

THE BANKING ASSOCIATION

South Africa

**IUHF WORLD CONGRESS
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SESSION 2A**

**Expanding the Reach of Housing
Finance in Developing Countries &
Emerging Economies**

Wednesday, 20 September 2006

**MAJOR ISSUES FACING LENDERS AND PROVIDERS OF
FINANCE TO FINANCIAL SECTOR CHARTER (Fsc)
TARGET MARKETS**

◆ Target Market

◆ Supply Issues

- **Shortages**
 - Need to 132 000 P.A. only supplying 19 000 P.A.
 - Constraints: Inter-alia, access to land, process inefficiencies, increasing costs

◆ Risk Issues

- **Fixed rates**
- **Loss limit insurance**
- **Housing options / alternatives**

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TARGET MARKET

Housing in S.A.

Dependent on Government for "social" housing (7m households)

Underserved "commercially-viable" market (2 - 4m households)

Functioning market (3 - 4m households)

Total = 12-14m households (45m people)

Financial Sector Charter Target Market

- 2- 4m households earning btw R1 500 & R7 500 (+CPIX) monthly household income
- 2008 FSC Targets

Rbn	Without Govt support	With Govt support
Origination	40	50
Targeted Investment		
◆ Banks	8	11
◆ Other F/S	24	31

Focus of Govt / Private Sector Partnership

Doorway to success of BNG philosophy

*Sub-standard infrastructure and services, poor community governance and an undesirable social environment are currently barriers to lending

SHORTAGE OF HOUSING UNITS IN SA*

	Housing Needed '000	Existing Houses '000	Shortage '000	Gauteng '000	KZN '000	E/Cape '000	W/Cape '000	Others '000
2,5k-7,5k income bracket	2 630	1 969	661	191	128	77	73	192
New units needed each year for 5years*			132	38	26	15	15	38
Current P.A. supply			19	9	1,4	1,3	2,7	4,6

The challenge is daunting – especially when considering other development/construction priorities

*Research into Housing Supply & Functioning Markets: Matthew Nell & Associates/The Settlement Dynamics Project Shop – December 2005 (extrapolated to 2006)

*To reduce shortage by 60% in 5years

SHORTAGE OF HOUSING UNITS – OVER 40% IN 7 METROS*

	National Shortage '000	7 Metros Shortage '000	JHB '000	Ekurhuleni '000	CPT '000	Ethekwini '000	Tshwane '000	Rustenb '000	Nelson Mandela '000
2,5k-7,5k Income bracket	661	275	63	51	51	47	36	16	11
New units needed each year for 5yrs*1	132	55	13	109	10	10	7	3	2
Current P.A. Supply	19	6,7	1,9	1,7	1,1	0,5	1,2	0,3	<0,1

Given resource constraints, focused interventions needed to achieve an impact

*Research into Housing Supply & Functioning Markets: Matthew Nell & Associates/The Settlement Dynamics Project Shop – December 2005 (extrapolated to 2006)
*To reduce shortage by 60% in 5years

SUPPLY CONSTRAINTS

Constraint #1

Lack of access to well-located / reasonably priced land

- ◆ Public Sector land not being assembled
 - Procurement regulations and processes
- ◆ Private Sector land too expensive

Constraint #2

Serious delays in land proclamation and servicing process

- ◆ Land to stands: was 12-18 months; now 30-59 months
- ◆ Stands to houses: was 5 months; now 19 months
 - Lack of capacity (especially in Municipalities)
 - Lack of bulk service capacity

NEW HOUSING SUPPLY: DEVELOPMENT & INDIVIDUAL TRANSFER

		Estimated Time	
		Previous	Current
Housing Design & Building Plan Approval	Plans and base specifications prepared and costed Provided to Municipality for approval and Lender for project funding commitments	1mnth	3mnths (Commercial Risk*)
Sales Agreements Concluded	Development marketed. Offers to purchase processed and pre-screening undertaken. Bond application to Lender	1mnth	3mnths (Technical/Commercial Risk*)
Title & Bond Registration & Bond Drawdowns	Bond registration lodged and build order issued. Deeds Office register the bond. A clearance certificate requested from Municipality who undertakes valuation	1mnth	3mnths (Statutory/Commercial Risk*)
House Construction & Handover	House constructed and handed over to new owner	2mnths	3mnths (Technical/Commercial Risk*)

