, and includes both local and foreign institutional investors. Below is a description of the two categories of investors, detailing their institutional type, sources of capital, and other parameters that define their investment model.

2.1 Local Institutional Investors

Capital Markets

South Africa has the most developed capital market in Africa, capable of effectively directing capital to housing investments. The Johannesburg Stock Exchange (JSE) had a market capitalisation of US$1.11 trillion as of March 2018, making it the 17th largest exchange in the world. Both debt and equity are raised on the markets.

The South African debt market is liquid and well-developed in terms of the number of participants and their daily activity. Roughly ZAR25 billion is traded daily. At the end of 2013, the JSE had approximately 1 600 listed debt instruments, totaling more than ZAR1.8 trillion outstanding. Over half of the debt listed on the JSE is placed by the South African government. More than ZARs trillion in government bonds is currently listed and these instruments account for 90 percent of all liquidity reported to the JSE. Other issuers include South African state-owned companies, corporates, banks, and other African countries. Since the first corporate bond was issued in 1992, more than 1 500 corporate debt instruments have been listed on the JSE Debt Market. Liquidity remains relatively low compared with government debt, but issuance continue to grow. More than 800 Securities are currently available on the JSE’s Equity Market, and approximately 400 companies are listed across the main board and the AltX Board.

A decision was made in 2011 to allow foreign domiciled companies to be treated as domestic companies on the exchange. Hence, investors can now hold a larger quantity of equities, and listing on the exchange is a more appealing prospect for foreign companies.

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1 The Global Competitive Report 2016/17 ranked South Africa second in the region, behind Mauritius.
5 JSE market information available at JSE.co.za
6 See JSE website: https://www.jse.co.za/about/history-company-overview
REITs

There are 27 Real Estate Investment and Service companies and 39 Real Estate Investment Trusts (REITs) listed on the stock exchange. The residential REIT sector is still in its early stages as most REITs are invested in commercial properties’ (office, retail and industrial), with just seven of the listed REITs’ portfolios including residential investment in their portfolios. Octodec, Redefine Properties, SAccorp Real Estate, Transcend, and Indluplace are the only South African REITs significantly invested in the residential sector. Together their residential assets comprise less than 3 percent of the total listed property sector.

A report released in 2016 valued South Africa’s commercial property sector at approximately ZAR1.3 trillion. REITs hold the second largest share of the commercial property market, at ZAR300 billion.

Some experts assert that the South African REIT sector is now becoming large enough to properly specialise, and that the next big opportunity for REITs will be the residential property sector. Residential REITs are defensive by nature, less correlated to macroeconomic factors than other asset classes, and an important component of developed REIT markets internationally.

REIT Performance

As of Q1 2018, REITs have been the top-performing asset class in South Africa in six of the past fourteen years. In 2016 the SAPY REIT index returned 14.7 percent compared with the All Share return of 2.6 percent, and the sector is known for producing high forward yields. As of March 2018, Growthpoint, a key player in the sector with a market capitalisation of around ZAR80 billion, traded on an estimated forward yield of 7.3 percent, just 70 basis points below the ZAR186 bond yield of 8 percent. Growthpoint’s current estimated forward yield premium of 70 basis points compares with a long-term average yield premium of 107 basis points for the REIT SAPY index. REITs are expected to continue to perform well going forward.

Transcend, an off-shoot of the well-established private equity firm, International Housing Solutions (IHS), listed on the JSE in December 2016, thereby becoming South Africa’s second focused residential REIT (the first was Indluplace). The company’s focus is to acquire yield-accrative rental properties, with a specific focus on the affordable housing market and middle income households.

Transcend currently holds a portfolio of 13 properties, comprising 2,472 units, which fetch rentals of between ZAR3000 to ZAR7000. The REIT is offering an initial forward dividend yield of 8.5 percent. Transcend’s portfolio is managed by IHS Asset Management (Pty) Limited, a wholly-owned subsidiary of IHS and leverages off IHS’s extensive experience in the residential rental markets.

