

# **NHFC Presentation to GPF Property Entrepreneur Seminar**

## **By Lawrence Lehabe**



# INTRODUCING THE NHFC

- ❖ **Established:** 1996
- ❖ **Type of Organisation:** Development Finance Institution (DFI)
- ❖ **Ownership:** State Owned Company, 100% SA government
- ❖ **Total Assets:** R 3,1 billion (31 Mar 2014 – group)
- ❖ **Total Liabilities:** R 716 million (31 Mar 2014 – group)
- ❖ **Funding Status:** Self sustaining, pays income tax
- ❖ **Credit Rating:** Long term AA-, short term A1+
- ❖ **Main Business:** Broadening & deepening access to affordable housing for the low-to-middle income SA households
- ❖ **Geographic Activities:** National
- ❖ **Number of Employees:** 83 ( March 2014 )



# INTRODUCING THE NHFC

## VISION

To be the leader in development finance for the low-to-middle income housing market

## MISSION

Provide innovative and affordable housing finance solutions to the low –to-middle income market

## VALUES

OWNERSHIP

PASSION FOR PURPOSE

TEAMWORK

INTEGRITY

CREATIVITY

ACHIEVEMENT

## STRATEGIC OBJECTIVES

Expand housing finance activities, through the effective provision of housing finance solutions, thus enabling low-to-middle income households to have choice of renting or owning or incrementally building, to meet their housing needs;

Facilitate the increased and sustained lending by financial institutions to the affordable housing market;

Mobilise funding into the human settlement space, on a sustainable basis, in partnership with the broadest range of institutions;

Conduct the business activities of the NHFC in a manner that ensures the continued economic sustainability of the NHFC whilst promoting lasting social, ethical and environmental development; and

Provide robust, timely and relevant market research

# CURRENT BUSINESS MODEL

The business model caters to both the demand and the supply of housing in the South African affordable housing market

## Demand Side

Promoting private sector provision of end user finance to the target market

Wholesale funding to retail intermediaries

Innovative solutions

Facilitating Government subsidies

Income linked mortgages

Instalment sales

MDIC

FLISP

e.g. Equity and debt investment in HIP

e.g. Wholesale funding to Cosmopolitan housing developers

## Supply Side

Financing residential developments

Financing rental stock

Providing incremental loans for building

Projects - Social

Projects - Integrated

Projects - Multiple projects

Wholesale funding to retail intermediaries

Projects - Private rental

Wholesale funding to retail intermediaries

# OVERVIEW – AFFORDABLE HOUSING MARKET

## ***Demand/supply***

- Approximately 700 000 housing back-log in the affordable housing market.
- Supply of **new** housing stock has averaged 20 000 to 30 000 per annum in the last 3 years, significantly below demand.
- Poor uptake of properties by end-users (constrained availability of mortgages) has resulted in attrition of developers (especially private sector) in affordable housing market.

