



## BERTHA CENTRE



# INVESTMENT THEME: ACCESS TO HOUSING

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# ACCESS TO HOUSING

## Overview

African countries are currently experiencing a demand for affordable housing which far outstrips supply. The housing crisis is a result of several demographic shifts creating a deficit in the housing sector which is expected to worsen in coming years. It is forecasted that in Africa, the average densities will increase from 34 persons per square kilometre in 2010 to 79 persons per square kilometre in 2050.<sup>i</sup> This, in conjunction with inadequate urban government policies, socio-economic inequalities, and low urban institutional capacities, has caused a proliferation of urban slums. The housing backlogs of African countries are large and growing. In 2015, Nigeria's backlog was estimated at 17 million units, and is expected to increase by 2 million units per year. Kenya's backlog is estimated at 2 million units, and is growing by 30,000 units per year. South Africa's is 2.3 million units, growing by 178,000 per year.<sup>ii</sup>

Rapid urbanisation is a strong contributor to the housing crisis. The United Nations predicts that the urban population in Africa will surpass the rural population by 2037.<sup>iii</sup> In 2014, the total African urban population was 450 million, which is expected to rise to 1.3 billion in 2050.<sup>iv</sup> By 2050, African urban dwellers will account for 20.2% of the world's urban dwellers, up from 11.3% in 2010.<sup>v</sup> In addition to this, the projected labour force is expected to increase to 1.1 billion by 2040<sup>vi</sup>, which is a significant contributor to the migration from rural areas to cities.

Other demographic forces contributing to housing shortages are population growth and income growth. The African population is relatively young, with the average age being 19.7 in 2012, expected to increase to 25.4 in 2050.<sup>vii</sup> This young demographic is expected to drive the demand for housing even higher and to create the need for subsets such as student housing. African incomes are also rising as a significant portion of the population is emerging from poverty with first-time access to consistent disposable income. This emerging "middle-class" is also driving demand for affordable, high-quality housing.

In response to the housing crisis, African governments have been promoting new urban developments and creating satellite cities in attempts to reduce the pressure on cities. It is expected that these new towns will be surrounded with informal settlements created by the low-income labourers looking for work and being employed to service these towns. In order for this crisis to be adequately addressed, African cities need to have realistic and sustainable national urban development policies as well as urban management capacities, better distribution of urban populations and better access to urban livelihood opportunities. Strong partnerships with the private sector, including private investors, are critical to ensuring that the housing crisis is adequately addressed in the years to come.

## HOUSING SECTOR IN SUB SAHARAN AFRICA

**Total population:**  
973 million

**Urban population:**  
40%

**Population living on <US\$1.25 per day:**  
50%

**Population receiving >US\$10 per day:**  
4%

**Average age:**  
19.7, increasing to 25.4 in 2050

**% of world's urban dwellers:**  
11.3% (2010) to increase to 20.2% in 2050

**Average population density:**  
34 per square km (2010) rising to 79 per square km in 2050

### Investment Opportunity

Residential real estate investment has a strong multiplier effect, contributing significantly to GDP while providing jobs for both skilled and unskilled workers. Well-planned communities also have significant impact on livelihoods, providing greater access to health and education facilities, as well as proximate retail spaces that can stimulate business creation and entrepreneurial activity.

The need for affordable housing in African markets creates opportunities across the investment spectrum. There is the primary need of housing stock, which can be provided through direct investment in the development of residential communities, or through funds which invest in multiple developments. There are also the secondary needs for the housing market, such as materials and services companies, as well as training for skilled labour. Finally, there is the need for mortgage and home equity finance, to provide opportunities for home buyers to buy properties and unlock the equity in their homes. Innovation is required at all points of the value chain, since the growth in the housing supply will largely need to cater for the 50% of Africans that remain at incomes below US\$1.25 per day. Eco-friendly construction practices and technologies are also necessary as cities account for about 70% of total greenhouse gas emissions.<sup>viii</sup>

Private, international investment in the African real estate market is small but growing. Institutional investors, including sovereign wealth funds, pension funds and private equity funds are increasing their allocations into African real estate, partially with an eye to diversifying away from equities and bonds. Residential real estate, however, is still an area that attracts relatively little private investment. It is estimated that only 2.5% of residential holdings are attributable to listed property funds, however it is expected that this figure will increase as the market grows.

Real estate investment requires collaboration and sequencing with government and public sector bodies. Governments facilitate property rights, land tenure, registration, titling, as well as the financing for infrastructure development, which is critical for residential development. Innovative government solutions are beginning to emerge in certain countries to support the growth of affordable housing, including simplification of bureaucratic procedures, standardising policies and procedures, and setting up subsidy schemes to assist low-income families with housing finance.