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7 A report released in 2016 valued South Africa’s commercial property sector at approximately R1.3 trillion. REITs hold the second largest share of the commercial property market, at R300 billion. Property Sector Charter Council’s (PSCC) report (2016).
9 A defensive stock is a stock that provides a constant dividend and stable earnings regardless of the state of the overall stock market. Because of the constant demand for their products, defensive stocks tend to remain stable during the various phases of the business cycle. See Investopedia “Defensive Stock”. https://www.investopedia.com/terms/d/defensivestock.asp#ixzz5StFRPJQH
<table>
<thead>
<tr>
<th>Name of Residential REIT</th>
<th>Indluplace</th>
<th>Transcend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date Listed</td>
<td>June 2015</td>
<td>December 2016</td>
</tr>
<tr>
<td>Strategy</td>
<td>Only acquire properties that are yield enhancing and provide income from the date of acquisition. Use specialist property managers carefully paired to appropriate buildings to ensure that properties are well run.</td>
<td>Invest in affordable housing market. Achieve consistent growth in dividends by maximizing the performance of its property portfolio through inflation-linked rental escalations, and efficiencies in property and asset management gained through value-add initiatives.</td>
</tr>
<tr>
<td>Portfolio Value (2017)</td>
<td>ZAR2.9 billion</td>
<td>ZAR1.2 billion</td>
</tr>
<tr>
<td>Number Buildings, Number Units</td>
<td>125 buildings 6 859 units</td>
<td>13 properties 2 472 units</td>
</tr>
<tr>
<td>Geographical Profile</td>
<td>38 percent of Indluplace’s portfolio consists of apartments in the Johannesburg Inner City.</td>
<td>77 percent of the portfolio is in Gauteng.</td>
</tr>
<tr>
<td>Investors</td>
<td>Investors are primarily local. Arrowhead owns 60 percent and Indluplace’s management owns 7.5 percent. The remaining investors are largely professional fund and investment asset managers. Large institutional investors in Indluplace include Stanlib and Investec.</td>
<td>89 percent of Transcend’s shares are currently held by the South African Workforce Housing Fund PVE (SA) (“SAWHF”), a South African en commandite Partnership. The remaining 11 percent are held by public shareholders.</td>
</tr>
<tr>
<td>Funding Structure</td>
<td>Mainly equity, 6.8 percent LTV</td>
<td>41.8 percent LTV</td>
</tr>
<tr>
<td>Return/ Yield</td>
<td>2017 dividends per share of 97.75 cents (rand). Indluplace pays 100 percent of its profits as dividends, and is the only REIT besides for Arrowhead that pays quarterly distributions. As of 2017 its annual return had averaged around 9.5 percent. Indluplace projects that the portfolio of properties currently owned with the new acquisitions will deliver dividend growth of 4-7 percent for the 2018 financial year.</td>
<td>Dividend yield of 6.16 percent. The average annualised property yield of the properties (based on the independent property valuations) for the 12 months ending 31 December 2017 is 8.9 percent (2016: 8.6 percent).</td>
</tr>
<tr>
<td>Other Characteristics</td>
<td>96.5 percent occupancy. Property management and accounting functions are outsourced.</td>
<td>93 percent occupancy. As most properties are under six years old, they tend to have a high underlying capital value. As a result, performance is at lower rental yields than inner-city properties, and in the view of the Board, has greater potential for capital appreciation.</td>
</tr>
</tbody>
</table>

Table 1: Characteristics of two of South African Residential REITS Sources: Indluplace http://www.indluplace.co.za/ and Transcend Residential Property Fund https://transcendproperty.co.za/
2.2 Pension Funds

Pension funds play a significant role in the South African financial sector, providing crucial long-term financing to the economy through direct and indirect investments in domestic businesses. As of March 2017, the sector consists of 5,119 registered funds with a combined asset value of over ZAR 4 trillion (approximately US$309.8 billion) and over 16.5 million members.\(^{11}\)

Despite housing and infrastructure arguably being a good fit for the longer-term liability profile of pension funds, only 0.7 percent of assets were invested in property in 2014, equivalent to US$2.1 billion.\(^{12}\) Although the percentage is low when compared to some other SADC countries (Zambia’s main pension scheme, for example, has 22 percent of its assets invested in property\(^{13}\)), the nominal figure is not insignificant. The largest investment allocation by pension funds is to insurance policies (44.8 percent), followed by equities (18 percent) and foreign investments (13 percent).\(^{14}\)

Due to regulatory changes, pension funds are now permitted to invest 10 percent of their assets in private equity in order to encourage more socially responsible investments. This has opened up a considerable amount of funds for investment in South Africa and boosted private equity as a form of private equity investment.

2.3 Financial Service Providers

Old Mutual

The Old Mutual Group is a pan-African investment, savings, insurance, and banking group. Established in 1845 in South Africa, it had more than 12 million customers and ZAR1.2 trillion funds under management as of 31 December 2017.\(^{15}\) It is listed on the Johannesburg Stock Exchange, as well as the Zimbabwe, Malawi, Namibia and London Stock Exchanges.

Old Mutual has been active in the affordable housing investment space, putting money behind for-profit Housing Investment Partners (HIP), a housing finance company that targets individuals that would normally be turned away from conventional lenders. HIP caters to first time home-buyers with gross monthly salaries between ZAR3,500 and ZAR20,000 (single or joint) and property values between ZAR250,000 and ZAR550,000. It frequently works with employers offering housing assistance to their employees such as public sector employees, the mining sector and other private sector employees of established companies listed on the JSE.

In 2007, Old Mutual made a US$43 million equity investment in HIP. The National Housing Finance Corporation (NHFC) also committed approximately US$21.5 million of equity to HIP in 2007.


\(^{14}\) PWC report (2014).

\(^{15}\) Old Mutual Annual Report (2017).
2.4 Pension Fund

Africa’s largest pension fund is South Africa’s Government Employees Pension Fund (GEPF), which had an investment portfolio of ZAR1.67 trillion (US$124 billion) at 31 March 2017. Accumulated funds and reserves grew at 10.2 percent a year for the last decade, according to the fund’s latest annual report. It has more than 1.2 million active members.\(^\text{16}\)

The fund has backed 646 housing projects, and in 2016 it invested ZAR10.5 billion (US$778 million) into mortgage finance provider SA Home Loans (SAHL). The deal, through its investment manager Public Investment Corporation (PIC), aims to provide government employees and qualifying members of the public with end-user home finance and development finance for approved affordable housing projects.\(^\text{17}\)

Of the investment, ZAR5 billion was for public service employees and ZAR2 billion had been set aside for affordable housing end-user financing. Another ZAR2 billion would enable SAHL to extend home loans to qualifying home loan applicants, while the remaining ZAR1.5 billion would fund affordable housing developers.

