

## No bond for 83% of households

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Four out of five households do not qualify for mortgages, according to an SA Institute of Race Relations survey.

The survey estimated that the incomes of about 83% of the country's nearly 14million households are not enough to qualify for bank loans.

James Milne, an analyst at Frost & Sullivan, said there is a gap in the market that is not being serviced properly: people who do not qualify for housing subsidies or mortgages.

They typically earn R3500 to R9000, sometimes up to R15000, a month and cannot get mortgage loans, said Milne.

In 2009, about 60% of households earned R3500 or less a month and qualified for full state housing grants while 16% of households had to make their own contributions to government-subsidised houses based on incomes of between R3500 and R7000, the survey showed.

"The income figures demonstrate the pressure on the state's housing delivery programmes, with 60% of all households eligible for government-subsidised housing," said Kerwin Lebone of the institute's research department.

About 7% of households earned R7000 to R10500, enough to disqualify them from government housing programmes, but not enough to get a bank mortgage.

But Milne said this "gap market" was getting more attention from private equity and the larger financial institutions.

Banks granted R70-million in loans in the low-cost housing sector from 2005 to June last year, said Milne.

While the returns for the market were still relatively uncertain, some companies were cashing in, he said.

One such company was Alt-X-listed construction company Calgro M3, which had ventures in low-cost housing.

Other private financiers involved were Old Mutual Investment Group South Africa's alternative investments arm, which raised about R9-billion for its housing impact fund, and private equity firm International Housing Solutions, which has raised an estimated R1.3-billion for its South African Workforce Housing Fund. Both funds target the "gap market" housing participants.

"It's difficult to determine how valuable your house will be in the future or if the house will even gain in value," Milne said of the pitfalls of operating in the sector.

"But the returns can be worthwhile."

In Absa's latest quarterly housing review, the average price of affordable housing (houses priced up to R480000) declined 2.5% in real terms last year after rising 0.9% in 2010.

But stimulation of the sector, according to Milne, lies with government, "because for private financiers it's definitely a risky business as there is so much uncertainty".

And the risk is significantly reduced if you have some assurance from government.

The government acts as surety for applicants through various funds such as the National Housing Finance Corporation.

But, according to the survey, only about 700000 households qualified for bank finance in the affordable housing sector.

"The most significant issue facing the government, regarding encouraging participation of the private sector in the low-cost housing market, is the ability to offer an attractive opportunity to companies and investors, whose primary concerns are to create value and returns," said Milne.