## ***Borrower***

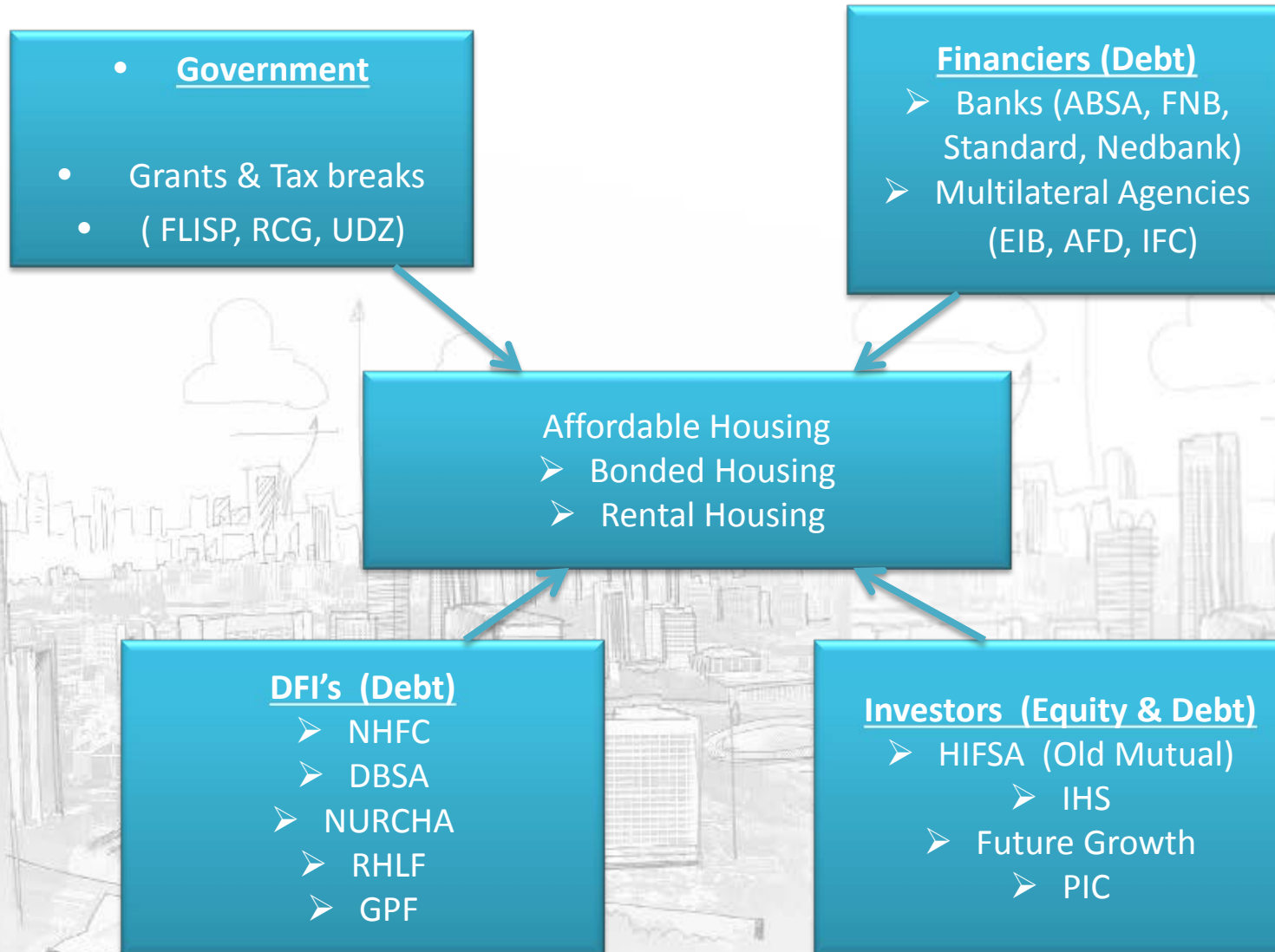
- Remains significantly over-indebted especially in the affordable housing market.
- Unsecured lending credit bubble in last 12 months an indication of severe pressure of consumers in SA.
- Poor consumer confidence has been affected mainly by: 1) rising costs of living (electricity, transport and food), 2) poor job prospects and 3) poor short term economic prospects.

## ***Lenders Perspective***

- Appetite for mortgage lending remains constrained due to:
  - Regulatory pressure (Basel III);
  - Poor balance sheets and income statements of consumers (over indebtedness); and
  - Recent poor returns from mortgage lending.



# SOUTH AFRICAN AFFORDABLE HOUSING FINANCE MODEL



# AFFORDABLE HOUSING DEFINED

- **Definition: by household income**
  - Not exceeding R15 000 (NHFC & Human Settlements)
  - Not exceeding R18 600 (FSC)
  - by Property Value
  - Not exceeding R600 k

# SHOWCASING OUR PROJECTS



## 424 Commissioner Street, Johannesburg

The NHFC, together with Gauteng Partnership Fund (GPF), financed the renewal, conversion and refurbishment of the dilapidated 424 Commissioner Street.

NHFC provided a mortgage loan of R7,4 million. The property consists of 34 units, comprising one- and two bedroom units. It is owned, developed and managed by a black female.



Financier · Facilitator · Innovator

# WHY SHOULD GOVERNMENT BE CONCERNED ABOUT AFFORDABLE HOUSING?

- While some people's housing needs are catered for by the *private sector*, the vast majority of South Africans still *rely* on some form of Government assistance, to **ACCESS** *affordable, appropriate* and *secure* housing
- Government assistance is justified on the following grounds:
  - To achieve progressively the requirement of Section 26 of the Constitution in enabling the right of citizens to adequate housing;

# WHY SHOULD GOVERNMENT BE CONCERNED ABOUT AFFORDABLE HOUSING?

- To arrest the inefficiencies and inequalities of settlement patterns resulting from apartheid spatial legacy that are deeply entrenched and thereby reduce high costs to households;
- The housing market is riddled with examples of conventional market failures
- Housing is a critical determinant of *households well-being, labour market efficiency and social cohesion*

# HOW GOVT FINANCES HOUSING

- Government direct investment into Human Settlements e.g.
- USDG and HSDG budgets 2014/15 = R39 billion for among others:
  - Affordable Housing - FLISP
  - Rental and Social Housing - Restructuring Capital Grant (RCGs) and Institutional Subsidy

# HOW GOVT FINANCES HOUSING ...

- Free Housing (RDP) - Individual Subsidies
- Human Settlements Infrastructure - Urban Settlement Development Grant (USDG)  
Municipal Infrastructure Grant (MIG).

