SA's affordable housing sector ailing

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JOHANNESBURG – The affordable housing sector remains <u>under pressure</u> even as demand for urban accommodation remains at a staggering 1m homes.

Of the country's four major banks, most indicated they were in the process of devising ways of assisting potential homeowners who don't currently qualify for state housing subsidies.

Head of Nedbank's affordable housing, Jeff Lawrence, says the bank is in consultation with government over its proposed "mortgage disclosure insurance company". Through this instrument government plans to assist banks in the event of default payments or repossession by the banks. It will cover the banking institutions in the event of any potential losses.

Lawrence has echoed the view of other banks in that the group is committed to the affordable market. "It is the growing middle class of the country".

Standard Bank says it is currently the biggest lender in the affordable housing sector in South Africa with a market share of 32%. The bank's director of affordable housing Nicholas Nkosi, says the huge backlog in this sector is contributing towards the growing demand for homes in this sector. "With the sheer volumes of urbanisation we are continuously playing catch up."

Nkosi adds that <u>expensive finishes</u> to new houses in affordable housing is contributing to high costs which not many can afford. He says a fine a balance needs to be struck between maintaining high standards in building and affordability with the option to upgrade at a later stage.

FNB, which is also considerably active in this segment with a book of over R10bn, maintains it is the biggest operator in terms of granting new home loans among the big four.

FNB housing finance CEO, Marius Marais, says the bank started focusing on this sector a decade ago, targeting professionals like teachers, nurses and policemen. Marais predicts the cycle in this segment will remain robust.

"Because there is a strong demand, there is short supply. Potential buyers in this segment are largely happy starting at the bottom. This is their primary house ...not a holiday place. The biggest demand is in the 45m² offering."

Marais concurs that perhaps ways should be found in accommodating people earning around R6000 a month, who do not currently qualify for home loans. The entry point presently stands at those earning a monthly wage of between R8 000 and R10 000.

"The banks must broaden access (to home loans). How do we create units that are priced lower than entry levels at the moment?" asked Marais, who also suggested cutting down on the quality of units in the form of a "step-up unit" which can be upgraded a year or two after purchase.

He says FNB will also continue playing a major role in secondary markets which involves the re-sale of current purchases.

According to Absa's Q2 2012 review, the first quarter of this year saw the average nominal price of affordable housing (houses of $40m^2$ - $79m^2$ and priced up to R500 000 in 2012) rising by 7.2% year-on-year to about R331 100. This is after increasing by 4.9% y/y in the preceding quarter.

The review states that in real terms, that is after the adjustment for the effect of consumer price inflation, house prices in the affordable segment increased by 1.1% y/y in the first quarter of the year, compared with a real price decline of 1.3% y/y recorded in the fourth quarter of 2011.

While the four major banks have all indicated their willingness to tackle the massive housing backlog in the affordable housing sector, many are of the view that government needs to do more to come to the party.