

GPF SAPOA BREAKFAST :

OPPORTUNITIES IN AFFORDABLE HOUSING

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GAUTENG PARTNERSHIP FUND

LEVERAGING AFFORDABLE HOUSING FINANCE



GAUTENG PROVINCE
LOCAL GOVERNMENT AND HOUSING
REPUBLIC OF SOUTH AFRICA



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PERCEPTIONS / REALITIES

Affordable Housing has been **considered none attractive due perceptions/ realities** such as?

- Low margins
- Low income means low quality
- Inconsistency of government payments
- Project cycle is cumbersome
- Low income projects are messy/ problematic
- **Banks are not providing - development finance, term loans or end user finance** to housing projects:
 - Financial crisis hangover
 - A few people qualify for home loans given the indebtedness
- Non – attractive in comparison to private sector retail, office etc.
- It is **government responsibility ????????????**



REALITIES IN AFFORDABLE HOUSING SECTOR

- **Mortgage Insurance (NHFC)** - R1 billion low income housing fund established by government and this may ignite the affordable housing market - Bank Home loan lending but still to gain traction.
- **FLISP programme launched** – Income bracket for subsidy increased to R15 000 and allocation for subsidy on a sliding scale. This will fund selected projects houses capped at R300 000.
- Second **Financial Services Charter (FSC)** soon to concluded forcing banks to commit to financial targets towards affordable housing.
- **Foreign investment keen to invest in SA** – evident by International Housing Finance (IHS) that has raised to date R1.9billion for residential market sales and rentals. Initial R2billion portfolio performing well.
- Residential sector rentals in **affordable housing rental market** offer good returns of between **8.5% and 9% after tax**, assuming conservative gearing and taking moderate capital growth into account.

WHY AFFORDABLE HOUSING?

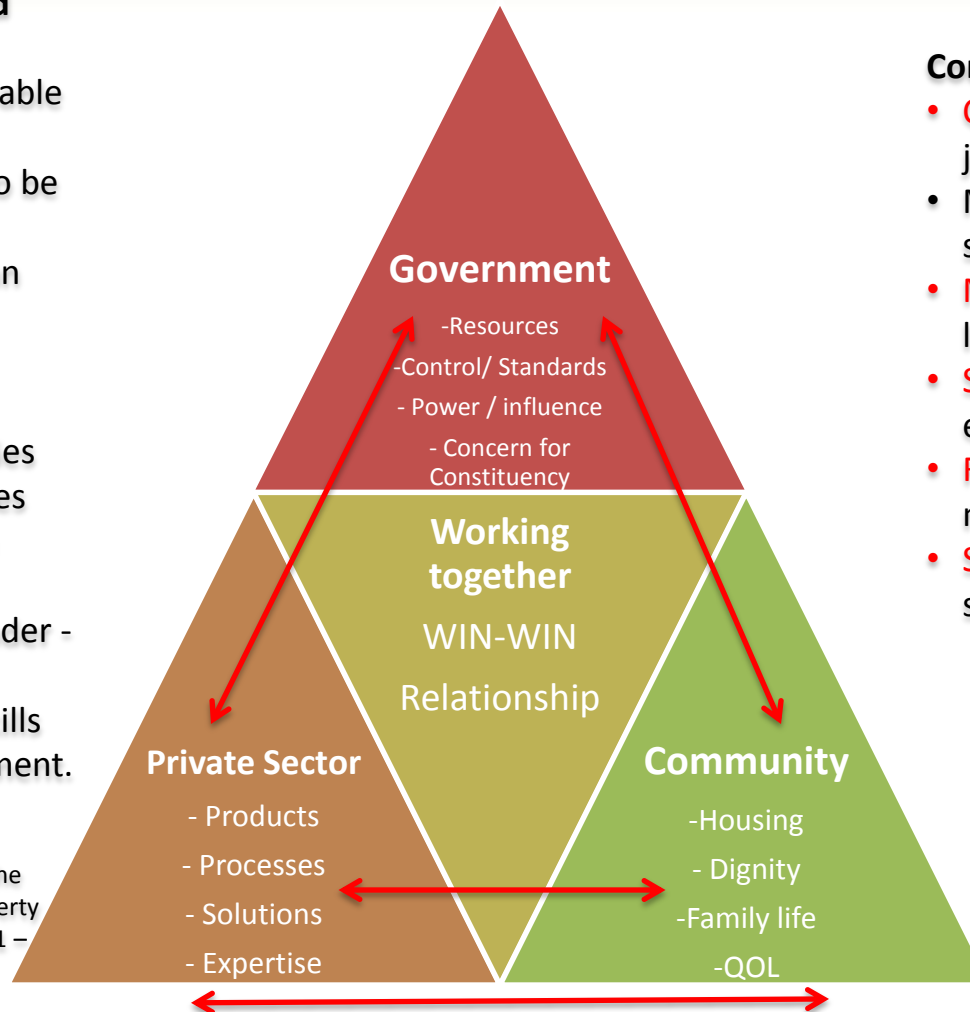
CONTRIBUTION TO ADDRESSING NATIONAL ISSUES!