# HOW GOVT FINANCES HOUSING

- **Revenue Foregone** : Tax Incentives – for Investors and Developers
- Urban Development Zone (UDZ) tax incentive is the best kept tax break secrets of the South African property sector, especially in the Inner City, contributing to *urban regeneration*;
- Transfer Duty Exemption ( = 0) for all < R 600 000 priced houses

# HOW GOVT FINANCES HOUSING

- **Loans:** through Development Finance Institutions (DBSA, NHFC, NURCHA, GPF etc)



# SHOWCASING OUR PROJECTS



## **Lakehaven Social Housing Project - Phase 1 and 2**

The NHFC provided mortgage loan financing of R35,5 million for the development of 312 units, for social housing rental. Other funders of this project are the KwaZulu-Natal provincial government and the Social Housing Regulator. The project has 34 double-storey blocks of eight units on 17 hectares of land in Durban. All the units are two-bedroom. The developer is First Metro Housing Company, a social housing entity.

# NHFC PRODUCTS

- **Social Housing Rental Finance**

- For Social Housing Institutions (SHI's) which are not for profit; and
- Restructuring Capital Grants (RCG's) to the projects are allocated by the Social Housing Regulatory Authority (SHRA);
- top-up subsidies are allocated by the Provincial Government whilst
- The NHFC provides long term loans (up to 20 years) to the project for the balance of the funding required to implement the project;
- Target market is households earning R3500 to R7500



# NHFC's PRODUCTS

- **Private Landlord Finance**

- Subsidies are not available for private property investors but UDZ in the inner City is applicable and
- Secured loan terms do not exceed 15 years

# NHFC's PRODUCTS

- **Non Banking Retail Intermediaries Finance**

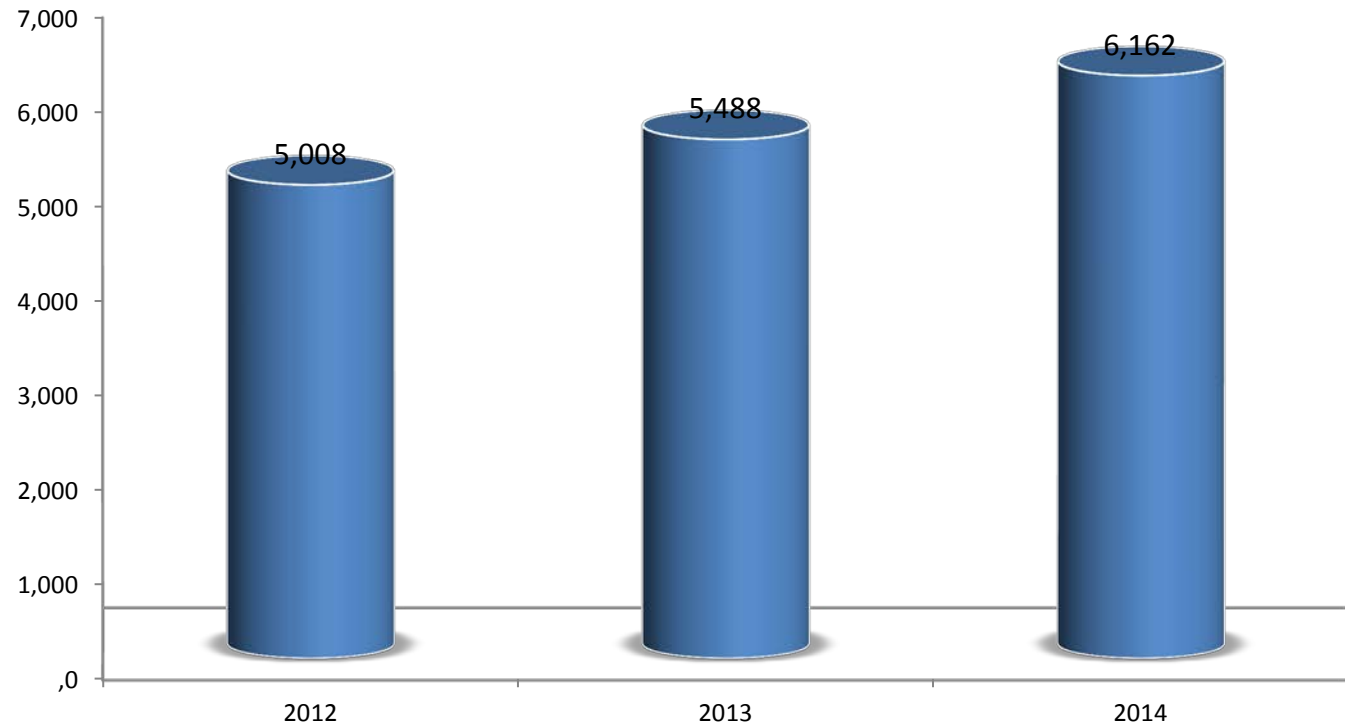
- loans to non-banking retail intermediaries, who on-lend secured and un-secured home loans to households in the NHFC target market.



