Finance still major obstacle to affordable housing

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Finance is the major obstacle to providing housing for low-income earners. That's the (hardly surprising) conclusion from a forum that has brought together people responsible for end-user finance, development finance, housing development and policy.

Banks, represented at the meeting in Johannesburg last week, have been blamed for the private sector's apparent inability to enter the "gap" housing market. SA has a chronic shortage of affordable housing suited to prospective home owners who earn too much to qualify for government subsidies, but not enough to qualify for normal financing.

Fewer than 20 000 new units come on to the market each year, in response to a need estimated at more than 675 000.

Government's commitment to build 2,2m houses by 2014, and the pledges made by banks under the Financial Sector Charter to support low-income households, should be a driver for the sector's growth. But developers say this is far from the case.

"Our experience is that banks are still risk averse. Deals are just not being financed anymore," says Derek Steyn of Calgro M3, an AltX-listed housing company.

Banks require major equity contributions, which are placing a limit on projects. They need to relax their lending criteria, says Steyn, take more risk and participate in projects as equity funders.

Calgro's affordable housing division, which builds houses for sale at below R340 000 - mostly in and around Soweto - recorded an operating profit of R21m for the year to February. This compared with a loss of R12,6m in its residential cluster division, mostly operating in Johannesburg's northern suburbs.

The company's experience underscores the viability of the low end of the market. And, despite constraints they have placed on lending, the bankers agree.

Marius Marais, of FNB's housing finance department, says affordable housing is less risky than the higher end of the market. Low-income earners generally have less debt than the middle-income group, which has come under pressure during the crisis.

"There is good evidence to suggest that the risk in the market is not as high as we initially thought it was. We are achieving sustainable returns in the affordable housing market."

FNB hasn't tightened its credit policy. But without revealing numbers, Marais says, "there are more declines than approvals at the moment". Since the introduction of the National Credit Act, the sector has generally experienced fewer loan approvals.

Absa's experience has been similar. Though its loan approvals have dropped in the past 15 months, the bank is still lending, with a different set of credit criteria.

"We want to partner with developers and mortgage originators, but obviously people must be able to afford the business," says managing executive of Absa Home Loans Luthando Vutula. But regarding the expectation of a deposit, Vutula says developers need to own at least a part of their properties.

But developers say they are cash strapped. Just 30% of country-wide loan applications are approved by the banks, says Anton Crouse, MD of Cosmopolitan Projects. "This is not sustainable, and is a financial drain on developers." He believes banks should increase their approval rate to between 50% and 60%.

"Growth rates in the sub-R400 000 market are very high. Developers believe that the risks are far lower than in other sectors of the market, because of the high demand. But this year there has been zero supply," he says.

Banks have a tendency to overreact, making advancing money for mortgages a challenge, says Simon Stockley, CEO of mortgage banker Integer. "The industry should react to changing conditions in smaller, more appropriate steps, rather than making sweeping statements and changes to lending policy," Stockley says.

But it is the National Credit Act that is partly to blame, says the Banking Association of SA's Pierre Venter. It has stifled innovation by limiting the amount of developmental credit that banks can extend. This has particular ramifications for the affordable housing market.

Aside from its obligations in terms of the Financial Sector Charter, Venter says banks will set their own targets to take socioeconomic development forward.

For both banks and developers, SA's infrastructure constraints are a major challenge. Ineffective planning on the part of municipalities, and concerns about their credit worthiness, inhibit their ability to provide the infrastructure that must accompany housing developments.

Private-public partnerships, says Development Bank of SA's project finance manager, Tokolo Nchocho, will be key to resolving infrastructure backlogs, which are holding back housing development.

The opportunity to fill the gap in funding lies, in part, with alternative financiers. International Housing Solutions (IHS), which hosted the workshop, partners with developers to fund affordable housing projects. It recently launched a R1,3bn workforce housing fund in SA. IHS provides funding on a part-ownership basis rather than interest based income.

Calgro, for example, recently sold a 30% stake in its Fleurhof (south of Johannesburg) development to IHS.

The deal injects capital into the business. But more than that, it is an example of a much-needed alternative to scarce bank finance.