*Technical risks comprise structural and construction quality requirement; Statutory risks comprise ability to efficiently meet regulatory requirements (clearance certificates and deeds); Commercial risks comprise developer's ability to recover costs (end-user access to finance) Research into Housing Supply and Functioning Markets: Matthew Nell & Associates/The Settlement Dynamics Project Shop - December 2005

SUPPLY CONSTRAINTS #3

Ever increasing cost inputs (render product unaffordable)

- **Land, material and unit labour costs will not drop**
- **Seek cost reduction by cutting the time it takes**
 - Energy/innovation of private sector partnering with local government
 - Efficiencies from all in value chain
 - Acceptance of rational design and construction methods
- **Effective/efficient cross-subsidization**
 - Capitalise on economies flowing from land re-zoning
 - Finance-linked subsidies
 - Tax credit system

RISK MITIGATOR #1

- ◆ **Fixed Rate Loans**
 - No “cushion” to absorb rate increase
- ◆ **Government rejected “hedging support” proposal while Capital Market adapts**
 - Limited Capital Market capacity being tapped
 - Only fixed for 5years
- ◆ **International precedent – initial Government involvement for viable and sustainable fixed rate mortgage finance**

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NO “CUSHION” TO ABSORB RATE INCREASE

MONTHLY INCOME	3 500
25% TO REPAY LOAN	<880> 80 000 @ 12%
Balance of monthly income	2 620
MINIMUM LIVING STDS	2500
CUSHION	120
1% RATE INCREASE	57
2% RATE INCREASE	115
3% RATE INCREASE	173

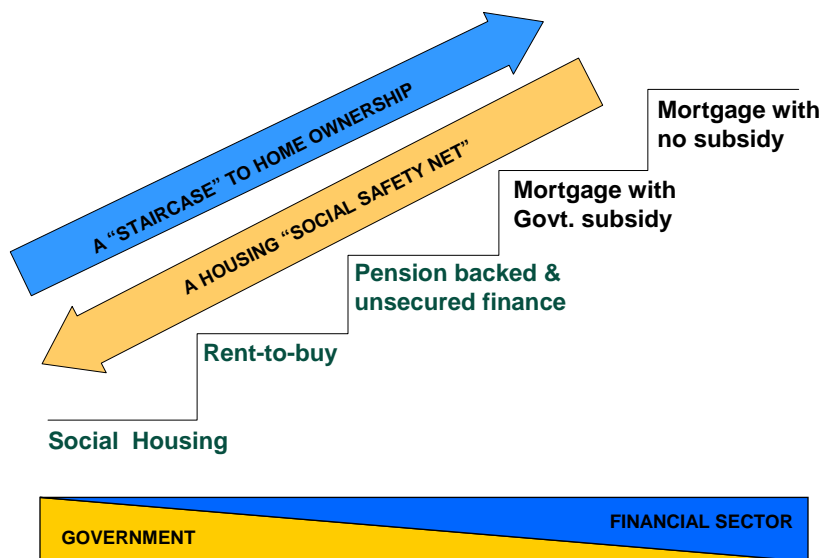
RISK MITIGATOR #2

◆ Loss Limit Insurance (after bank takes first loss)

- **Individual cover to “reach” <R5 000 monthly income market**
 - dysfunctional market – high propensity to default and loss given default – resulting in unaffordable risk premium
- **Pool cover to access funds from financial sector**
 - Without performance data – required for AAA rating – funding cost unaffordable

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RISK MITIGATION #3



CRITICAL DRIVERS FOR PROGRESS

◆ Financial Sector Charter

- R42 billion (\$6 billion)
- R20 billion in last 2years (\$3 billion)
- R1 500 - R7 500 (\$215 - 1070)

◆ Commitment from Government

- Low-income housing firmly on agenda
- 1.8m houses built 1994 - 2005
- 2.8m subsidies approved 1994 - 2005

◆ Substantive Engagement