Pension Backed Housing Loans

Pension Backed Housing Loans (PBHL) are an alternative form of housing finance where a loan is secured by the member’s retirement fund savings instead of a mortgage bond. The Pension Funds Act 2007 allows employees to use their retirement fund credits as security for mortgages on existing or new property, with the option to ‘self-build’ or improve existing dwellings.

South Africa has trillions of rand in pension funds which could be utilised as collateral, with only a fraction of PBHL (approximately ZAR20 billion) floating in the bond market. In comparing an average micro funding loan to the funding model of PBHL, the variation in repayments for a ZAR30 000 home improvement loan is roughly ZAR20 000 in savings, for the borrower, over the life of the loan.\(^\text{18}\)

Musa Capital, a private equity investment and financial advisory services firm, was the first intermediary to receive funding for the provision of PBHL. It received ZAR15 million from the Gauteng Partnership Fund to support PBHL.

\(^\text{16}\) GEPF 2017 Annual Report.


\(^\text{18}\) Musacapital.com
2.5 Private Equity

South Africa's local private equity funds have notably invested in affordable housing, both domestically and abroad. In addition, as the private equity market has matured in South Africa, limited partners have expanded from being predominantly DFIs to more traditional LPs such as pension funds and endowments.

Of the private equity investments made during 2017 that exclude those made by Business Partners and classified into sectors by value, 25.9 percent were in the retail sector, 16.2 percent in the services sector and 10.1 percent were in the real estate sector. The Southern African Venture Capital and Private Equity Association reports that 5.2 percent of funds under management in financial year 2017 were invested in real estate.

International Housing Solutions (IHS)

International Housing Solutions (IHS) has the most money under management, consisting of three multi-investor funds, one single investor fund, and a publicly-traded REIT.

The South African Workforce Housing Fund (SAWHF) is a multi-investor 10-year US$234 million fund that began operations in 2008. SAWHF is fully invested, having raised US$154 million of LP capital from five different investors with an additional participating debt commitment of US$80 million from the Overseas Private Investment Corporation (OPIC). It made 35 investments comprised of approximately 30,000 units of affordable for-sales and rental housing with a combined total value of more than ZAR8.6 billion (US$605 million), 85 percent of which were aimed at the low to middle income bracket. SAWHF is currently in the process of exiting its investments as it will mature in April 2019 (although the maturity of SAWHF may, subject to the consent of the investors and OPIC, be extended for an additional year to April 2020). NHFC was the senior debt provider and invested a total of approximately ZAR167 million in various projects.

International Housing Solutions Residential Partners Partnership (IHS Residential Partners), a single-investor fund with a large North American institutional investor targeted at the emerging middle class in South Africa, began operations in November 2013. IHS and its partners have contributed approximately US$68.0 million to the venture, financing investments in seven different projects totaling just under 2,100 rental units and one undeveloped land project.

Fund II has two separate legal sleeves, the first aimed at investments in South Africa (IHS Fund II SA) and the second aimed at sub-Saharan countries (IHS Fund II SSA). According to IHS, the fund has raised US$180 million to date. Investors have included the IFC (US$25 million), NHFC (US$24 million), the IFC’s Global Environmental Facility (US$10 million), KFW (US$5 million), Eskom Pension and Provident Fund (US$7.4 million), and EIB (US$6.7 million). OPIC also contributed US$80 million in debt.

- IHS Fund II SA is a multi-investor fund targeting investments in affordable housing, including green housing projects, within South Africa. IHS Fund II SA began operations in July 2014 and at year-end 2017 had raised approximately US$123 million of LP capital from eleven investors. IHS Fund II SA also has an additional participating debt commitment from OPIC for up to US$80 million. At year-end 2017, IHS Fund II SA had closed on 19 investments that represent a total of 6,875 affordable for-sale and rental housing units in South Africa.

- IHS Fund II SSA is a multi-investor fund targeting investments in affordable housing, including green housing projects, within Namibia and Botswana. IHS Fund II SSA began operations in July 2014 and, by early 2018, had raised approximately US$74 million of LP capital from five investors.

Transcend Residential Property Fund Limited (Transcend) is a REIT that was listed on the AltX of the Johannesburg Stock Exchange in December 2016. The primary strategy of Transcend is to acquire multi-family residential properties, with a focus on housing opportunities that are affordable, lifestyle-enhancing and located in well-situated and high growth urban areas of South Africa. At year-end 2017, Transcend owned a portfolio of 13 properties that have approximately 2,500 units and that were previously part of the SAWHF portfolio. At year-end 2017, SAWHF owned 89 percent of the common shares of Transcend.

10 International Housing Solutions (IHS).
The aforementioned Musa Group also invested in an affordable housing project in Lehae, a township situated south of Johannesburg, in 2017. Musa’s Housing platform, the Skyward Group, and its partners committed US$3.7 million to the project, which will ultimately consist of 2,000 homes. The first phase is underway and will result in 400 homes.22 The Skyward Group constructed more than 2,500 homes between 2003 and 2014. It currently has approximately 1,000 units under development and an additional 900 in its pipeline.22 In addition to developing its own projects, it has worked on projects supported by the National Department of Human Settlements (NDHS).

2.6 Government Investment

The investment landscape into affordable housing in South Africa is largely driven by the government. This is due to the South African constitution mandating the government to deliver adequate shelter to the previously disadvantaged. The National Department of Human Settlements (NDHS) is responsible for the delivery of affordable housing units.

In 2014/15 it was estimated that government investment into the property market had reached ZAR300 billion. This is on the backdrop of a residential market, in the same year, with a total worth of around ZAR3 trillion.