# KEY FINANCIAL INDICATORS

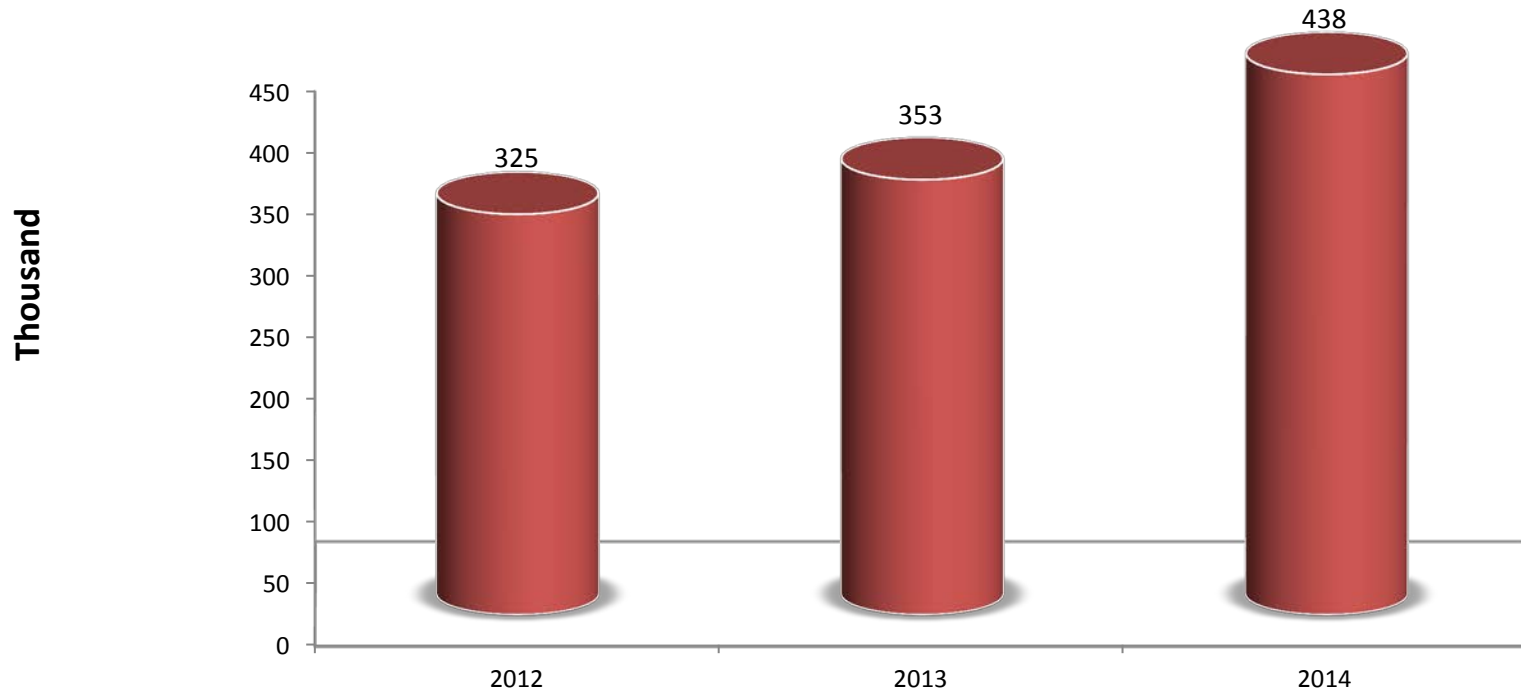
## Cumulative Disbursements

Disbursements (R Millions)



