

Formal Rental housing in Sub Sahara- Africa

**International
Housing Solutions**

The logo for International Housing Solutions features a stylized house icon at the top, with a thick, curved line in shades of orange and yellow arching over the text.

“The Case for Rental Housing”

Overview of the Residential Market

- This is a area of significant under supply in the African property sector.
- In the “Gap “ market where IHS operate in South Africa there is a growing shortage country wide of more than 600 000 housing units.
- Slower delivery post Financial crisis has not stopped many thousands of people continuing to flock to cities throughout Africa as urbanisation continues to grow along with the fast growing middle class.
- The supply constraints cannot be met by think business as usual.
- Immature mortgage market in Africa means that delivery of “for sale “ housing will continue to be slow in the medium term

Relative Size of the Residential Market in SA

- We have seen great strides being made in South Africa and around the world in the non residential market.
- Interesting to note that despite the initial focus on the non-residential market the size comparison puts the total SA residential market more significant than the Non residential market.
- In SA and now throughout the continent institutional investors are comfortable investing in long term non residential Real estate.
- The same cannot be said for the residential rental market where supply far outstrips supply.
- This Real Estate asset class is seen as defensive in the developed world and we should look to get it to that point in developing markets.
- Progress is being made in this regard.

IHS Interventions into the Residential Market

- **SAWFHF 1**

Raised R 1.9 Billion of equity for investment in the affordable residential market. The fund is fully invested (35 projects throughout SA) and currently being asset managed. Investments are a combination of developments and 100% held rental projects. Will construct a total of 26 000 units.

- **IHS Residential Partners 1**

“Single account “ with a large equity commitment from a north American Pension fund. To date have committed \$ 86 million and closed on 2500 housing units units.

- **IHS Fund 2**

\$ 90 Million dollars closed in first close and in documentation stage with Opic participating debt facility. Starting to invest in development and rental deals in the affordable market. 18 months fund raising to go.

IHS Rental Intervention in the South African Market

- Despite a highly sophisticated and well invested non residential market in South Africa (REIT Market alone exceeds R 200 Billion market Cap) there has been little institutional investment in the residential rental market.
- Despite Market fundamentals that are much stronger than the non residential market (This may not be the case in other SSA countries that remain under shopped and with a shortage of office and hotel offerings) Residential market has been seen as a more risky class of property and demanding higher returns/yields.
- REIT market has largely ignored the asset class. This has very recently started to change.
- In Most developed markets residential rental is a large part of the institutional investor environment and seen as a defensive investment demanding LOWER yields/returns.

IHS Intervention continued

- IHS and other semi institutional investors have started assembling and managing large portfolios of affordable residential portfolio's.
- This is creating track record and comparability for both banks (which allows them to provide senior debt) and Investors (allowing them to provide equity).
- IHS currently owns 8 500 rental units with a further 1000 under construction.
- Vacancies are around 2 % (Churn) and income growth between 7% – 11 % depending on property type and location.
- These fundamentals are now starting to look attractive to large REITS who are running out of opportunities in the Retail, Commercial and Industrial space.
- Initial transactions starting to add to Premium properties existing residential exposure on the JSE.

Why Have Investors Steered Clear of Residential Rental Investment?

- Lack of transparent track record such as listed funds or independent data (IPD have not measured performance of Residential property in South Africa to date).
- Non residential portfolios were easy to assemble from large institutions and package for listing on the JSE. The listed market grew from a market cap of around R 5 Billion in 2002 to around R200 Billion in 2014 but virtually NO exposure to residential.
- Management and collections was rightly seen as a significant risk but the non payment risk was and is still overstated. This perception needs to change to ensure that residential rental is seen as defensive and not aggressive. This is starting to happen.
- The fundamentals of the residential market have changed significantly post financial crisis as middle class continues to grow and urbanisation continues but housing delivery slows.

How do we change the thinking ?

Case Study- South Africa

- IHS started investing in the affordable housing rental market in 2009.
- Other private and semi institutional investors started to assemble large portfolios from around early 2000's.(City Properties/AFCHO/CITIQE ect).
- At that point it was extremely difficult to convince banks and other investors to back “Forward purchase” acquisitions and renovations where they had to believe firstly that the properties would be fully tenanted ,secondly that the revenue and cost assumptions were correct and thirdly that the rent would actually be collected.
- Existing properties didn't really exist on scale and where they did there would be other issues such as them being very old and not purpose built for rental.
- Banks were used to non residential deals that came with long term leases from credit worthy retailers and corporates.

Case Study- Continued

- The Growing portfolios managed to slowly convince banks of the property fundamentals forcing them to get a better understanding of this market and it's opportunities. Some banks are still laggards.
- This has created some transparent track record allowing banks and investors to get significantly more comfortable with the asset class.
- The investor group is growing and the market starting to gain traction. Larger institutions and Listed REITS are now waking up to the opportunity.
- In the past 6 months there have been some exiting transactions done by listed funds that had previously not ventured into this space.
- Many other listed REITS and institutional investors are now starting to take a closer look at the asset. Class but the market has been seeded and should gain major traction from here,
- Private equity investment has certainly played it's part.

What Are The Challenges ?

- Much still to be learned by the market in investing in and managing large residential rental portfolios.
- Limited professionals that have the skills and experience necessary to traverse this difficult area of asset and property management. Skills are starting to develop but more time is needed.
- National and local governments should be supporting efforts in this space by encouraging investor equity into this market making it easier to operate and to be efficient – often the opposite happens .
- Existing entities need to continue to deliver results and manage portfolios well as failure for one might result in failure for all in the short term.
- Despite the developing market both debt and equity raising remain challenging.
- This is really a space where DFI's should lead the way which in the medium term will result in other institutional investment following

The Dream End Game

- Certainly in South Africa and around the world as the REIT market has developed it has seen money flooding into the asset class on an unprecedented scale seeing huge investment in the non residential space.
- In Africa where there is an acute housing shortage (particularly in the affordable market) this money could significantly add to the supply of safe, well located, well appointed and affordable rental accommodation that would provide the proverbial “Double Bottom Line “ for investors providing both a solid investment and significant social impact.
- Independent social impact done on SAWHF 1 by the university of Cape Town showed significant social impact in the form of safe, healthy and well located housing and significant job creation.
- This while providing “Healthy” returns.
- NOW IS THE TIME !!



Thank You

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