- Historical housing backlog
- Redressing the Legacy of living apart – Apartheid
- Capital redistribution and empowerment
- Property ownership, as an asset and a means for creation of wealth
- Reducing unemployment /job creation
- The constitutional right to housing for all SA citizens
- Demand by people for better infrastructure and services (housing)
- **Is this government responsibility only ?**

STRATEGIC RATIONALE FOR HOUSING?

Realities of limitations and challenges:

- Not enough capital available in govt treasury.
- Pace of delivery needs to be improved.
- Insufficient skilled human capital in govt.
- Limited innovation.
- Driven by FSC, Property charter than opportunities
- Gate keeper in companies
- Decisions on perception rather than facts.
- Lack of investment in under - developed areas.
- Limited investment in skills and enterprise development.



Contribution to SA Economy

- **Construction & Property** – jobs, tax revenue
- Mining sector – cement, stones etc.
- **Manufacturing** – doors, lintels etc.
- **Small business** – plumbers, elect etc.
- **Finance industry** – mortgage, microfinance
- **Social investment** – sustainable society

SOCIAL RESPONSIBILITY AND BUSINESS OPPORTUNITY

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Based on C.K Prahalad: The fortune at the bottom of the Pyramid: Eradicating poverty through profits: 2005; Dr Llewellyn 2011 – presentation.