Despite heavy government involvement, there are currently problems, blockages or challenges in every part of the human settlements value chain in South Africa. These are often exacerbated by funding issues, including insufficient funding for land assembly, limited or fragmented funding for bulk and link infrastructure, limited contractor and developer finance, limited equity funding for new developers, limited innovative end user finance, and weak government assistance for the gap market.

The government’s support of affordable housing to date has been delivered via four different institutions, all overseen by the NDHS: (1) The National Housing Finance Corporation (NHFC), (2) the National Urban Reconstruction and Housing Agency (NURCHA), (3) the Rural Housing Loan Fund (RHLF), and (4) the Social Housing Regulatory Authority (SHRA). The first three are undergoing a process of consolidation to create a single Human Settlements Development Bank.

The National Housing Finance Corporation (NHFC)

NHFC is a state-owned company, mandated to make affordable housing finance available to households with incomes of between ZAR1,500 and ZAR15,000 per month (US$119–US$1195). This target sector includes low to middle income households and is known as the Gap market. This market sector is mostly able to contribute towards its housing costs, but finds it hard to access bank-funded housing finance.

The DHS capitalised the NHFC in 1994 with US$70.1 million followed by two recapitalisations in 2014 of US$18.32 million USD and again in 2017 with a new commitment of US$23.899 million. NHFC has five delivery mechanisms in its funding portfolio: Social Housing (rental), Privately-owned rental housing, home ownership, incremental housing, and strategic partnerships. Most of its funding (68%) goes towards social housing and privately owned rental housing (39% and 29%, respectively).24

NHFC’s impact since its founding is substantial: it has been responsible for 2.8 million government-subsidised housing units coupled with 120,000 social rental units.25

In 2011, the Finance Linked Individual Subsidy Programme (FLISP) was initiated by NHFC in conjunction with DHS. FLISP is a subsidy instrument that assists qualifying households by providing a subsidy towards the down payment on their mortgage. The program is targeted at households whose gross income range is between ZAR3,501 to ZAR22,000. Approximately 4,910 households received FLISP subsidies in 2017/18.26 This is a considerable achievement but falls short of the target of 50,000 subsidies granted for the same year.

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22 Skyward Housing. https://www.skywardgroup.co.za/housing/projects/current-projects
Underperformance has been attributed to economic performance of the country, the effect high inflation has on disposable income and the over-indebtedness of the recipients.

NHFC has established strategic alliances and partnerships through investment in equity and junior debt into companies that operate within the affordable housing market.

Currently, the NHFC has made the equity investments in the following entities:

- Trust for Urban Housing Finance (Pty) Ltd (TUHF)
- Housing Investment Partners (Pty) Ltd (HIP)
- Cape Town Community Housing Company (Pty) Ltd (CTCHC)

These three private sector entities will be discussed later in the report.

The National Urban Reconstruction and Housing Agency (NURCHA)

NURCHA provides bridging financing and construction support services to affordable housing contractors and developers. Over 85 percent of NURCHA clients are small-scale developers, most of which struggle to access affordable financing. NURCHA finances developers that have little capital and experience and supports them to reach the stage where they become economically sustainable. The Affordable Housing Facility accounts for 78 percent of NURCHA’s total loan book for 2014/2015. This facility provides development finance loans to private sector developers undertaking affordable housing projects with unit selling prices not exceeding ZAR500 000 (US$41 000). The average loans granted under this facility over the last 10 years stand at ZAR126 million (US$10.3 million). In 2014, there was a significant increase in the amount of loans signed, reaching ZAR230.7 million (US$18.9 million).  

NURCHA funds most of its ongoing operations from interest and fees from loans, and DHS occasionally provides capital funding to increase its lending activities. Since it began operating in 1995, it has supported the construction of 287 596 social and affordable housing units with financing of over ZAR20.4 billion.

Rural Housing Loan Fund (RHLF)

The RHLF was established in 1996 by the National Department of Housing with initial grant funding from the German development bank, KFW. It is now funded by interest derived from lending activities and DHS capital.

The RHLF operates as a wholesale lender and provides micro housing loans to low income households through retail intermediaries. These partners borrow funds from RHLF and on-lend to individual borrowers throughout the rural areas of South Africa, including small towns and secondary cities. Its intermediary lenders enable RHLF to reach all nine provinces of South Africa efficiently.

RHLF’s 2016 Annual Report stated that DHS had provided US$10.4 million of subsidised debt to the operation. RHLF reported in March 2017 that it had financed a total of 540 621 housing micro loans. In addition, KFW provided RHLF with a loan of US$12.3 million to build housing. This investment contributed to the 540 621 loans that the RHLF have delivered to date.

Human Settlements Development Bank (HSDB)

The HSDB will result from the merging of the NHFC, NURCHA and RHLF and is expected to come online in 2018. It will offer direct lending and investment services to the private sector, as well as offer wholesale finance to retail finance intermediaries.

Funding sources will consist of shareholder capitalisation, community reinvestment, investor equity, operating surpluses (earned revenue will include interest and fee income), and borrowings. The HSDB will also benefit from income tax exemptions. Pro forma statements for 2018 project a 85 percent equity, 15 percent debt funding structure, with total assets of ZAR4.8 billion (US$359 million), liabilities (including funds under management) of ZAR1.75 billion (US$135 million), and equity of ZAR 4 billion (US$306 million).