Investment in African real estate, particularly in the residential affordable housing segment, requires a deep understanding of the risks and opportunities in the sector and the individual players in each market. As described by KnightFrank, "Africa's property markets require careful navigation, and international investors and business attracted by Africa's recent progress need to look beyond the macro growth story, and understand the micro environment of individual markets."<sup>ix</sup>

### INDUSTRY SEGMENTS & KEY PLAYERS

#### Developers

Residential, commercial, mixed-use

#### Service providers and skilled labour

Construction companies, electricians, plumbers, builders, landscaping

#### Skilled professionals

Architects, city planners, surveyors, engineers, contractors

#### Manufacturing, distribution and transportation

Manufacturers, distributors and retailers of building materials, sanitary ware, electrical supplies, fixtures and fittings

#### Building equipment manufacturing and leasing

Manufacturers and lessors of construction machines and equipment

#### Financiers

Financial services providers, governments, development finance institutions, institutional fund managers

#### Quality assurance

Inspectors, standards setting bodies

## CASE: INTERNATIONAL HOUSING SOLUTIONS (IHS)



### Overview

International Housing Solutions (IHS) is an institutional real estate manager investing in the acquisition and development of residential and supporting commercial real estate in South Africa and Sub Saharan Africa. IHS's investments provide access to affordable, clean title housing to low- and moderate-income individuals in order to relieve the affordable housing deficit in the region. IHS provides property developers with equity to finance affordable housing projects at a lower cost, enabling them to pass the lower costs on to their clients. This offers a two-fold positive impact: access to shelter and economic stimulation.

### Business and Impact Model

IHS facilitates the construction of affordable housing developments through the collaboration of financial institutions, real estate developers, private capital groups and local government authorities. The investment strategy of IHS consists of three options: equity investment in new construction of free-standing or sectional title alongside property developers with subsequent offering of the units for sale; property acquisition of turnkey or rental rehabilitation projects with units sold or rented out; or minority equity investment in operating companies along the housing value chain. Revenues raised through sale and rental provide capital return and annuity income into the main fund through a special purpose vehicle (SPV) or trust account until the exit point, when funds are distributed to the investors.

### Investment

IHS's South African Workforce Housing Fund (SAWHF) is a fully committed US\$240 million fund that mobilised both private sector and development finance investment in the development of about 26,500 affordable housing units in South Africa. The largest of these investments, the Fleurhof Project, consisted of a US\$10 million private equity investment, yielding about 10,100 units. The SAWHF will reach exit point in 2018 and has, to date, realised a very healthy return of 23.3% (weighted average internal rate of return of for all exited deals based on amount of equity invested). A second fund of US\$ 300-400 million is currently being raised and is expected to close end 1Q2016. This fund will cover not only South Africa (about 85%) but other Sub-Saharan countries (about 15%) such as Ghana, Zambia, Botswana, and Mauritius. It also includes an innovative "green facility" which focuses on the efficient use of energy, water and building materials in accordance with the International Finance Corporation's EDGE Green Buildings standard—in order to be EDGE certified, a house must achieve 20% savings in these three areas.

### COMPANY PROFILE

**Company:** International Housing Solution (IHS)

**Website:** [www.ihsinvestments.com](http://www.ihsinvestments.com)

**Legal structure/ownership:** Private company

**Industry segment:** Real estate

**Business model:** Acquisition and development of residential and supporting commercial real estate projects with attractive risk-adjusted returns for its investors

**Countries:** South Africa and select Sub Saharan African countries

**Customers:** By the time the fund matures, it is expected that safe and affordable housing for sale and rent will have been provided to 30,000-45,000 low- and middle-income families

### INVESTOR PROFILE

**Project:** Large integrated project with units for RDP (100% subsidised), social rental and "gap" housing, included massive improvements to infrastructure (roads, water, electricity); included are several creches and schools, numerous community gardens and play areas, business areas and industrial sites.

**Investment type:** Equity through joint venture for development project of 10,100 units and trust entity for the 162 rental units held by the fund for its own portfolio

**Investment size:** US\$10 million

**Investment date:** Closed in March 2009

**Investment return:** 23.3% weighted average IRR

## CASE: KORA HOUSING



### Overview

Kora Housing builds integrated communities in cooperation with the Angolan government, filling the gap in the supply of affordable housing for the emerging middle class of Angola. Kora communities include high-quality housing units and other community facilities such as hospitals and schools. Kora provides housing units at significantly lower than market prices, up to 50% less than comparable units on the market, and markets these units to rural and semi-urban Angolan, middle-class clients. The Kora-developed communities are mainly located close to regional hubs in order to decongest cities. The homes cater to families with up to 7 people living on approximately US\$1,500 or more a month. Kora is currently in the process of constructing 45,000 units (15,000 completed) of 100 square meters each in 15 municipalities of 6 provinces in Angola.

### Business and Impact Model

Kora develops communities on behalf of the Angolan government. Kora takes on a project management role to navigate the complexities of the large scale housing development, pooling together the skills and services of reputable professionals and service providers ranging from architects to logistics providers to purchasing and import specialists. Houses are then sold to families under lease-to-own agreements. Kora collaborates with the government to provide scale and efficiency by accessing lower cost debt funding to supplement the equity funding provided by Vital Capital and other equity funders.

