



# **FUNDERS PERSPECTIVE: Opportunities and Challenges Facing Investors in Africa**

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# Why Africa?

- **Recovery in commodity prices** a key driver for sustainable growth in many African countries
- **Prudent macro policies** have cushioned the region in general – GDP growth even in financial downturn in number of countries - 5.5% growth in 2011 projected for the continent by IMF in late 2010

# Why Africa?

- **Changing demographics** – 2<sup>nd</sup> most populous continent after Asia with +1.0 billion people, more than 50% of population is under 25 years of age (earning age)
- Transition towards more **private sector-and foreign investor-friendly policies** (privatizations, removal of trade barriers, change in pension fund investment policies, SME sector reforms)

# Why Africa?

- **Negative factors that cannot be ignored:**
  - High unemployment in most countries
  - Lack of Education/Skills shortage
  - Lack of Transparency/Corruption – global competitiveness varies widely by country
  - HIV/AIDS
  - Provision of water, sanitation, electricity and other services
  - Political unrest, volatility in some countries

# Required Capital for Impact Investment

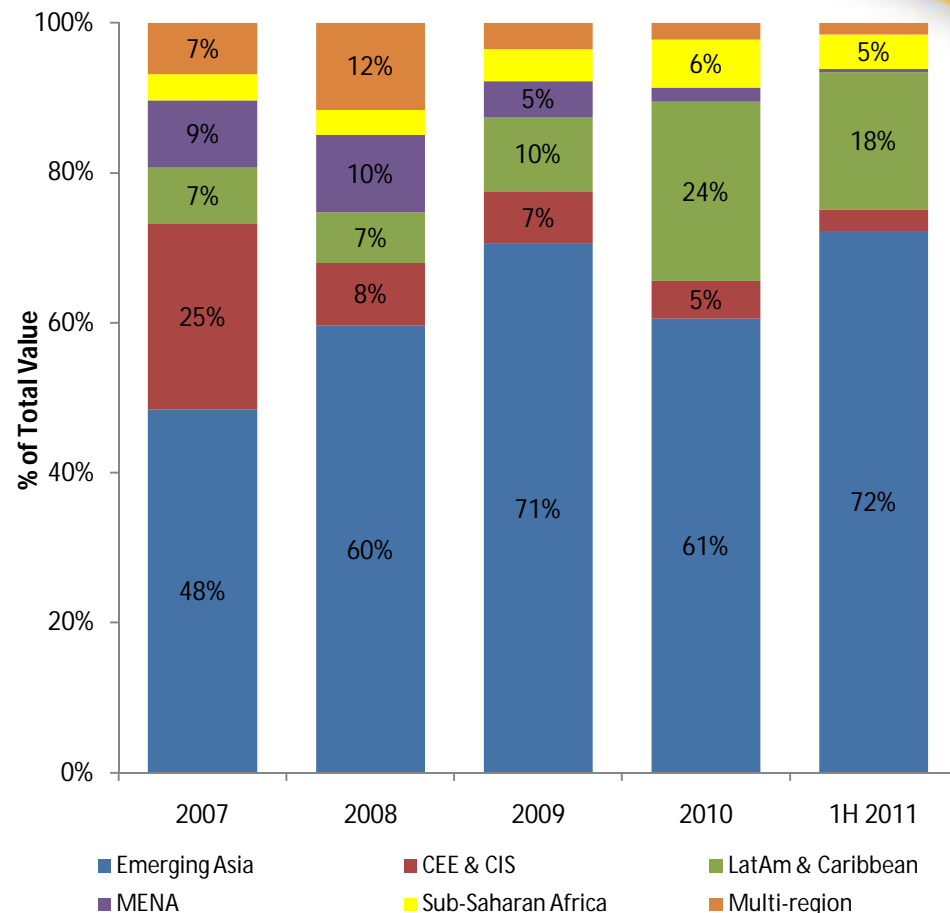
|                                   | 10-year Need in \$US billion |
|-----------------------------------|------------------------------|
| Affordable urban housing          | \$214-786                    |
| Clean water for rural communities | 5.4-13                       |
| Maternal health                   | 0.4-2                        |
| Primary education                 | 4.8-10                       |
| Microfinance                      | 176                          |

Source: JP Morgan

# What is happening in Africa?

## PRIVATE EQUITY

- According to EMPEA statistics, fundraising for Sub-Saharan Africa (all Africa except funds whose primary mandate is to invest in North Africa (Algeria, Egypt, Libya, Morocco, Sudan and Tunisia) reached US\$1.5 billion in 2010, a 50% increase versus the prior year (\$1.0 billion), and accounted for 6% of all fundraising in emerging markets, with some well established funds such as Emerging Capital Partners, Kingdom Zephyr and Aureos. Recently Helios Investment Partners raised a US \$900 million fund for the continent, and Carlyle Group raised a US \$750 million fund for the region. There are at least two funds mandated for residential affordable housing with Old Mutual - Housing Impact Fund and the IHS - South Africa Workforce Housing Fund. DFIs have played a significant role in the past. Pension Funds, Sovereign Wealth Funds, Insurance companies are needed to play a much bigger role in capital contribution in the future.