Social Housing Regulatory Authority (SHRA)

The SHRA’s mission is to regulate and invest in the social housing sector. SHRA disburses institutional investments and capital grants to social housing institutions. It is currently working towards its goal of

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28 NURCHA, https://www.nurcha.co.za/
29 Human Settlements Department power point presentation, February 2017
delivering 27,000 social housing units between 2014 and 2019. DHS funds the SHRA with a 2017 commitment value of US$67 million USD.

2.7 Foreign Institutional Investors

DFI Investment

Most international DFI investment has been aimed at supporting the energy and financial sectors, but not specifically aimed at the housing sector. According to the Global Impact Investing Network (GIIN), this is due to the government’s significant presence in the affordable housing market, which crowds out other potential investors.30

<table>
<thead>
<tr>
<th>DFI Investor, Location, Asset Allocation to RSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMO (Holland)</td>
</tr>
<tr>
<td>AFD (France)</td>
</tr>
<tr>
<td>KFW (Germany)</td>
</tr>
<tr>
<td>IFC (USA)</td>
</tr>
<tr>
<td>World Bank (USA)</td>
</tr>
<tr>
<td>CDC (UK)</td>
</tr>
<tr>
<td>OPIC (USA)</td>
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<tr>
<td>EIB (Belgium)</td>
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<td>AfDB (Africa)</td>
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</tbody>
</table>

$- $100,000,000 $200,000,000 $300,000,000 $400,000,000

![Figure 1: DFI Investments in South Africa Source: CAHF research, 2018](https://thegiin.org/assets/documents/pub/Southern%20Africa/GIIN_SouthernAfrica.pdf)

The largest international DFI investment that was specifically housing related was the European Investment Bank’s (EIB) US$178 million loan to three different financial intermediaries for the funding of affordable and social housing projects and associated urban infrastructure, including social amenities, throughout South Africa. The loan was underwritten in 2013 and the intermediaries that received funds included the Development Bank of Southern Africa, NHFC, Nedbank and Standard Bank. Information such as the term of the loan and the project’s impact was not available. The exact date of the transaction is unknown, but the EIB has also separately extended a US$55.8 million loan to the NHFC.

The UK’s CDC made a notable US$75 million equity investment in the Aureous Africa Fund in 2011, which in turn invested in Real People, a housing microfinance lender. Finally, the World Bank opened a US$93 million 5-year line of credit to South Africa’s Land Bank in 2017. However the project is not related to housing, but instead is intended to benefit farmers who are looking to finance agricultural land.

Finally, the IFC made a US$25 million equity investment in IHS in 2015. As previously mentioned, IHS has attracted equity investment from numerous DFIs. In addition to the IFC, OPIC has invested a combined US$160 million of debt in two of IHS’ funds. Germany’s KFW also invested US$55 million of equity in IHS’ fund II in 2015.

International Private Equity

Compared to other sub-Saharan countries, South Africa is a frequent recipient of private equity funds as it has the requisite macroeconomic policy and regulatory framework, as well as functioning capital markets.

Examples of international private equity investments in the housing sector include US-based Municipal Mortgage & Equity, LLC, which invested US$95 million of equity in IHS’ South Africa Workforce Fund. Sofala Capital is highlighted in the case study below.

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3 Investment Activity in Housing

This section analyses investment levels and different investment tools targeting the housing and housing finance sector in South Africa.

3.1 Investment Tools

As Figure 5 illustrates, the leading investment product for the prominent non-government investors in the broader South African housing market has been debt, consisting of both market rate loans and lines of credit (a combined 70 percent). The fact that the majority of international capital is deployed as debt is reflective of a general, global trend in DFI investing.

Figure 2: Investment Instruments Used Source: CAHF Southern Africa Housing Investment Landscapes research, 2018

3.2 Investment Portfolio

The table below gives an indication of the country’s housing investment portfolio. It shows the size, activity or strategy, and date of various investments made by institutional investors in South Africa’s housing and housing finance sectors:

<table>
<thead>
<tr>
<th>Investment Instrument Used</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>54%</td>
</tr>
<tr>
<td>Line of Credit</td>
<td>21%</td>
</tr>
<tr>
<td>Equity</td>
<td>23%</td>
</tr>
<tr>
<td>Grant</td>
<td>2%</td>
</tr>
</tbody>
</table>

Information obtained from www.sofalacapital.com

Private Equity Case Study: Sofala Capital and IBUILD Home Loans

Sofala Capital Pty Limited (Sofala), a private equity type company headquartered in South Africa, calls itself a housing finance catalyst, explaining that it “seeds and builds credit businesses involved in the African housing value chain.”

Sofala is a founding shareholder of IBUILD Home Loans (“IBUILD”), a company that provides low income South Africans affordable construction mortgages to build secondary dwellings for rental. IBUILD works in partnership with Cashbuild Limited, South Africa’s largest building material supplier. IBUILD also offer a rent-to-own product which targets SME owners who are unable to access a conventional mortgage product.

Although the company is based in South Africa, it has also invested heavily in Zambia and Tanzania. In addition, it helped start iBuild Africa Limited, a Mauritian-domiciled, private equity vehicle set up to seed and grow construction mortgage companies in a number of African countries. It is premised by the fact that over 80 percent of all new housing stock in Africa is built by owner-manager builders rather than professional property developers and that African banks do not provide mortgage finance to this category of home builder. IBuild Africa’s product is designed to support African families in the process of building their own homes and shorten their build time from an average of 6 years to 6 months.