### Investment

Vital Capital looks to generate risk adjusted returns while delivering impact at scale through providing for the basic needs of society, which in this case is housing. Vital Capital mobilised US\$92 million of private equity funding to invest in Kora Housing, yielding an expected IRR of 26% which is well above the fund target of 20%.

#### COMPANY PROFILE

**Company:** Kora Housing

**Website:** [www.kora.co.ao](http://www.kora.co.ao)

**Legal structure/ownership:** Semi-private company, operating in partnership with the Government of Angola

**Industry segment:** Real estate

**Business model:** Lease-to-purchase housing development on behalf of government

**Countries:** Angola

**Customers:** Rural and semi-urban middle class Angolans; the housing units are expected to house approximately 240,000 beneficiaries upon completion

#### INVESTOR PROFILE

**Investor:** Vital Capital Fund, an impact investment fund that invests in opportunities which enhance the quality of life for communities in rapidly developing nations

**Website:** [www.vital-capital.com](http://www.vital-capital.com)

**Investment type:** Equity

**Investment size:** US\$92 million

**Investment date:** July 2011

**Investment return:** (Expected) Equity IRR of 26%

## CASE: THE KUYASA FUND



### Overview

The Kuyasa Fund (Kuyasa) is a microfinance organisation that provides microloans to low-income South African families excluded from formal finance to improve the quality of their housing. The aim is to improve the well-being of low-income families in communities across South Africa through improved housing. Kuyasa's microloans are administered for home improvements and are accessible to high-risk clients, including those receiving social grants. Women make up 74% of Kuyasa's clients. As of 2015, Kuyasa has administered over 42,000 clients with a value of over ZAR 300 million. Recently, Kuyasa has partnered with South African renewable energy companies to incorporate solar lighting systems and hot water geysers, providing environmentally friendly and cost-reducing improvements for homeowners. During 2015, Kuyasa will sell its operations to a for-profit subsidiary as part of a process of commercialising in order for the organisation to reach greater scale.

### Business and Impact Model

The Kuyasa model provides credit to traditionally high-risk individuals through group saving schemes which have a culture of peer-regulation and risk management. The majority (71%) of clients live in urban areas and have a monthly income of less than ZAR 3,000, primarily (45%) in the form of a social grant. Clients can apply for loans of up to ZAR 10,000 and are charged interest at a rate of 32.65%. These loans assist low-income families to have access to assets and facilities that raise their standard of living and enable them to be more productive.

### Investment

Real Equity for All (Reall), formerly known as Homeless International, has provided financing to Kuyasa as loans convertible to equity through its HI Fund, which was established in 2012. The HI Fund provides guarantees and low interest loans to partners for community-led housing and infrastructure projects. Reall's investment has allowed Kuyasa to extend loans to an additional 1,000 families. Over time the Kuyasa loan book has only been financed by debt funding on commercial terms. Initially some of these loans were supported by third party guarantees. In 2014, Reall provided Kuyasa with a loan that will be converted into equity when Kuyasa commercialises.

### COMPANY PROFILE

**Company:** The Kuyasa Fund

**Website:** [www.thekuyasafund.co.za](http://www.thekuyasafund.co.za)

**Legal structure/ownership:** Non-profit organisation

**Industry segment:** Microfinance

**Business model:** Commercial debt finance. Micro-finance for home improvements to government grant recipients

**Countries:** South Africa

**Customers:** Kuyasa has provided access to microloans for over 42,000 low-income clients with a value of over ZAR 300 million

### INVESTOR PROFILE

**Investor:** Real Equity for All (Reall), a UK-based international development organisation dedicated to alleviating living conditions and providing housing and basic services for the urban poor

**Website:** <http://reall.xyz>

**Investment Type:** Debt, equity, mezzanine finance and guarantees

**Investment Size:** ZAR 180 million, over time

**Investment date:** Kuyasa is funded on an ongoing basis through debt and equity

**Investment return:** WACC for Kuyasa is 8.9% per annum

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## **ENDNOTES**

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<sup>i</sup> UN Habitat. “The State of African Cities 2014: Re-Imagining Sustainable Urban Transitions,” 2014. p 19.

<sup>ii</sup> PWC. “Real Estate: Building the Future of Africa,” March 2015. <http://www.pwc.co.za/en/assets/pdf/real-building-the-future-of-africa-brochure-2-mar-2015.pdf>. p 41-52.

<sup>iii</sup> Ibid. p 13.

<sup>iv</sup> United Nations. “World Urbanization Prospects: 2014 Revision,” *United Nations, Department of Economic and Social Affairs, Population Division*, 2014.

<sup>v</sup> Ibid.

<sup>vi</sup> United Nations. “The State of African Cities 2014: Re-Imagining Sustainable Urban Transitions,” *UN Habitat*, 2014. p 19.

<sup>vii</sup> PWC, 2015. p 15.

<sup>viii</sup> PWC, 2015. p 5.

<sup>ix</sup> Knight Frank. “Africa Report 2015,” 2015. <http://content.knightfrank.com/research/155/documents/en/africa-report-2015-2802.pdf>. p 5.