Source: Emerging Markets Private Equity Association (EMPEA)

# Why Housing?

## *Africa Urbanization and Slum Dwellers in Africa*

### *Urbanization*

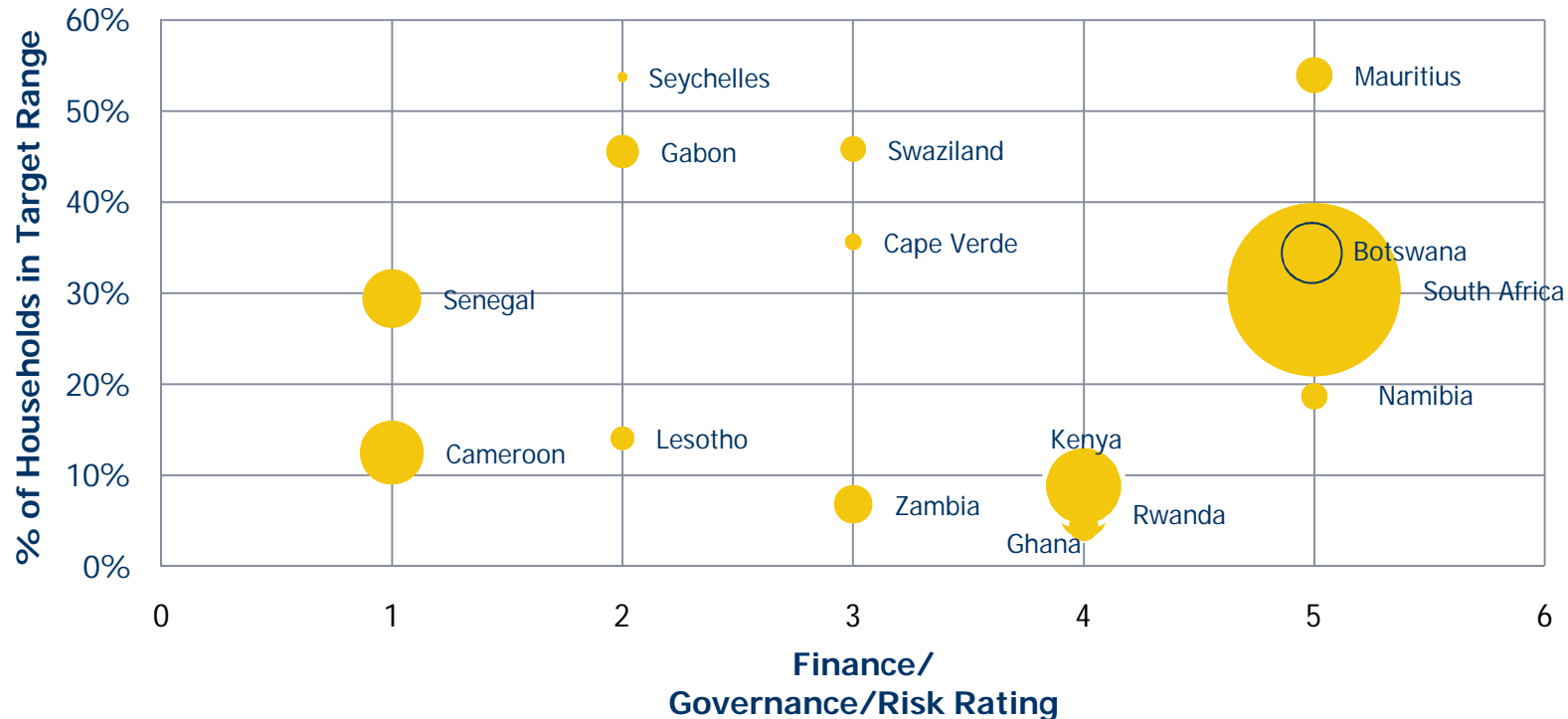
|                    | <u>2007</u> | <u>2030</u> | <u>2050</u> |
|--------------------|-------------|-------------|-------------|
| North Africa       | 53%         | 62%         | 71%         |
| Sub-Saharan Africa | 36%         | 48%         | 61%         |

### *Slum Dwellers in Africa*

|                    | <b>2010 Slum Population (millions)</b> | <b>% of Urban Population Living in Slums</b> |
|--------------------|--|--|
| North Africa       | 12                                     | 13%  |
| Sub-Saharan Africa | 200                                    | 62%  |
| <b>World</b>       | <b>828</b>                             | <b>24%</b>                                   |

# Why Housing?

Target Countries by Size of Market, Market Share, and Governance Rating



Source: Lachman Associates LLC

This chart represents 15 countries that could be considered positive for the development of affordable housing. The bubbles approximate their relative population size, with South Africa by far the largest and Seychelles the smallest. The vertical axis is the estimated percentage of moderate- and middle-income households in the country. (Rwanda is lowest, and Mauritius is highest. In eight of the nations, one-quarter or more of the households have incomes in the target range for workforce housing.) The horizontal axis reflects national financial and governance risk, with Senegal and Cameroon posing the greatest risk and South Africa, Namibia, Botswana, and Mauritius the least.

