

GPF advances its rental housing fund

The Gauteng Partnership Fund was launched 10 years ago, with a focus on facilitating social housing development for households earning less than R7 500 per month (at 2002 prices). In response to the market, the GPF then expanded its mandate to include affordable housing rental, which caters for households earning less than R15 000.



The rental programme assists private developers to procure finance at favourable terms on a project-by-project basis, thus facilitating the development of quality affordable housing.

The GPF will consider any residential rental project, as long as it falls within the affordable housing space, that is households with a monthly income of R15 000 or less. To facilitate the delivery of affordable rental housing, the GPF's modus operandi is one of risk sharing and co-funding.

A senior funder is required to provide the greater portion of the development facility; GPF then tops up the facility with a further 20% to 30% debt investment, with a loan period of 15 to 20 years. The developer is expected to contribute at least 10%, depending on their cash flow. "The rental income of the project needs to cover the loan amount, but, if it doesn't, then the developer will be expected to contribute additional equity," explains Investment Officer, Sandra Ruiter. The GPF is particularly thorough in analysing and checking the potential project and in ensuring that the area is suitable, the project is feasible and there is good management in place once construction has been completed and the units fully let.

The GPF does its homework by collecting comparative information from other rental-housing developments in the area and on their bad-debt ratios. "The GPF will assess the basic feasibility of a project, and, if the project is feasible, we appoint independent experts to conduct a due diligence assessment of the developer, the project site and its development plan," she continues. Worth noting is that the GPF will only consider projects with an economic number of units and a total project value of not more than R250-million

"What is crucial about rental projects is that the developer must demonstrate to the GPF that they either have the capabilities to deliver an affordable product within time and budget and/or that the professional team contracted has the expertise and experience to deliver the product. Another fundamental aspect of the rental housing market is management of the finished product. Good management ensures paying tenants, and thus ensures the project income stream. Both the GPF and the independent due diligence conducted for the project include an in-depth assessment of the appointed managing agent," says Ruiter.



For this reason, the GPF ensures that the borrowing entity will not be the managing agent, preferring the developer to rather engage the services of a professional managing agent, which will essentially determine the income stream.

Projects in which the GPF has invested include a mix of greenfield, or brand-new, developments and brownfield projects, which entail the conversion of offices to residential units, or the refurbishment of existing, inner-city residential units. "We're particularly keen on getting involved in infill projects, that is, in projects developed in an existing environment within a suburb with amenities and infrastructure and in close proximity to businesses which could offer the tenants employment. For this reason, almost all of our projects to date are located in the city centres of Johannesburg and Pretoria, and in Kempton Park," notes Ruiters. A new walk-up apartment typically costs between R320 000 and R350 000 to develop, while renovated apartments cost about R120 000 to R150 000 per unit, depending on the initial site-acquisition cost.

Since its inception in the 2010/2011 financial year, the GPF's Rental Housing Fund has facilitated the development of some 2 400 rental-housing units. "We've had a good innings, especially when you consider that the risk appetite of the banks has dwindled in the wake of the global economic recession. Our interest rates are inexpensive compared with those of other mezzanine funders, and our loan period/term is longer compared to those of the commercial banks – making a considerable difference to a developer's cash flow over the course of the project," she maintains. Ruiters estimates that the GPF approves one in eight of all the projects that come through its doors.

"Many of the developers are first-time entrants to the rental housing game, and it's a big learning curve for them to get their business plan together, and that's if their proposed project site is even suitable for rental-housing development. So our projects do take a while to bear fruit, but we are there to point them in the right direction and to give advice where needed. I always warn them that property development is a five-day game, and not a one-day affair," she remarks.

As for the coming year, Ruiters is intent on continuing with her efforts to increase awareness of the GPF's Rental Housing Fund brand. In terms of project progress, she is eagerly awaiting the ground-breaking for Sondela Village, which will see the rendition of a 246-unit development in Daggafontein, in Springs. "It's a greenfield project, located next to the Daggafontein railway station in an industrial area. The developer, Caliber, is planning to break ground in early 2013," she points out. "Housing is one of the backbones of economic stability; it is fundamental to the growth of any kind of sustainable society. There will always be a demand for rental housing, which is essentially the first rung on the property ladder for many a young person or family. Government, in particular, appreciates the need to provide rental housing for its citizens. It is crucial that people don't stay in this gap-housing market forever; once they are on their feet, they need to move on to the next rung in order to provide room for others to gain a foothold on the property ladder. In South Africa, there is a great need for rental housing, and we would welcome all possible partners in realising this need. Not only is there money to be made from rental housing, but, from a social and moral perspective, it's also the right thing to do," concludes Ruiters.

The sustained economic recession is making it harder for young people to gain a foothold on the property ladder, and so the demand for rental housing continues to boom, especially in Gauteng, South Africa's powerhouse province which faces ever-increasing rates of migration and urbanisation.



For this reason, the Gauteng Partnership Fund is advancing its Rental Housing Fund to further help assuage the province's housing shortage.

Sandra Ruiters - Investment Officer, Gauteng Partnership Fund.

For more information about the GPF rental housing fund, please visit www.gpf.org.za or call 011 685 6600.