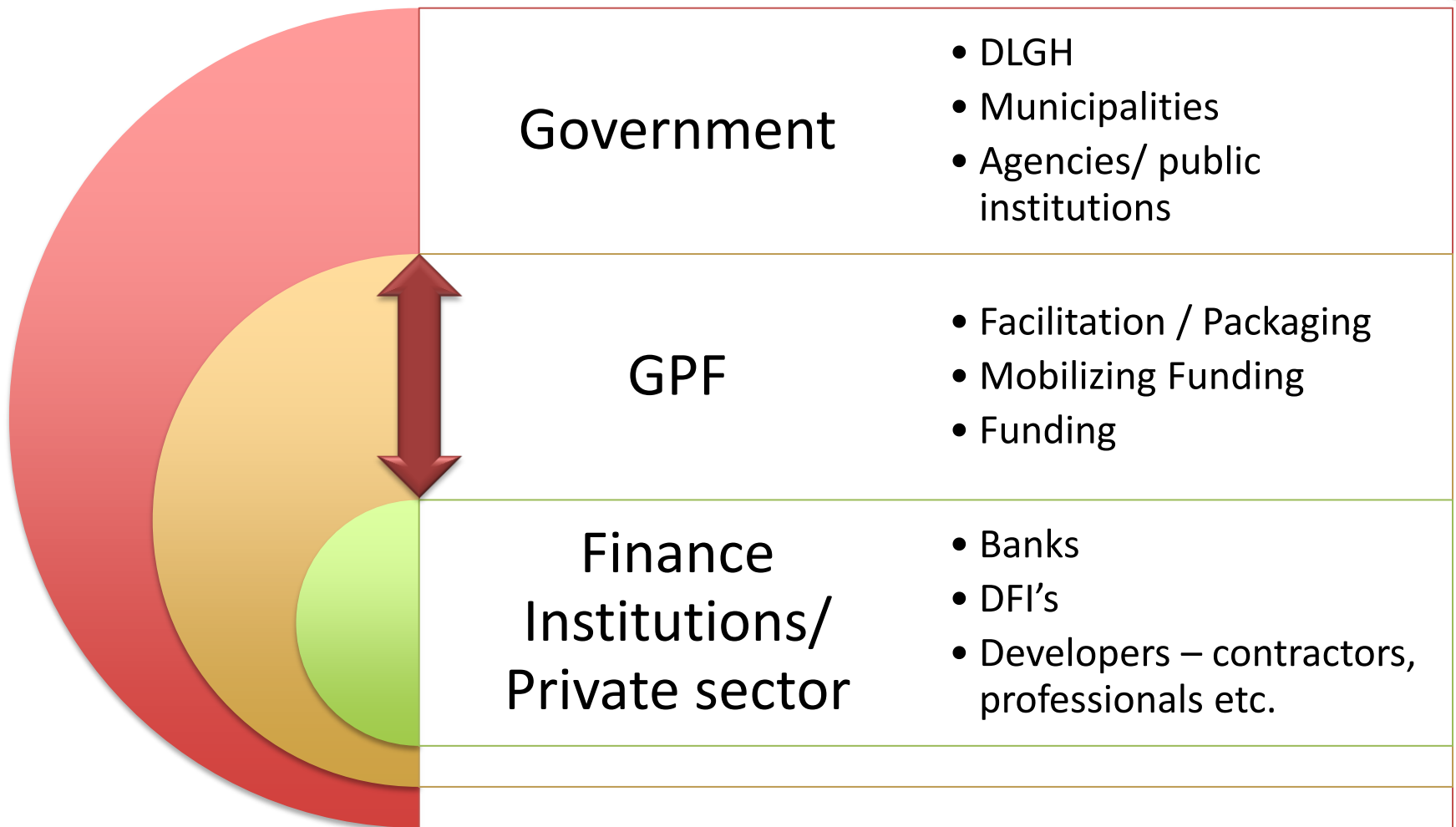
EACH - ONE – SETTLE - ONE

Human Settlements Minister Tokyo Sexwale - each-one-settle-one a campaign aimed at addressing the huge housing backlog.

How can companies or individual play their part?

- By way of **financial pledges** towards house builds and other programmes
- By coming up with **strategies for job creation** with regards to human settlements
- By **donating their services, expertise, building materials, time and land**. This can include professional services such as engineering, accounting, architectural and legal.
- By helping to provide **permanent housing for domestics and employees residing on employers' property**.