Sofala partners with GuarantCo and received an initial equity investment from Praesidium Capital Management, a New York based private equity firm.

Information obtained from www.sofalacapital.com
4 The Breadth and Depth of Housing and Housing Finance Products

4.1 Banking Sector Overview

South Africa has a sophisticated banking system with 36 local institutions: 19 registered banks, three mutual banks, three cooperative banks and 15 local branches of foreign banks.31 With total assets of US$370.8 billion, South Africa’s banking sector is by far the largest in Africa.32 Domestic credit to the private sector from Banks

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as a percentage of GDP was 65.6 percent in 2017.\(^{33}\) Four banks, known as the “Big Four,” dominate: Absa Bank, First National Bank (FNB), Nedbank and Standard Bank.

Homebuyers can acquire finance for housing mainly from banks and specialized mortgage lenders but also from specialized institutions such as NGOs and government agencies. ABSA bank is the largest mortgage lender in South Africa. The ratio of mortgage debt outstanding to GDP is currently 20 percent.\(^{34}\)

According to CAHF, the average interest rate on a mortgage in South Africa is 10.25 percent and the typical term is twenty years.\(^{35}\)

### 4.2 Access to Mortgage Finance

Despite developed credit markets, access to mortgage finance is limited and mortgages are, for the most part, extended to high income earners. In 2012, only 6 percent of the population had a home loan, roughly in line with the SADC average of 5.7 percent. \(^{36}\) Of the 153 702 mortgages granted in 2016, the Banking Association reports that just 21 464 (14 percent) were directed at the affordable market of households earning less than ZAR20 800 (US$1 517) per month. Figures (and thresholds) differ somewhat with data from the National Credit Regulator (which reports 8 995 mortgages extended to individuals earning less than ZAR15 000 (US$1 094 per month), but the point remains that access to mortgage finance is particularly limited for lower-middle class South Africans.

There are multiple reasons for this – the entry level price of new housing is about ZAR392 500 (US$28 634), and household affordability for credit is constrained. In 2008, on the back of the global financial crisis, many banks pulled back from offering 100 percent mortgages. However, many have subsequently returned to 100 percent lending in the affordable market where the mostly first-time borrowers do not have equity or savings with which to make a deposit.\(^{37}\)

### 4.3 Mortgage Market Size

There are an estimated 2.387 million mortgages in South Africa.\(^{38}\) The total outstanding gross debtors book of consumer credit in the country for the quarter ended March 2018 was ZAR1.78 trillion, representing a quarter-on-quarter growth of 1.26 percent. The number of accounts decreased by 1.80 percent for the quarter ended March 2018. Mortgages accounted for the majority of the book at ZAR913.78 billion (51.41 percent); secured credit agreements for ZAR412.56 billion (23.21 percent); credit facilities for ZAR229.73 billion (12.92 percent); unsecured credit for ZAR172.56 billion (9.71 percent); developmental credit for ZAR66.32 billion (2.61 percent); and short-term credit for ZAR2.59 billion (0.15 percent) of the total gross debtors book.\(^{39}\)

<table>
<thead>
<tr>
<th>Agreements</th>
<th>2016-Q1</th>
<th>2016-Q2</th>
<th>2016-Q3</th>
<th>2016-Q4</th>
<th>2017-Q1</th>
<th>% Distribution</th>
<th>% Change (Q1/Q4)</th>
<th>% Change (Y/Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages</td>
<td>863,372,793</td>
<td>866,070,424</td>
<td>867,252,540</td>
<td>875,294,877</td>
<td>884,058,970</td>
<td>51.74%</td>
<td>1.00%</td>
<td>2.40%</td>
</tr>
<tr>
<td>Secured credit</td>
<td>370,506,218</td>
<td>374,586,638</td>
<td>379,052,299</td>
<td>384,923,862</td>
<td>389,388,153</td>
<td>22.79%</td>
<td>1.16%</td>
<td>5.10%</td>
</tr>
<tr>
<td>Credit facilities</td>
<td>219,202,997</td>
<td>218,996,856</td>
<td>217,909,982</td>
<td>221,474,817</td>
<td>223,578,067</td>
<td>13.09%</td>
<td>0.95%</td>
<td>2.00%</td>
</tr>
<tr>
<td>Unsecured credit</td>
<td>165,164,069</td>
<td>162,722,321</td>
<td>163,168,262</td>
<td>164,640,467</td>
<td>165,744,844</td>
<td>9.70%</td>
<td>0.67%</td>
<td>0.35%</td>
</tr>
<tr>
<td>Short-term credit</td>
<td>3,091,250</td>
<td>3,032,471</td>
<td>2,828,860</td>
<td>2,937,781</td>
<td>2,666,933</td>
<td>0.16%</td>
<td>-9.22%</td>
<td>-13.73%</td>
</tr>
<tr>
<td>Developmental credit</td>
<td>36,885,125</td>
<td>37,882,941</td>
<td>41,344,465</td>
<td>42,409,802</td>
<td>43,164,963</td>
<td>2.53%</td>
<td>1.58%</td>
<td>3.04%</td>
</tr>
<tr>
<td>Total</td>
<td>1,658,222,516</td>
<td>1,663,291,651</td>
<td>1,671,556,397</td>
<td>1,691,766,215</td>
<td>1,708,601,930</td>
<td>100.00%</td>
<td>1.00%</td>
<td>3.04%</td>
</tr>
</tbody>
</table>


\(^{35}\) CAHF, 2017 Yearbook

\(^{36}\) Finscope survey, 2012


The structure of South Africa’s credit market has changed since 2008, displaying downward trends in mortgage origination. Where mortgages accounted for 47 percent of the value of all loans granted in 2008, by 2012, this had reduced to 24 percent. In 2017, mortgages accounted for 29 percent of all credit granted. Unsecured loans, credit card facilities, and short-term loans have gained market share, increasing in value from 21 percent in 2008, to 35.5 percent in 2017.

