



(THE GAUTENG PARTNERSHIP FUND)

FUNDING AFFORDABLE HOUSING, GROWING PROPERTY ENTREPRENEURS

HOUSING IS FUNDAMENTAL to the growth of any sustainable society. The Gauteng Partnership Fund (GPF) was launched in 2002, with a focus on facilitating social housing development for households with an income of less than R7 500 a month at the time.

In response to market needs, it has since expanded its mandate to facilitate funding for housing development for households earning less than R15 000 per month.

As GPF CEO, Kutoane Kutoane explains, "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. Our modus operandi in the affordable housing rental market focuses on risk sharing and co-funding."

He continues, "In Gauteng, as in the rest of South Africa, there is a great need for rental housing, and we welcome all partners who can help to address 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."

A senior funder provides the greater portion of the development facility, with GPF then topping up the facility with a further 20% to 30% subordinated debt funding, with a loan term of up to 20 years. The developer is expected to contribute 10%, sometimes more, depending on the cash flows. There are special dispensations on equity contributions for empowerment projects with a minimum of 2,5% 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 makes a considerable difference to a developer's cash flow

over the course of the project, when compared to the 10-year terms of commercial bank loans," he says.

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," concludes Kutoane. ●

NEXT GEN PROPERTY ENTREPRENEURS

In addition to addressing funding challenges in the affordable-housing sector, the GPF is nurturing a new generation of property entrepreneurs.

Launched in July 2010, its Entrepreneur Empowerment Property Fund (EETF) empowers black property entrepreneurs whose entrance to market has been hindered by historical disadvantages, a lack of skill and equity, and insufficient cash flow.

The fund is an incubator programme aimed at promoting participation by entry-level black entrepreneurs and 100% black-owned companies that provides rental or delayed ownership schemes for households with monthly incomes of less than R15 000.

Projects funded include inner-city refurbishments, the conversion of offices to residential units, and greenfield developments for social housing. The GPF funds the total cost of acquisition up to R7,5-million, and co-finances with other financing institutions.

Every year, the GPF extends an open invitation for prospective participants to apply. Candidates must be 100% BEE, be a registered legal entity, have a valid tax clearance certificate, and shareholders and the company must have clean credit records.



KUTOANE KUTOANE

CEO of The Gauteng Partnership Fund (GPF)