

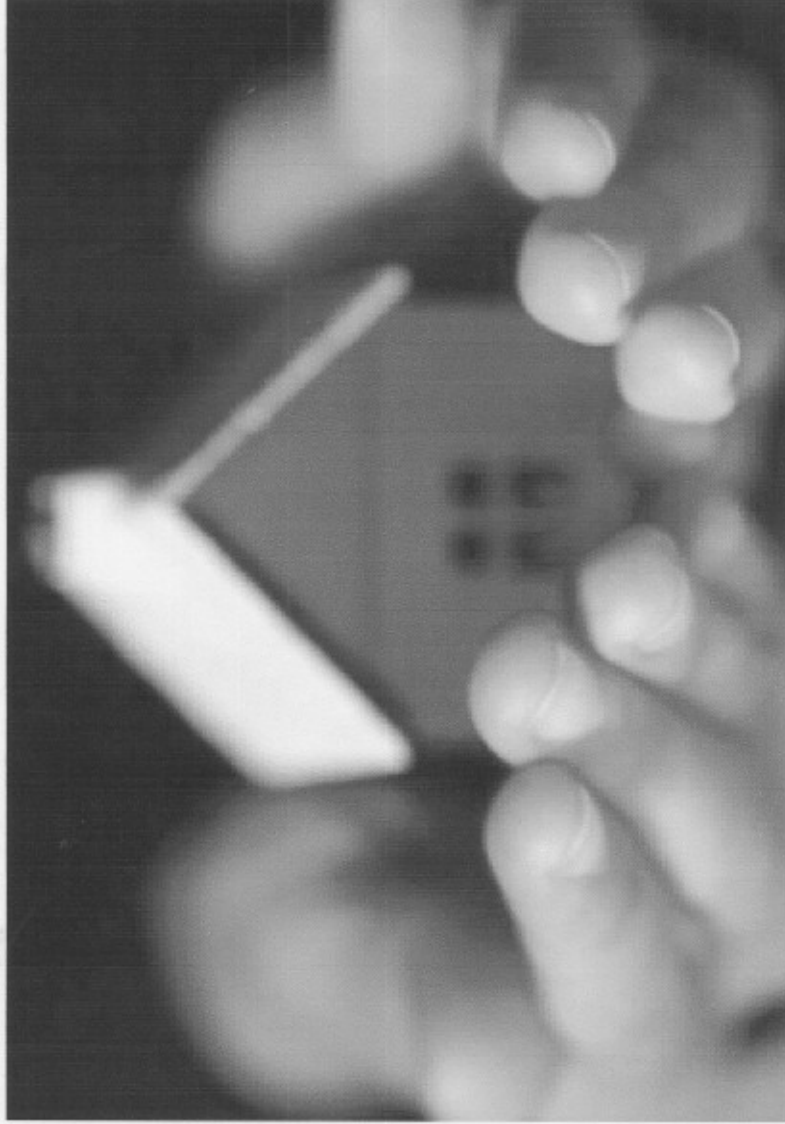
10 May 2006

Mandisi

Purchasing

Save a£, solutions

Seeking a Solution for Affordable Housing Supply

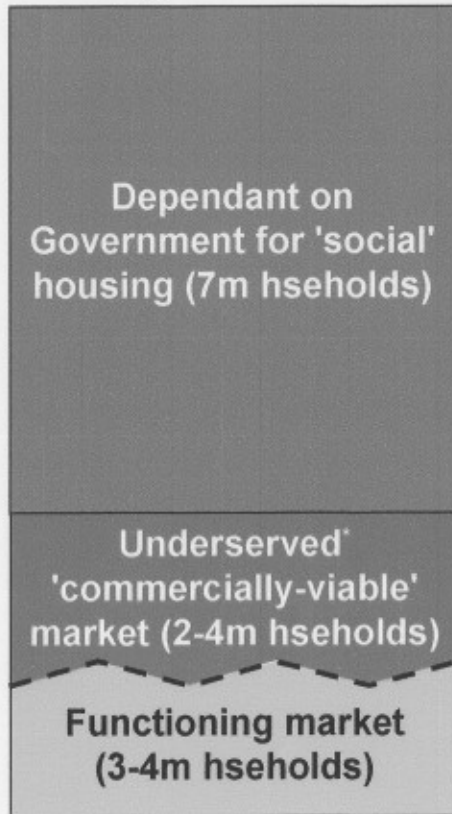


Presentation to the Parliamentary Portfolio Committee on Housing

10 May 2006

We are aiming to transform a market segment that is underserved, yet potentially commercially sustainable

