Affordable housing - Raising the roof

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To cater for soaring demand, government and the private sector will need to build 600000 new affordable housing units. Though it provides accommodation to the majority of South Africans, affordable housing is still the least understood and most underserviced sector in the property market.

Comprising units valued at under R500000, it includes housing in former black, coloured or Indian townships, government-subsidised housing and new housing developed by the private sector.

A surge of new units in this market is changing the balance within the property deeds registry. Affordable houses make up about 60% of the almost 6m residential properties listed on the deeds registry, according to the Affordable Land & Housing Data Centre (al+hdc) launched by FinMark Trust and Urban LandMark this month.

To stimulate the granting of loans to this sector of the housing market, the financial sector charter set a target of originating loans of R42bn between 2004 and 2008. Banking Association of SA data shows this has been exceeded by R13bn. Of this amount, small banks originated R9bn.

But FNB housing finance CEO Marius Marais says with the demand estimated at about 600000 affordable units, more money needs to be allocated to affordable housing . He says the bank's experience in this market has been positive. It funded 1300 houses in Cosmo City, and recently added a further 1000 units. It has also funded a project with 1000 units in Protea Glen, Soweto. Its loan book for affordable housing is R7bn of a R92bn advances portfolio.

"Affordable housing is definitely a place to do business on a sustainable basis. The default rate in the sub-R500000 market has been lower than higher-value property, busting myths about it being risky," Marais says.

The risks, however, have to be managed. Supply has not matched demand, and banks have to manage supply-side constraints. This means they play a role in the identification of potential projects and, in most cases, take projects to completion.

There are demand-side risks too. Banks involved in all aspects of a project often find themselves drawn into maintenance disagreements which should be dealt with by the purchaser and developer. This makes it critical for banks to attend to the quality of the housing projects they fund, Marais says.

The need for associated infrastructure, such as roads, sanitation, water and electricity, drives costs higher and could reduce developers' margins.

Some developers have begun to build cheaper units worth about R350000, a welcome move for lower earners.

But even though demand has rocketed, Absa home loans managing executive Luthando Vutula says consumers are still under pressure, and affordability is the bank's biggest concern.

The recession has pushed mortgage loans sharply lower. The volume of mortgages approved more than halved between 2007 and 2009, with the decline slightly more pronounced in the lower- income market.

Banks say about one in three loans are currently being approved. The biggest hurdle is consumers with insufficient disposable income.

Kecia Rust of FinMark Trust's Centre for Affordable Housing Finance says there is some reticence on the part of banks, but credit indebtedness has been the biggest contributor to low approvals.

High household debt levels are preventing banks from extending credit to certain clients. Though disposable income is steadily increasing, it hasn't been enough to dispel repayment concerns.

Moreover, households that earn between R3500 and R8000/month are falling through the cracks. They don't qualify for subsidised housing, but also don't earn enough to secure a bank loan.

Echoing Marais, Rust says associated infrastructure has not always kept pace with housing developments. In many new developments, she says, the cost of infrastructure is financed through the price of the house, which makes it more expensive for home-buyers.

But she suggests the banking sector has identified value in the sector, prompting a change in its property funding strategy.

Absa, says Vutula, takes a cradle-to- grave approach. The bank creates the stock and finances the end user. He says it is a strategy that is working. Moreover, he says, margins are higher in affordable housing than in the high-value sector.

Vutula says Absa's loans in 2010 have risen by about 10% year on year, proving that the market is beginning to pick up. Its total loan book, including rental stock and Absa Development Co's projects, amounts to about R10bn.

Mortgage finance may be low, but the market is growing in both volume and value. More affordable housing units are built every year than high-value housing. Since 2004, an average of 70000 new units — including subsidy housing — has been registered in the deeds registry annually. This can be compared with 65000 units in the rest of the market.

Construction has declined in the higher end of the market since 2007, but affordable housing has remained steady, presumably because of the construction of subsidy housing.

Property economist François Viruly says the sector is critical. “People who live in government-subsidised houses must have the opportunity to move into affordable housing.” But this property “ladder”, illustrated by the shift in ownership and occupancy of suburbs like Hillbrow and Yeoville in Johannesburg, is not functioning well enough, and is preventing upward mobility.

He says local pension funds and the listed property sector do not invest in the affordable market, which is an anomaly in a developing country.

In other countries, including the Netherlands, up to 40% of pension fund money is used to invest in new affordable housing projects.

Viruly believes the private sector is willing to invest in high-density housing units, as long as the state plays an enabling role. In some cases, he says, legislation needs to be adapted to attract private investment.

Another development has been growing interest from investors in rental units. Rust suggests the market has begun to attract investors, who appear to have deliberately shifted their investments from the higher value to affordable housing.

Though this trend has been curtailed by the shortage of supply, more rental units will provide solutions for low- income earners who are unable to secure bank loans.

Rust says the resale market is still dominated by high-value property, but the gap is also beginning to narrow.

Banks, meanwhile, are tracking consumer behaviour. To aid consumers, they have begun educational programmes to complement their approval rate.

“First-time buyers find it difficult to understand the responsibility that comes with home ownership,” says Marais. FNB conducts sessions to assist potential clients with budgeting for loans, while being aware of maintenance, rates and taxes and insurance costs.

Banks have also offered fixed-interest contracts for clients without disposable income to give them a buffer against interest rate increases.

To address the shortage of data on this segment, the al+hdc’s launch is timely. It draws from deeds registry data as well as surveys to provide information on the type of properties that are affordable to the majority of South Africans. Preliminary data indicates the sector may even be undervalued.