



**The Wharton School * University of
Pennsylvania
and
Witwatersrand University Business
School Housing Finance Workshop**

**MODELS FOR INVESTMENT IN HOUSING
PROJECTS**

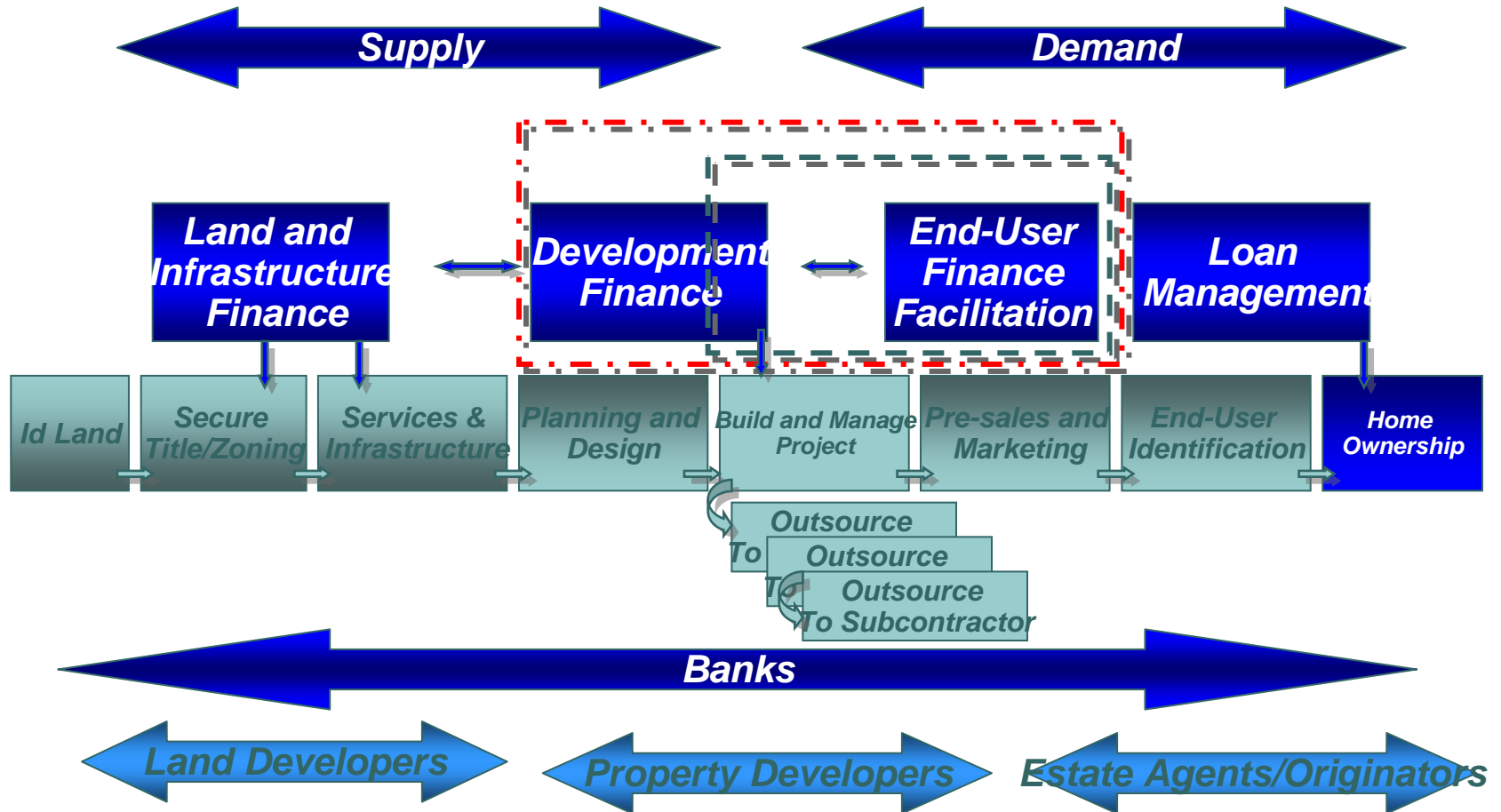
Willie Vos
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Introduction

