

Affordable residential property market ready for unprecedented investment

*By SA Commercial Prop News
27 September 2011*

The South African property market is ripe for large-scale investment in the affordable sector, says leading global equity investor International Housing Solutions (IHS).

Speaking in the wake of the 3rd annual Affordable Housing Development and Finance Conference, Soula Proxenos, Managing Partner at IHS, said it was clear that urban densification had to be addressed as a matter of urgency. The conference this month experienced the unprecedented attendance of more than 200 representatives of South Africa's leading banks, developers, investors, economists, property experts and other stakeholders in the sector.

“Local and international private equity funding is increasingly being attracted by the development of low-and-middle income housing, and densification helps to facilitate such investment. It has now become critically important for the private sector to be active in this space,” Proxenos says.

She says that research done by University of Cape Town professor Francois Viruly shows that densification around urban centres is rapidly escalating, which creates many more institutional investment opportunities. This concentration around public transport nodes will change the nature of how our cities expand, and Viruly argues that we cannot think of cities in terms of circular nodes, but that we need to do so in a linear manner as cities will densify along the public transport routes.

“In places like Sao Paulo, densification was not strategic, and the lack of planning has left that city with tremendous socio-economic challenges. At IHS, we are investing heavily in projects that seek to provide sufficient affordable housing close to urban centres without forfeiting quality of living considerations,” says Proxenos.

Kecia Rust of the Centre for Affordable Housing Finance in Africa, a division of the Finmark Trust, says that even where people were recipients of subsidy housing, they would improve them over time – adding more storeys or additions. In many cases, this meant that densification happened without proper infrastructural planning, or in spite of infrastructure capacity limitations. She says that the traditional form of subsidy housing was therefore “perhaps not the best type of investment for the state to make”. Rather, prioritised state investment in land and infrastructure would better prepare settlements for densification that would happen over time.

Proxenos says that the IHS model of attracting bulk local and foreign investment for the affordable housing market, such as practised in many countries across the world, had the potential to address housing backlogs, densification challenges, and other socio-economic issues such as job creation, economic growth and the transformation of apartheid-style town planning.

“As seen at the conference, which experienced unprecedented levels of attendance by the top players in the industry, there is an undeniable groundswell of interest in investing in this sector. But some investors are waiting for there to be sufficient bulk before committing their funds.

“Such bulk, and therefore substantial investment, will become a reality when the public and private sector reach a place where the mass construction of affordable and integrated housing can be done with relative ease.”

Says Viruly: “If masses of residential unit blocks are erected, it will create an investment class in property that will be attractive to pension funds.”

IHS recently reached the milestone of committing R1 billion of their R1.9 billion South Africa Workforce Housing Fund. One of its flagship densification projects, the 8 600-unit strong Fleurhof development between Soweto and Roodepoort, is set to be replicated in the Western Cape in coming months.

The Fleurhof development, a shining example of viable densification, focuses not only on providing basic dwellings, but rather the integration of sites and services necessary for a vibrant, economically progressive community.

Rob Wesselo, SA-based Managing Partner at IHS, says the company has invested R100 million in the development under construction by CalgroM3.

“Government has been highly supportive of private sector developments at the lower end of the market, because of their potential to make a dent in the housing backlog,” says Wesselo.

“But there remains a huge need for affordable housing in the country, and it will likely be decades before the available supply will start satisfying demand. Fleurhof is a classic example of how an investment that is good for the country and good for addressing the housing backlog can also be a great financial investment, and we have seen that investors are keen to put their money into such projects, but only under the right conditions.”

Viruly says that in coming decades, densification will take place, whether formally or informally. “If the formal environment is too cumbersome, densification will happen informally. The market is adjusting as land becomes more expensive. Already we are starting to see the first signs of high density “favelas” being developed townships across the country,” he says.

“Unless a proper response is found, we will find densification going in the wrong direction. But at the moment, we still have an option regarding which direction it will go.”

Says Proxenos: “We have commissioned research into the social impact of the development of affordable housing in South Africa, which will soon allow one to quantify the value of this sector to the economy and the country as a whole.

“But even while we await this empirical data, it is clear from the attendance and contributions at the IHS conference, as well as our experience in the past years during the implementation of our first fund, that the prospects for this sector cannot be overstated.”