<table>
<thead>
<tr>
<th>Agreements</th>
<th>2017-Q1</th>
<th>2017-Q2</th>
<th>2017-Q3</th>
<th>2017-Q4</th>
<th>2018-Q1</th>
<th>% Change (Q1/Q4)</th>
<th>% Change (Y/Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages</td>
<td>34,266,367</td>
<td>36,832,457</td>
<td>37,538,937</td>
<td>41,339,005</td>
<td>35,395,124</td>
<td>29.10%</td>
<td>-14.36%</td>
</tr>
<tr>
<td>Secured credit</td>
<td>38,817,928</td>
<td>39,162,275</td>
<td>42,250,238</td>
<td>46,367,038</td>
<td>41,479,080</td>
<td>34.11%</td>
<td>-10.54%</td>
</tr>
<tr>
<td>Credit facilities</td>
<td>15,324,297</td>
<td>15,315,739</td>
<td>16,131,232</td>
<td>17,509,131</td>
<td>16,721,039</td>
<td>13.75%</td>
<td>-4.50%</td>
</tr>
<tr>
<td>Unsecured credit</td>
<td>20,066,170</td>
<td>20,065,586</td>
<td>22,292,789</td>
<td>25,065,092</td>
<td>23,225,946</td>
<td>19.10%</td>
<td>-7.34%</td>
</tr>
<tr>
<td>Short-term loans</td>
<td>3,010,186</td>
<td>3,092,426</td>
<td>3,068,306</td>
<td>3,726,109</td>
<td>3,210,184</td>
<td>2.65%</td>
<td>-13.60%</td>
</tr>
<tr>
<td>Developmental credit</td>
<td>4,974,212</td>
<td>5,614,272</td>
<td>2,357,400</td>
<td>1,713,176</td>
<td>1,579,083</td>
<td>1.30%</td>
<td>-7.82%</td>
</tr>
<tr>
<td>Total</td>
<td>116,459,161</td>
<td>120,082,755</td>
<td>123,538,901</td>
<td>135,711,451</td>
<td>121,620,256</td>
<td>100.00%</td>
<td>-10.38%</td>
</tr>
</tbody>
</table>


The value of total consumer credit granted for the quarter ended March 2018 showed a decrease of ZAR14.09 billion (10.38 percent) when compared to the quarter ended December 2017 as depicted in the Figure 8 above. On a y-o-y basis the value of total credit granted increased by ZAR5.16 billion (4.43 percent), however the value of mortgages granted decreased by 14.36 percent quarter-on-quarter from ZAR41.33 billion to ZAR35.40 billion.

4.4 Key Players

Many commercial banks offer mortgage productions in South Africa. Four banks dominate, however. The four largest housing lenders are Standard Bank, ABSA, FNB, and Nedbank.
Standard Bank alone holds a 32 percent share of the mortgage market. New mortgage business in 2017 totaled ZAR2.4 billion, up 3 percent from the year prior and the largest level of origination in the market. Impairment charges and thus credit loss ratios on its mortgage book declined in 2017, resulting in an improved yield on mortgage lending. As the table below indicates, 36 percent of Standard Bank’s gross loans and advances are mortgages.

Absa Group Limited, formerly Barclays Africa Group Limited, and originally Amalgamated Banks of South Africa, is the second largest player in the mortgage market, with a portfolio of approximately US$20 370 million at year end 2017.\(^4\) Its exposure to home loans also increased in 2017, up by 2 percent. Mortgages represent 41 percent of its loan book.

FNB’s residential mortgage portfolio also increased by 3 percent in 2017, largely driven by its affordable housing products. In the affordable housing market, book growth of 11 percent was supported by better credit experience and stronger demand for property stock. The more muted growth of 2 percent in the premium Home Loans portfolio was driven by FNB’s continued conservative risk appetite for this asset class. Residential mortgage Non-Performing Loans (NPLs) reduced 2 percent year-on-year. 24 percent of FNB’s credit portfolio are mortgages.

Nedbank’s mortgage book grew by 3.2 percent in 2017 to ZAR150 billion (US$11 105 million). The bank has approximately 300 000 home loan clients and a 14.5 percent market share. Nedbank is more active in commercial property loans, where it maintains the leading share in the South Africa market (40.5 percent). Its commercial-mortgage loans and advances grew by 6.5 percent to ZAR161.6 billion in 2017.

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\(^4\) The Bank is still 14.9 percent owned by Barclays PLC.
The country’s fifth largest home loans provider is SA Home Loans, a dedicated mortgage finance company that was started in 1999. SA Home Loans has three shareholders: Standard Bank Group Limited (50 percent); the Public Investment Corporation (authorised representative of the Government Employees Pension Fund) (25 percent); and Bolatja Hlogo Consortium (25 percent). SA Home Loans has originated over 100,000 residential loans since its founding. As mentioned earlier, GEPF reportedly made an equity investment of ZAR10.5 billion (US$778 million) into the company in 2016.