Housing in South Africa



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

Financial Sector Charter target market

- 2-4m households earning between R1 500 and R7 500 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

The Financial Sector Charter aims to extend housing finance to the currently underserved, commercially-viable market

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

Process to date

24 August 2005

- Banks presented finance proposal for Low Income Housing

Concern about the availability of houses, but without supporting facts

- April 2005 BA commissioned research
- December 2005 research completed
- Results made available to DoH and major role players in the housing value chain

Today

- Share findings of research study
 - Housing supply is the major constraint in this market
 - Financial Engineering alone will not solve the problem
 - Concerted effort needed by many different stakeholders

Demand for housing - significant findings

- **Additional housing need** in the FSC target market was **estimated to be 625 000 units in 2005** - this is the shortfall between housing stock needed and existing housing stock.
This is estimated **to increase by 122 000 units** over the next five years to be 747 000 units in 2010, in spite of increased housing delivery (at current rate of increase).
- It is estimated that approximately **133 000 units per annum will need to be delivered** from 2006 to close 60% of this gap within 5 years. This requirement increases to 150 000 units per annum by 2010 if not addressed.
- Of these, **just over half could be financed by Financial Institutions** applying current lending criteria (i.e. 75 000 in 2005).
- However, developers/builders will supply **only 15 000 to 20 000 new housing units per annum** in the current market.
- **The analysis of scenario sensitivities indicates the following:**
 - **New housing supply currently** represents the most significant constraint to increased effective demand (i.e. transactions)
 - **Actual loan conditions** (particularly a reduction in the interest rate and a reduction in house price) and **the economy growth rate** could also impact on the level of effective demand, but only once housing supply constraints are substantially resolved

Economic model

Modelling Outputs: Baseline Scenario: Housing Need and Demand (R2500 to R7500 income)

Housing Demand	2003	2004	2005	2006	2007	2008	2009	2010
Households bracket 2.5-7.5k	2 403 374	2 465 873	2 525 050	2 580 605	2 632 210	2 682 216	2 710 009	2 737 109
Housing stock needed units	2 446 329	2 509 946	2 572 494	2 629 723	2 683 237	2 734 629	2 763 681	2 791 318
Housing stock existing units	1 884 270	1 933 271	1 947 690	1 963 552	1 981 000	2 000 193	2 021 305	2 044 529
Additional housing need	562 059	576 675	624 803	666 170	702 237	734 436	742 375	746 789
Potential demand								
units	112 412	115 335	124 961	133 234	140 447	146 887	148 875	149 358
Rm Real 2005	11 766	15 727	17 879	18 518	19 286	20 505	21 242	22 597
Finance-supported demand								
units	52 813	68 496	74 899	78 593	70 237	73 014	73 787	88 193
Rm Real 2005	5 528	9 340	10 716	10 923	9 645	10 192	10 557	13 343
Effective demand								
Housing supply new units	3 848	9 010	14 705	16 175	17 793	19 572	21 529	23 682
Housing supply new Rm	403	1 229	2 104	2 248	2 443	2 732	3 080	3 583
Effective demand units	3 848	9 010	14 705	16 175	17 793	19 572	21 529	23 682
Effective demand Rm	403	1 229	2 104	2 248	2 443	2 732	3 080	3 583

New housing supply - significant findings

Key constraints to increasing new housing supply include:

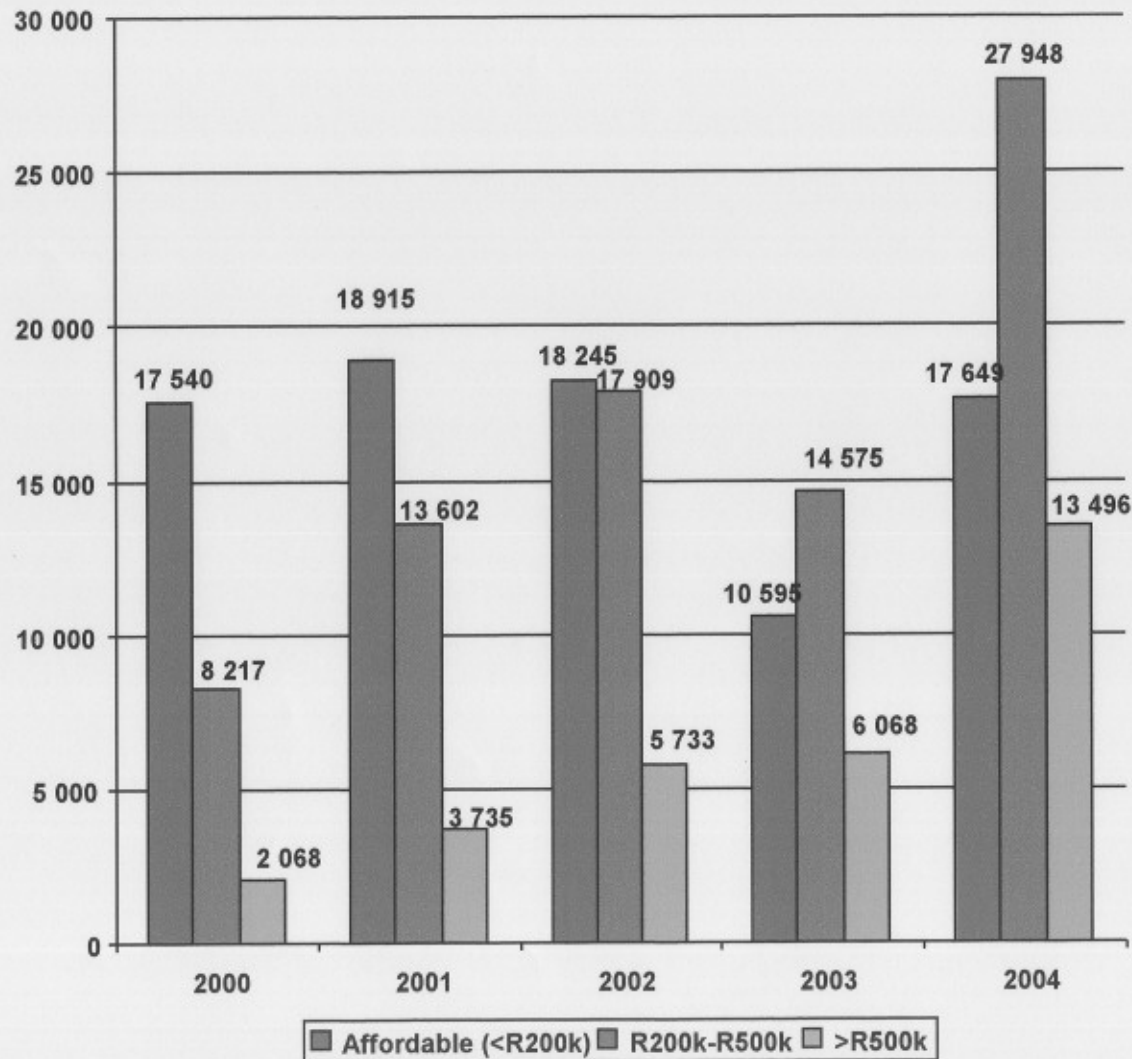
- **Lack of access to well located and reasonably priced land**
 - Private sector land too expensive
 - Public sector land not being assembled

- **Serious delays in the land proclamation and servicing process** under applicable regulations and high risks ("land to stands")
 - Extended time duration and delays in land proclamation process due to lack of capacity in Municipalities
 - Lengthy consultative process, especially in terms of environmental provisions
 - Lack of existing bulk service capacity / uncertain delivery

- **Decline in delivery of housing products and home builders operating** in the affordable housing sector ("stands to houses")
 - Operating risk increasing
 - Home builders margins reduced
 - Price increases reducing product affordability
 - Distortion due to the housing subsidy

- **Delays in the registration of title and mortgages** ("houses to homes")
 - Inadequate capacity in Deeds Offices
 - Inadequate and incomplete documents

Limited activity in the affordable housing market: NHBRC Enrolments 2000 - 2004



- NHBRC data indicates that the private sector delivered a total of 196,296 houses from 2000 to 2004.*
- The affordable (<R200k) housing market's share over this period was 42% or 82,944 units.
- As an overall proportion of delivery, affordable housing has declined from 63% in 2000 to 30% in 2004, even though actual unit numbers have remained almost constant.
- The most dramatic growth in both numbers as well as overall delivery ratios has occurred in the R200k plus and especially the R500k plus segments.

* It should be noted that the inclusion of RDP units, while legally prescribed, is not consistent across the Provinces. However it is likely that a portion of the R50k and below units (only 637 delivered in 2004) are RDP units).