- Development Process
- End-user Finance Role
- Developers Role
- Development finance requirements
- Housing development finance
 - South Africa 5 Years Ago
 - South Africa Today
- Obstacles
- Conclusion

Development Process



Source: Standard Bank



End-User Finance Role (Demand)

- Importance of End-user Finance
 - Definition of FSC
 - Affects Developer Focus – Target market
 - Affects Price to be paid for land
 - Development Finance Take-out
 - Actual loan product
 - Willingness to service large land tracks
 - Development profitability



Developer Role (Supply)

- ID opportunity & Implement development
 - Land
 - Consultants
 - Feasibility
 - Environmental issues
 - Acquiring development finance
 - Ensure meeting Government requirements
 - Land Servicing
 - Top structure development - specs
 - Coordinator
 - Initiator and Risk taker



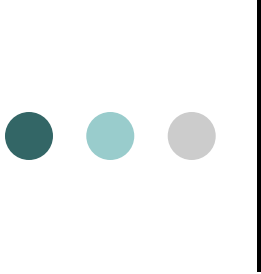
Main Development Finance Requirements (Banks)

- Locality of land –Proximity to infrastructure, Squatters, land claims etc.
- Availability of Bulk services Infrastructure
- Experience of developers
- Consultants
- Contractors
- Environmental issues
- Top Structure Specs
- Costing
- Developer contribution/Security
- Affordability range
- End-user finance exposure
- Profitability of development
- Profitability of Development loan product



Housing Development Finance Key factors:

- 20% ROC
 - 13-20% Low-end (FSC)
- Deal fees varies between 1 and 4% of loan amount
 - Some financiers capitalize
 - payable immediately others payable per unit
 - Also to be taken out on second loan
- Loan interest rates at prime less or prime
- LTV's 60%-100%
- Quazi equity models
- Equity requirements 25%-30% pre-tax
- Bridge finance available between 2% and 5% pm.
Plus deal fees.



South Africa 5 years ago

○Background

- Shortage of Housing Stock
- Community Re-investment Act (CRA)
- Financial Services Charter (FSC)

○Financiers:

- ABSA – Created Affordable loans division
- Standard Bank – Created affordable End- Loans division
- Nedbank/Peoples Bank – but no specialized unit
- FNB – FNB Housing finance specialized in PIP's and existing homes
- NURCHA – Specialized Development Financier
- Few other smaller niche players



South Africa – Today

○ Background

- Still shortage of Housing Stock
- FSC to be continued?
- Development finance more available



South Africa – Today (Cont.)

○ Financiers

- ABSA – Affordable loans division
 - Absa Devco
 - Commercial Property Finance
 - Diluculo
- Standard Bank – Affordable Loans division
 - Specialized property finance division
 - Land bank & enter into strategic partnerships with Developers
- Nedbank – Affordable Loans division
 - Specialized property finance division
 - Land bank & enter into strategic partnerships with Developers



South Africa – Today (Cont.)

- Old Mutual
 - Special division – Equity and Development Loan Finance
- NURCHA
- DBSA, INCA, THUF, IHS and others
- FNB – Housing finance & Commercial Property Finance
 - Integrated Approach between End-user and Development Finance approach



South Africa – Today (Cont.)

- FNB
 - Commercial Property Finance
 - Land bank and enter into alliances with Developers
 - Fund acquisition and rights of land
 - Re-finance through development loan
 - 100% Exposure on large developments



Obstacles to development

- Land Price
- Environmental Issues
- Environmental friendly building methods
- ESCOM
- Local Government requirements
 - Minimum Standard of infrastructure
 - Minimum stand size
 - Bulk Contribution requirements
- Local Government administration
 - Sect. 82 and 101
 - Services Agreements
 - Clearance certificates
 - Plan approvals



Obstacles to development (Cont.)

- NCA – Re-qualification
- Profitability requirements vs. Practical implications
- Deeds office Registration
- Material Supply issues
- NHBRC enrolment time
- Increase in commodity prices
- Bank Loan Administration
- Lack of knowledge of processes



Conclusion

- Good policies is not enough
- All role players should make a point of understanding the value chain
- Government in particular
- Definitely Banks as well!