

Rental housing

Housing is one of the backbones of economic stability; it is fundamental to the growth of any kind of sustainable society. Gauteng Partnership Fund (GPF) CEO, Kutoane Kutoane, says: "There will always be a demand for rental housing, which is essentially the first rung on the property ladder for many a young person or family.

"Government, in particular, appreciates the need to provide rental housing for its citizens. It is crucial that people don't stay in this rental-housing market forever; once they are able to access ownership opportunity, they need to move on to the next rung in order to provide room for others to gain a foothold on the property ladder.

"In Gauteng as in the rest of South Africa, there is a great need for rental housing, and we would welcome all possible partners in realising this need. Not only is there money to be made from rental housing, but from a social and moral perspective it's also the right thing to do." GPF was launched 11 years ago, with a focus on facilitating social housing development for household income of less than R7 500 (in 2002 prices).

In response to market needs, GPF subsequently expanded its mandate to mobilise and facilitate funding for housing development for households earning less than R15 000/month. "GPF assists private rental housing developers to procure finance at most favourable terms in order to develop affordable, quality accommodation that is well managed for the target market. GPF's modus operandi in the affordable housing rental market is one of risk sharing and co-funding."

A senior funder provides the greater portion of the development facility, with GPF then topping up the facility with a further 20 – 30 percent subordinated debt funding, with a loan term of up to 20 years. The developer is expected to contribute 10 percent, sometimes more, depending on the cashflows.

There are special dispensations on equity contributions for empowerment projects with a minimum of 2.5 percent equity by the client. "The rental income of the project needs to cover the loan amount, but if it doesn't then the developer will be expected to contribute additional equity," explains Kutoane.

Since its inception in 2002, GPF's Rental Housing Fund has facilitated the development of some 24 000 rental-housing units. "Our interest rates are very affordable compared with those of other mezzanine funders, and our 20-year term – as opposed to the 10 year terms of commercial bank loans – makes a considerable



Kutoane Kutoane, CEO, Gauteng Partnership Fund (GPF)

difference to a developer's cash flow over the course of the project," says Kutoane.

GPF is particularly thorough in performing the basic feasibility on projects by checking the developer's business plan and in ensuring that the area the developer's project is aimed at is affordable for potential tenants, as well as by doing a due diligence and acquiring comparative information from other rental-housing developments in the area and on their bad-debt ratios.

"GPF will only consider projects with an economic number of units and a total project value of not more than R250-million, determined on the basis of our internal capital requirements.

"What is crucial about rental projects is that the developer must demonstrate to GPF that they either have the capabilities to deliver an affordable product within time and budget and or that the professional team contracted has the expertise and experience to deliver the product," says Kutoane.

For more information on rental housing, please go to www.gpf.org.za