Developer cost example: Constraints to private development

In the development of a new affordable house:

- The holding costs incurred on a R80 000 stand over 18 months delay in the township establishment and planning process would be R12 000
- The holding costs incurred on for a R180 000 house in the title deed registration process - assuming a 9 month delay over the 1 month minimum requirement for this process - would be R13 500
- Indirect costs can be of the order of R20 000 per house, including R10 000 to R12 000 paid in future bulk infrastructure provisions to local authorities
- This constitutes a 15% increase in the cost of an affordable house in holding costs (interest), and a further 10% in indirect costs. These and other inefficiencies can add up to 40% to the cost of 'affordable' housing
- By comparison, a typical developers profit margin on such a unit would be of the order of 5% or R 9 000.

New housing supply: township development process

Three legislative procedures: Ordinance, LFTEA, DFA. Ordinance most common and detailed below

		Estimated time	
		Previous	Current
Land procurement	Evaluate restrictive conditions of title and development potential of land Secure development rights or acquiring land Conclude relevant development and services agreements with Municipality	2 mths (Technical/statutory risk)	3-6 mths
Township Application & Layout Plan	All planning information obtained and a layout plan prepared by a town planner. Environmental and social impact studies undertaken	3 mths	3 mths
Environmental Mgt Plan Approval	EIA exception application submitted to DACEL. Exception application publicly advertised and interest groups invited to comment. Comments received and either accommodated or appealed against. Once resolved DACEL issues an approval	2-3mths (Technical/statutory risk)	6-12mths
Approved Township Application and Conditions of Establishment	Planning report submitted to Municipality Townplanning Dept. Advertisement posted so all interested parties submit comments and objections. Once period expired and comments resolved report submitted to Council. Council approves township establishment. Conditions of Establishment prepared.	2-3mths (Statutory risk) may be concurrent with EIA	7-18mths
Approved Gen Plan Engineering Designs	Complete cadastral survey (pegging) and drawing up of a General Plan. Forwarded to the Surveyor General for approval and then to the Deeds Officer. Detailed engineering designs prepared.	1-2mths (Statutory/commercial risk)	3-7mths
Township Register	All conditions of establishment undertaken and documentary evidence submitted to the Deeds Officer. Deeds Officer examines all documents and opens the Township Register. Transfer documents for the first registration of title can be submitted	1-2mths (Statutory risk)	2-6mths
Installation and Handover of Services	Tenders are issued and the installation of services is undertaken. .	1-3mths (Technical/commercial risk)	6-7mths

* Technical risks comprise physical, legal, and bulk servicing constraints; Statutory risks comprise the ability to efficiently meet regulatory requirements; Commercial risks comprise the developers ability to recover costs

New housing supply: development and individual transfer

		Estimated time	
		Previous	Current
House design and bldg plan approval	Plans and base specifications prepared and costed Provided to Municipality for approval and Lender for project funding commitments	1mth (Commercial risk)	3mths
Sales Agreements Concluded	Development marketed. Offers to purchase processed and pre-screening undertaken. Bond application submitted to Lender	1mth (Technical/commercial risk)	3mths
Title and Bond Registration and Bond Drawdowns	Bond registration lodged and build order issued. Deeds Office register the bond. A clearance certificate requested from Municipality who undertakes valuation.	1mth (Statutory/commercial risk)	10mths
House Construction and Handover	House constructed and handed over to new owner	2mths (Technical/commercial risk)	3mths

* Technical risks comprise physical, legal, and bulk servicing constraints; Statutory risks comprise the ability to efficiently meet regulatory requirements; Commercial risks comprise the developers ability to recover costs

Supply study conclusions

- There is **extensive potential demand for new housing units** in the affordable housing market estimated to be 133 000 additional units per annum in 2006 increasing to 150 000 additional units per annum in 2010.
- In terms of **current lending practices the Financial Institutions should be able to provide mortgage finance to some 75 000 households per annum.**
- **Housing Market processes are complex and high risk resulting in time delays, increased costs, uncertainty and limited supply:**
 - Land proclamation and servicing
 - Housing development and individual transfer
 - Property transfer in the secondary market
- **The Financial Institutions ability to meet the Financial Sector Target is limited by:**
 - Lack of **well located affordable land** with access to bulk infrastructure
 - **Lack of suppliers** wanting to participate in the market:
 - **Township Developers** to service land and **homebuilders** to build houses in the primary market
 - Estate agents, conveyancers and advertising in the secondary market
 - **Dysfunctionality in the affordable secondary residential property market is significant**
 - **Insufficient loan product that responds to income and product price realities in the affordable housing market**

Way 1

- **High effectiveness of the**
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- **Options for developers**
planning and sustainable r
elocating is affordable
- **Helps**
risk in
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