4.5 Microfinance Institutions

There are several MFIs in South Africa that specialize in housing finance, including Lendcor, Real People, and the Kuyasa Fund. Lendcor is a for-profit micro lender that receives wholesale funding from the RHLF. Real People specializes in home improvement finance. It received equity funding from the Aureous Africa Fund, in which the UK’s CDC made a US$75 million equity investment in 2011. The Kuyasa Fund reportedly has approximately 2,700 clients and recently made the transition from a non-profit to a for-profit entity, with the help of an equity investment from the UK’s REAL (formerly Homeless International), a network of housing development enterprises that deliver land, housing and basic services to low-income urban communities in the developing world. REAL is supported by the UK’s Department for International Development (DFID) and the Swedish International Development Co-operation Agency (Sida).

According to CAHF, the typical interest rate on a unsecured housing micro loan is 21 percent. Terms provided for a home construction or improvement loan provided by Real People are detailed below.

- Amount: ZAR1000–ZAR100,000 (US$83–US$8,307)
- Term: Up to 48 months
5 Private Sector Provision

According to Statistics South Africa, the formal private sector delivered 41,485 new units of housing in 2014.\textsuperscript{43} The South African real estate market is mature, with developers and contractors operating effectively at all levels. The country is also home to innovative companies such as TUHF.

TUHF was founded in 2003 with the backing of South African development finance organizations such as the NHFC. TUHF drives inner city investment by helping potential investors become property entrepreneurs and offers loans for the purchase and/or refurbishment of inner city residential property country-wide, with footprints currently in Gauteng, KwaZulu-Natal, Eastern Cape, Western Cape and the Free State. TUHF has grown rapidly, and now has five branches and a loan book of over ZAR2 billion.

The NHFC invested over US$30 million in TUHF, acquiring an equity stake of 33 percent. It also has exposure through debt finance. Other agencies such as NURCHA (US$66.5 million) invested in the company as well, and it has also partnered with other asset managers and commercial banks.

5.1 Rental Market

In South Africa, the small-scale private rental sector has been growing, especially in the provision of rental accommodation costing between ZAR300 (US$25) and ZAR500 (US$42), with much of this growth taking place in existing townships.\textsuperscript{44} CAHF estimates that the gross rental yield in city centers is 10.29 percent, and 11.28 percent outside of city centers.\textsuperscript{45}

Of the approximately 2.4 million households in South Africa that rent their dwellings, about one in five (21 percent) rent informal dwellings; and empirical studies have found that rental is increasingly becoming the preferred choice of accommodation for poorer households.\textsuperscript{46}

6 Public Sector Provision

The government’s ambitious government-subsidised housing programme has had a significant impact on South Africa’s housing market and it is the most comprehensive in the region. Between 1994 and 2015, an estimated 4.3 million households have benefited from the delivery of 2.8 million government subsidised houses, and about 121 784 social rental units and 68 640 basic rental units; the transfer of a further 360 000 houses built prior to 1994; the servicing of almost a million sites; and FLISP subsidies for a further 6 329 houses for lower-middle income earners. An estimated 1.83 million government subsidised houses are formally registered on the Deeds Registry, making government-subsidised housing comprise 29.4 percent of the total residential property market in South Africa.

The national housing subsidy is targeted at about 50 percent of the population in terms of household income. In recent years, the cost of a subsidised house, which is given away for free to qualifying beneficiaries who earn less than ZAR3 500 (US$258) a month and have dependents, is estimated to be between ZAR150 000 and ZAR200 000 (US$11,000 - US$14,775).\textsuperscript{47} The cost to the government is clearly great and most likely unsustainable. This argument is supported by the increase in the housing backlog from 1.5 million units in 1994 to 2.3 million units in 2017, and the decline in the completion rates from a peak of 235 600 units in 1998/99 to 106 000 units in 2013/14.\textsuperscript{48}

\textsuperscript{43} HOFINET.
\textsuperscript{44} El-hadj M. Bah et al. (2018). Housing Market Dynamics in Africa.
\textsuperscript{46} Melzer, Illana, and Ria Moothilal. 2008. Supply and Demand of Rental Housing in South Africa. Houthon: Social Housing Foundation.
\textsuperscript{47} Ibid
\textsuperscript{48} El-hadj M. Bah et al. (2018). Housing Market Dynamics in Africa.
7 Challenges and Opportunities

With an estimated value of over ZAR 5.1 trillion, the South African residential real estate market is large and complex. It is dominated by the state, with about a third estimated to be government-subsidised homes. The need to diminish the backlog has been made a priority by the government, but much work remains to be done.

As per CAHF, residential markets in South Africa behave in very different ways, which is reflected across numerous property market indicators, such as growth in values and sales prices, transfer rates of new properties and resales, access to mortgage finance, and growth in equity. Comparing and trending indicators, it appears housing markets are operating in two different economies, with a division at the ZAR600 000 (US$41 234) line. Those properties valued below ZAR600 000 are largely government-facilitated and growing quickly with private investment. Those above ZAR600 000 are growing stably, with ready access to credit, and experiencing an uptick in activity.

Despite this encouraging activity, the South African housing deficit remains the largest in SADC, at an estimated 2.3 million units. This is a problem that the government and subsidies alone cannot fix. It is imperative that the private sector be encouraged to go further down-market. Opportunity abounds in the below-ZAR600,000 market, as demand outstrips supply. Strategic partnerships between the state and private developers, as well as innovative financing models, should be promoted and explored.

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50 Ibid.