GAUTENG PARTNERSHIP FUND ROLE IN HOUSING PROJECTS



Outcome 8 targets to 2014

– Affordable Rental Accommodation

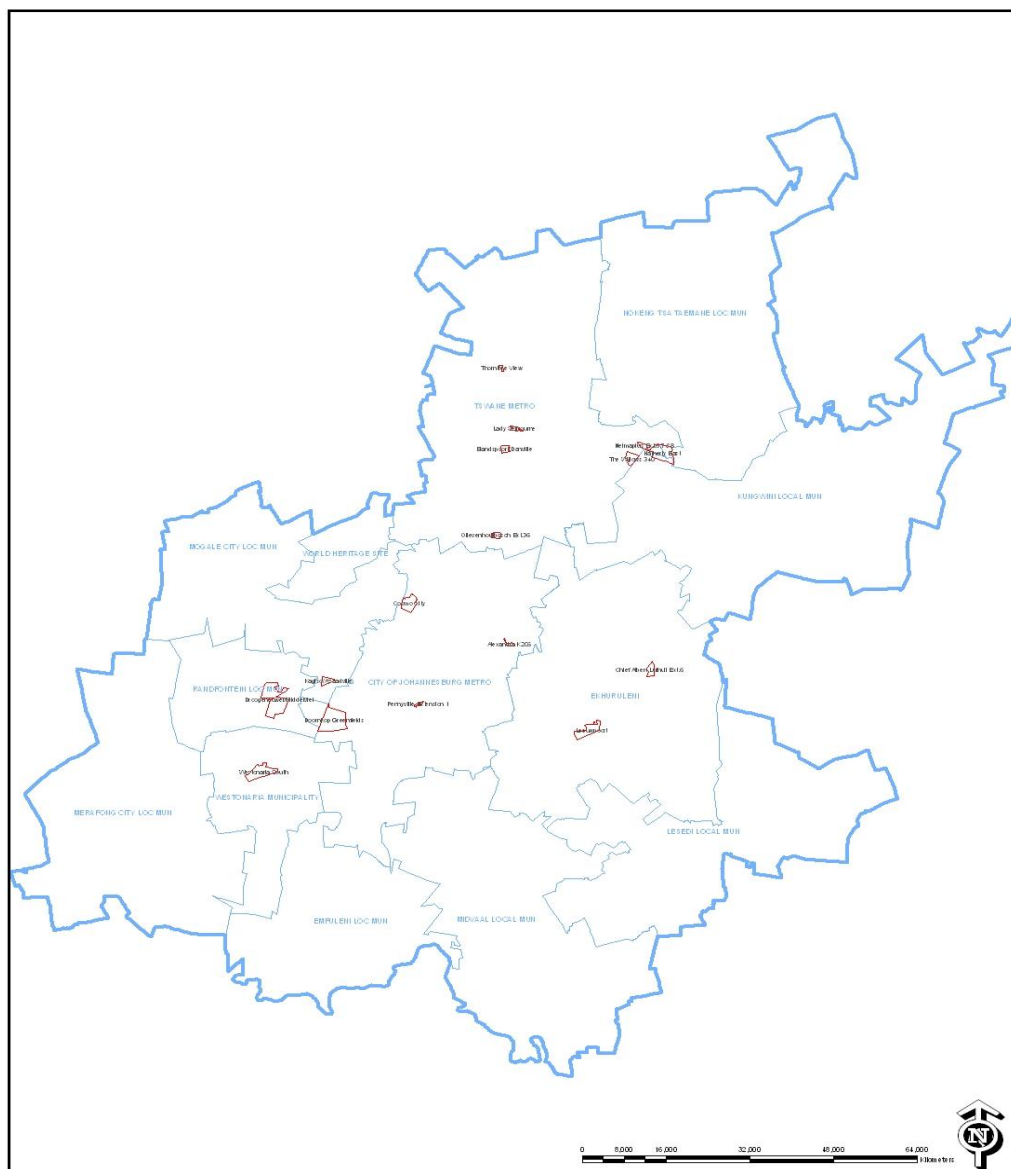
PROVINCE	TARGET
EASTERN CAPE	11 888
FREE STATE	5 280
GAUTENG	19 352
KWAZULU-NATAL	15 240
LIMPOPO	6 240
MPUMALANGA	5 296
NORTHERN CAPE	1 864
NORTH WEST	5 768
WESTERN CAPE	9 072
TOTAL	80 000

Outcome 8 targets to 2014

– Upgrading of Informal Settlements

PROVINCE	2014 TARGET
EC	59 400
FS	26 400
GT	96 800
KZN	76 200
LP	31 200
MP	26 480
NC	9 320
NW	28 840
WC	45 360
TOTAL	400 000

LOCATION MAP: FLAGSHIP PROJECTS



0 5,000 10,000 20,000 40,000 60,000 80,000 100,000



Department of Housing

Project Name: **Flagship Projects:
Spatial Location**

Project Location: **Gauteng Province**

Legend

- Gauteng Boundary
- Municipal Boundary
- Flagship Projects

PROJECT NAME	NUMBER OF UNITS
Lufreng	24 100
Cosmo City	14 800
K206 (Alex)	3199
Droogeheuwel	3648
Mohlakeng Ext 11	3495
Westonaria Bowra	5000
Chief Mogale	6800
Thorntree View	11 700
Nellmapius New	3597
Olievenhoutbosch	4452
Leeuwpoort	17 899
Chief Albert Luthuli Ext 6	5398
The Willows	10 977
Hatherly East	7300
Lady Selbourne	6000
Elandsport / Danville	2 000
TOTAL	127267



GPF STRATEGY 2013/2014

The GPF Strategy supports Outcome 8, as a proactive contributor to the development of sustainable human settlements and quality of household life in Gauteng. GPF Strategic objective two (2):

To effectively implement programmes and the expanded GPF role in within the sustainable human settlements programme of Government.

1. Play a catalytic role in mobilizing provincial and local government institutions in shaping the sustainable human settlements sector.
2. Assist the DLGH in the implementation of mixed income housing (human settlements) on projects that have completed township establishment and all technical input, but require bankability studies.
3. Leverage affordable housing finance

GPF MARKET INTERVENTIONS

Financial product	Purpose
Rental Housing Fund	To enhance the viability of investment into affordable housing by rental developers/ entrepreneurs.
Entrepreneur Empowerment Property Fund Programme	This is an incubator programme designed to enable sustainable entrance of HDI owned companies in the affordable rental property market. (The programme is limited to prospective participants invited on public tender annually).
Social Housing Fund	To enhance the viability of investment into affordable housing by Social Housing Institutions. This is linked to government institutional subsidy funding.
Student Housing Fund (New)	To enhance the viability of investment into affordable housing by rental developers/ entrepreneurs.
Strategic Partnership Projects	To share financial risks with financial institutions for affordable housing projects.
Facilitation of Mixed Income Housing Developments (New)	To develop optimal funding structure and raise appropriate funding for human settlements projects.

