

Opportunities for Private Sector Investment in Social Housing in South Africa

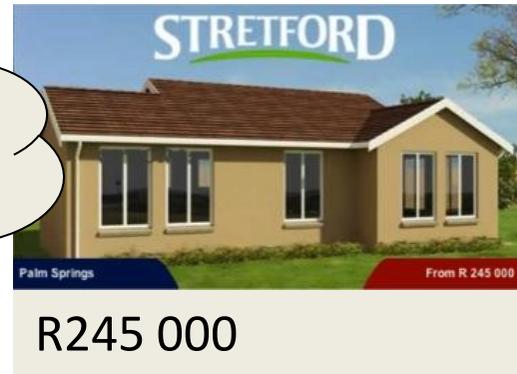
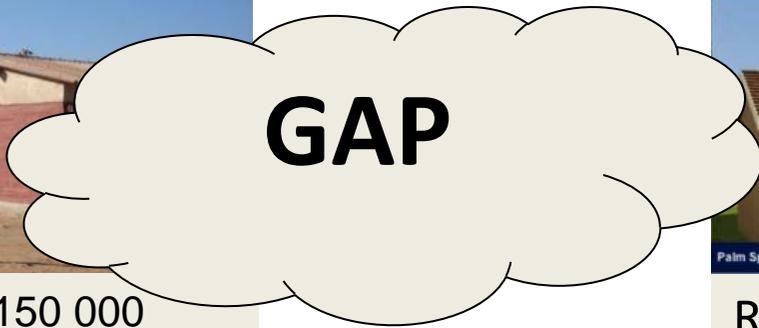
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Understanding South Africa's delivery framework



Subsidy market: <R3500

- Loan affordability (10.5%): <R105 179
- Rental affordability from R1500 income: about R300 – R875
- Supply limited
- Limited resale

Gap market(s): R3 500 – R7 500

- Loan affordability (10.5%): R105 179 – R225 365
- Rental affordability: about R875-R1750 per month
- No new supply
- FLISP subsidy doesn't work
- Limited resale

Gap /affordable market R7 500 – R15 000

- Loan affordability (10.5%): R225 365– R450 730
- Rental affordability: about R1750 – R3500
- New supply limited
- FLISP subsidy not at scale
- Limited resale

Normal market? R15 000 +

- Loan affordability (10.5%): >R450 730
- Sufficient (too much?) supply
- Substantial resale

Understanding South Africa's delivery framework – and placing social housing



>R56 000 –
R150 000



R245 000



R483 000

Social housing can fill the gap: targeted at households earning R1500 – R7500/month, creating access to affordable accommodation

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Social housing is the term used to describe subsidized rental housing in South Africa.

It differs from private rental in that it receives capital subsidies – the Institutional Subsidy and the Restructuring Capital Grant – from the state, and for this must meet certain principles.

The Social Housing Act (No. 16 of 2008) defines social housing as *“a rental or co-operative housing option for low to medium income households at a level of scale and built form which requires institutionalised management and which is provided by social housing institutions or other delivery agents in approved projects in designated restructuring zones with the benefit of public funding”*.

Target market: households earning R1500 – R7500 per month (about 35% of South Africa’s population)

Two grants = up to R200k /unit:

- Restructuring Capital Grant: to support socio-economic integration
- Institutional Subsidy: to support institutional capacity

Overseen by the Social Housing Regulatory Authority (SHRA)

Social housing institutions must be accredited to operate.





Three investment options for lenders

Project funding to an SHI or private sector landlord to undertake a project in which social housing forms a part

Project funding to a private developer undertaking a project on a turnkey approach in which social housing forms a part.

Purchasing a portfolio of projects.

Projects are encouraged to have a mix of rental options. Within the social housing portion of the development, 30% of subsidised units must be for households earning R1500 – R3500 (entry rental ceiling of R750/month); and remaining 70% for households earning R3500- R7500 (entry rental ceiling of R2250/month). The development can also have units that are unsubsidised, for higher income earners.





Business case for social housing

- South Africa has had an under-supply of rental housing – new construction and a growing supply is critical for a functioning housing market
- Various funds already targeting rental: HIFSA, I H S, Futuregrowth, TUHF, others
- Innovative landlords / developers: Afhco, City Properties, Calgro, others. Growing experience with institutional management requirements
- Target market:
 - Young families, newly urbanised, employed – formal or informal
 - Key public sector workers and labourers
 - Gap market (households earning R1500 – R7500 and above) in some cases with credit indebtedness that precludes ownership
- Key area of focus for government
- Investment opportunities are include:
 - Growth nodes within cities for example Soweto, Alexandra etc.
 - Inner city areas where there is a track record (Johannesburg, Pretoria)
 - Urban regeneration areas (Ekurhuleni, Cape Town Pilot Project, Nelson Mandela Bay, others)
 - The new infrastructure corridors (SONA) North West, Northern Cape (Sishen to Saldanha)



Business case for social housing

Financial case

- Subsidy quantum is substantial: can be up to R200 000/unit – loan finance would therefore be limited to about 25-40% of capital costs
- SHRA has brought focused and careful regulation to the sector, both in terms of institutional and project viability, and housing suitability. Lender / investor is not alone.
- Existing social housing developers have established track records and have shown the viability of this market

Market development case

- Undersupply of rental housing makes this a significant growth area. Government is intent on the delivery of 80 000 rental units by 2014.
- Early stage investors / lenders can influence the policy framework and the implementation process by engaging with the SHRA
- SHRA has already established a project pipeline
- Tenants are often new entrants to the housing market – prospective long-term mortgage clients.

Social case

- Current gap in housing delivery for this target market is significant and needs attention – frustration in the lack of housing options is already evident.
- Target market for social housing fits well within BBBEE Act and Codes of Good Practice