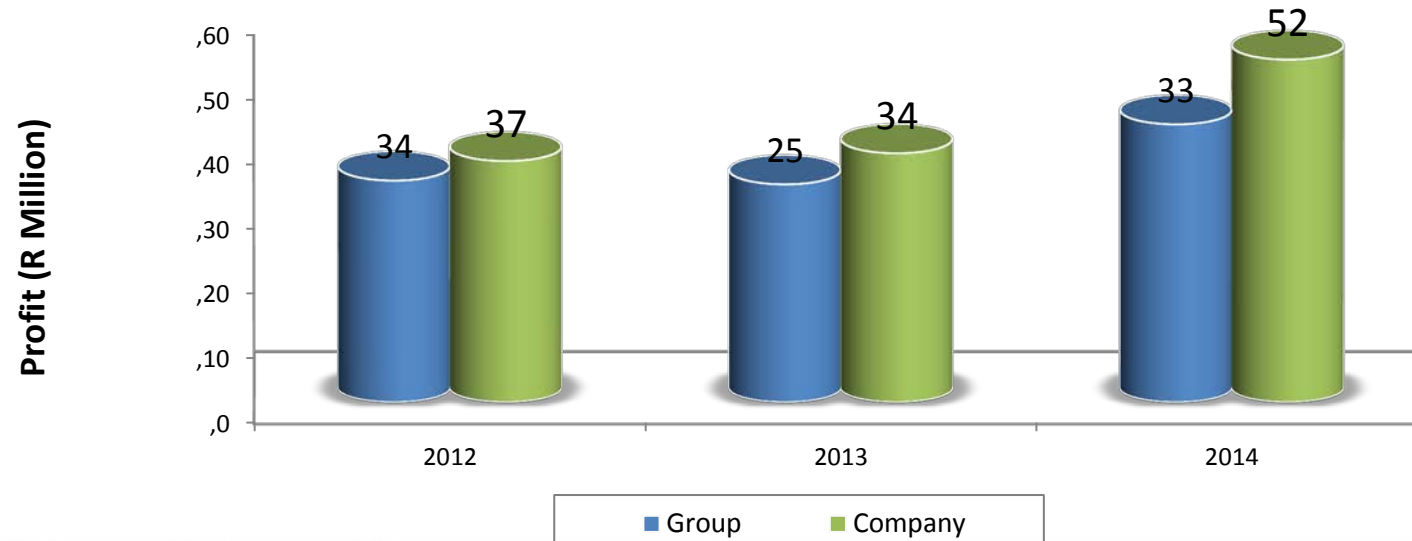
# KEY FINANCIAL INDICATORS

## Cumulative Housing Opportunities Created Since 1996



# KEY FINANCIAL INDICATORS

## Profit before Taxation



# SHOWCASING OUR PROJECTS



## **120 End Street, Johannesburg**

NHFC provided funding of R110 million for the conversion and refurbishment of two buildings, Frank & Hirsch and Khan Corner, into rental accommodation. The property is now called 120 End Street, and has 479 units comprising one- and two-bedroom units. It is owned, developed and managed by Affordable Housing Company, a leading investor, landlord and property manager in the inner city of Johannesburg.



Financier · Facilitator · Innovator

# NHFC PARTNERS IN DELIVERY

## FLISP

- Provinces
- Banks (ABSA, Std Bank, FNB)
- Developers
- EAAB
- DHS

## Social Rental Housing

- Provinces
- Metros/Municipalities
- SHRA
- DIGH (Dutch Financiers)
- DBSA

## Private Rental

- PIC
- DBSA
- Old Mutual
- Banks
- GPF
- Future Growth

## Integrated Developments

- Provinces
- Metros/Municipalities
- Old Mutual
- IHS / PIC / DBSA

## Incremental Housing

- Retail Intermediaries
- Other Financiers
- DFI's



Financier · Facilitator · Innovator

# CONTRIBUTION TO DEVELOPMENTAL IMPACT

- Facilitate sustained increased lending in the affordable housing space
- SMME development: graduation to accessing capital markets
- Crowd in private sector through PPP
  - High leveraging factor as high as R1 to R40
  - Social Partnerships: Mining Sector
  - Attraction of FDI into country – EIB, AFD, DIGH, INTERVOLVE, IHS-IFC
- Facilitated Property Entrepreneurship especially PDIs
- Contribution towards job creation

# SHOWCASING OUR PROJECTS



**Harmony Village – Cape Town**



# THANK YOU



Financier · Facilitator · Innovator