FINANCIAL INSTRUMENTS

Subordinated debt

- Income subordination (cashflows) for repayment of debt
- Security subordination (register 1st or 2nd Mortgage Bond)

Term loan over 15 – 20 years

Interest rate: minimum JIBAR plus margin

Moratorium on capital and interest over construction period

Administration fee: 1-2% of loan amount

Equity Contribution: minimum 2.5% of project cost (HDI) and minimum 10% for established companies.

Bridging finance – 3 to 6 months loan period in partnership with TUHF.

Development finance – 36 to 48 months loan period (facility with ABSA & SBSA).

PROJECT EXAMPLE

Project located in Kempton park Erf 223, land zoned residential 4 and can yield 35 housing units.

Project Cost

Item	Rand
Land	1,000,000.00
Construction Cost	10,000,000.00
Professional Fees	1,500,000.00
Contingencies	500,000.00
Other	1,000,000.00
Sub-total	14,000,000.00
VAT	1,960,000.00
Total Project Cost	15,960,000.00

Funding Structure

Item	Rand	% Fundin g
Equity Contribution	1,596,000.00	10%
GPF Debt	3,192,000.00	20%
Senior Debt	11,172,000.00	70%
Total	15,960,000.00	100%

Financial Ratios

IRR on Cash flow after tax for 20 years		9%
NPV on Cash flow after tax at WACC of: 5%		R 19,000,000
	ROI on Op's surplus	ROI on EAIT
Return on Total investment year 3	10%	7%
Return on Total investment year 5	13%	8%
Debt Cover ratio year 3		1.3
Debt Cover ratio year 5		1.4
Debt equity ratio		90%
Loan to value ratio		80%
Cost : income ratio		25%

GPF INVESTMENT PROCESS

Project Investment Process

Deal origination

- New business development
- Client relationship management
- Deal flow management

Project Assessment

- Investment evaluation
- Viability & Feasibility analysis
- Technical assessment
- Investment criteria
- Credit analysis

Risk Management & Controls

- Credit risk pricing
- Liquidity risk
- Concentration risk
- Other risks

Investment Administration

- Reporting on Investments
- Investment monitoring
- Contract monitoring

Board Investment Committee – meets every fortnight or adhoc
Board of Trustees – meets every 6 weeks

GPF INVESTMENT CRITERIA

Mandate fit – the affordable housing project should cater for households with income <R15 000

Strategic fit – does the project fit or contribute to GPF strategic direction

Policy fit – maximum 30% contribution by GPF and balance from a senior funder

Alignment to government planning or funded projects – i.e. IDP's and urban renewal initiatives.

Socio economic development – does the project have developmental impact

- Job creation
- Poverty alleviation
- Increase procurement of goods & services for SMME's

Technical aspects – design, costs etc.

Financial Sustainability – cashflows, financial ratios etc.

OTHER KEY PROJECT CONSIDERATIONS

- Contribution to building **sustainable communities**
- Catalytic role or **developmental impact**
- Part of municipal IDP's (**under-developed areas**)
- Precinct approach, **alignment to others investments**
- Target market (households earning <R15 000 income)
- **Proximity to amenities** and transport nodes
- Design (secure environment, **functionality** and unit layout etc.)
- **Quality of construction, NHBRC and CIDB rating of contractor. Professional team experience.**
- Local SMME's development
- **Project and property management**
- Future (**green issues!**)

PROJECT EXAMPLE

- Brickfields (2005) - Newtown
- Mixed use – Commercial retail & Housing 809 units:
- GPF Funding: R24million
- Total Cost: R120million



SMALL SCALE LANDLORDS (INTUTHUKO FUND)

In partnership with TUHF on a R10million GPF contribution, 66 HDI participants and over 800 units.

The aim is to assist them to become small scale land lords to own units in a building or even grow to own buildings. Success stories:

Client: Josephine Tshaboeng

Initial occupation: domestic worker and shop assistant

Project: Harmonie Girls

Location: Johannesburg

Units: 56

GPF loan: R192,000

TUHF loan: R7,300,000



Client: Nqobile Khumalo

Initial occupation: building maintenance (plumbing skills)

Project: Sonskyn Boys and 72 Derby

Location: Johannesburg

Units: 55

GPF: R700,000

TUHF: R4,600,000



GPF FUNDED PROJECT EXAMPLES



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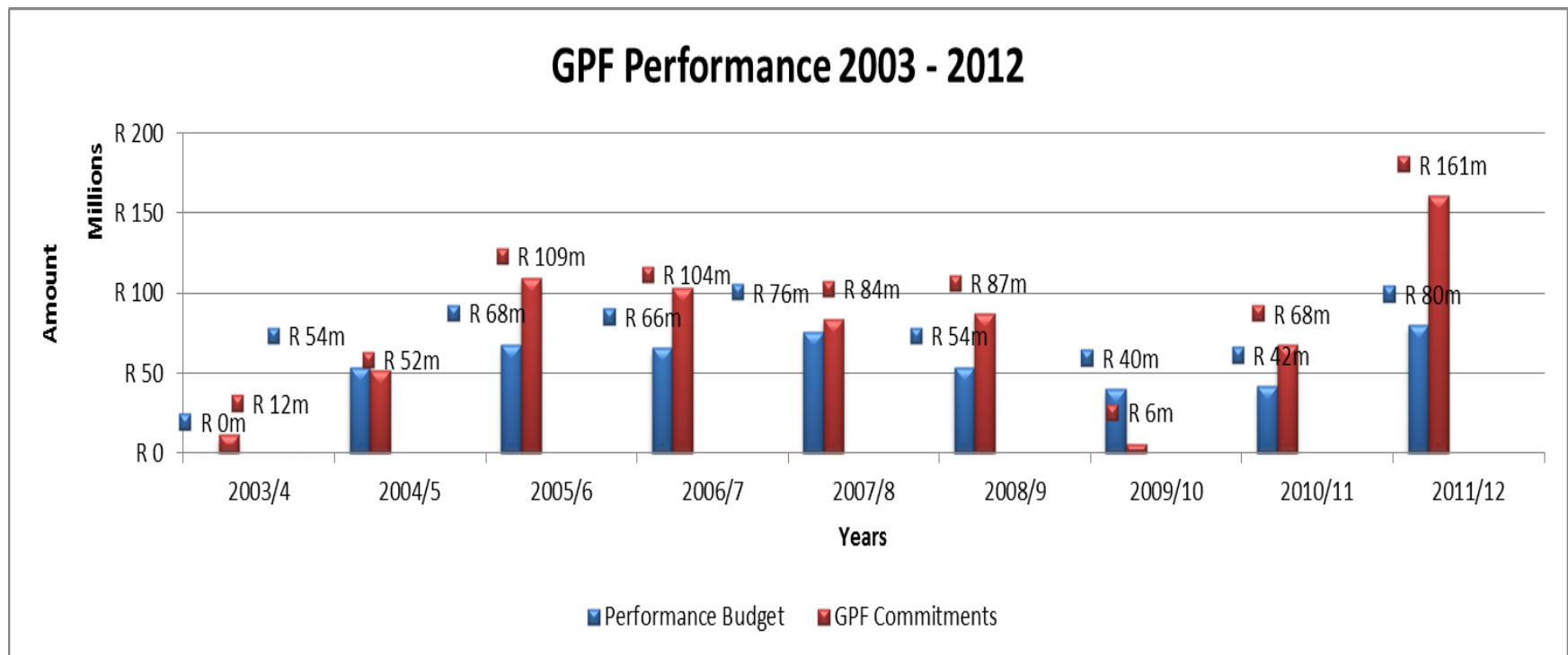


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GPF PERFORMANCE 2003 – 2013 (MARCH YEAR END)

- Over the past 10 years GPF has **funded projects** to a value close to **R350million** (from an initial capital of R450million) leveraging over **R2.4 billion** of private funding in social housing projects.
- This has facilitated approximately **22 000** housing units



BUILDING SUSTAINABLE PARTNERSHIPS

Our slogan:

“Leveraging Affordable Housing Finance”

Thank you !