# The Housing Situation in Africa

- Huge demand for housing in most countries - by the year 2030, an additional 3 billion people, about 40 percent of the world's population, will need access to housing. This translates into a demand for 96,150 new affordable units every day and 4,000 every hour. (UN-HABITAT)
- Housing shortage particularly prevalent in urban areas as a result of rapid urbanization and social and cultural events in specific countries
- Requirement for housing quality upgrades, Africa has in general operated as a "pay as you go", self-building model for many years
- Mortgage (end-user) finance is a concern even in countries with strong financial institutions and a diversity of products: lack of credit information on consumers, legal system not adequate, high cost of funds, no fixed-rate market, etc.)

# The situation in Africa

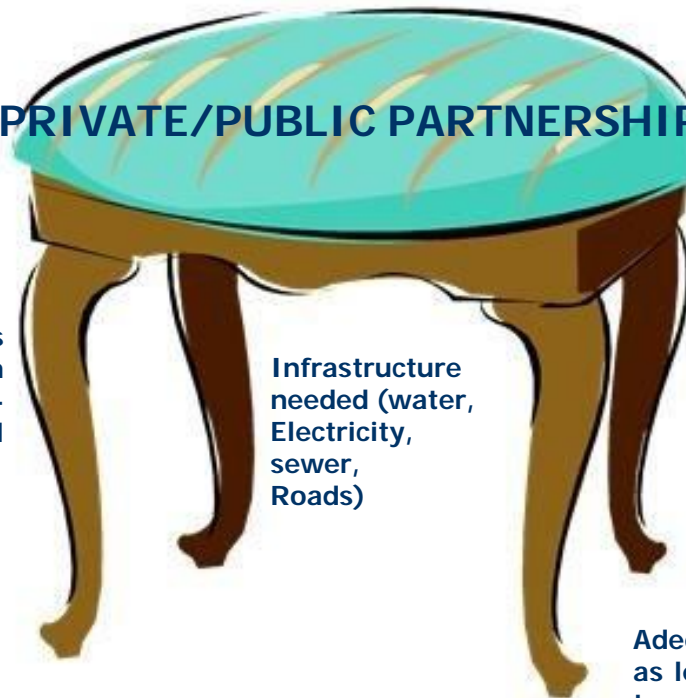
- Inadequate supply of affordable housing units being built due to many reasons, including:
  - High cost of land
  - Legal infrastructure for land acquisition/development, title, ownership, foreclosure may be inadequate
  - Lack of financially sound and competent developers, or developers prefer to build more expensive houses/apartments – track record in building quality homes at affordable price – ability to get projects done on time and within budget
  - Lack of quality construction companies, shortage of building materials or high cost of materials/labor
  - Not focused on providing safe, affordable **rental units** – lack of property management skills in rental enterprises, need investors willing to operate as a rental enterprise or development of real estate funds for rental portfolios
  - Reluctance of home buyers to consider alternative building technologies
  - Lack of infrastructure – water, electricity, sewer, roads, etc.

# What needs to be done?

*In order to really begin to address the enormous backlog of housing needed as well as meet the future demands for affordable housing the public and private sectors need to work together on a number of fronts, otherwise it is like having a nice stool that will not work properly if one or more of the legs is missing*

## PRIVATE/PUBLIC PARTNERSHIPS

Raising the awareness of the various stakeholders who can potentially invest in housing of the opportunities, potential risk-adjusted returns, quantification of social impact (both social and economic) etc.



Infrastructure needed (water, Electricity, sewer, Roads)

Development/construction of supply of affordable housing units for sale and rent

Adequate end-user finance or products such as let to buy to increase the access to credit to a greater number of people

# About IHS

- The partner of choice to housing developers and investors in SA and around the world (LPs from North America and DBSA, PIC on behalf of GEPF and Citibank SA in South Africa)
- General Partner of a private equity firm providing equity finance for qualifying residential housing projects primarily in the affordable housing market
- Partnerships with financial institutions, real estate developers, private capital groups and governments
- Global investors in a **10 year equity fund worth R1,9 billion** available for investment in SA and neighboring countries residential real estate
- IHS senior management team and local investment team have local and international expertise and experience

# The IHS model

- Partners with local companies to optimize capacity while minimizing risk
- Establishes viable communities rather than simply generating housing product
- Diversifies across geographies, partners, and tenures
- Products:
  - equity investments in new construction of mixed-income housing, primarily for-sale,
  - equity investment in rental rehabilitation or conversion, typically in large urban areas (includes student housing), and
  - minority equity investments in operating companies that are part of the housing finance value chain

# The equity finance option

- Limitations of the traditional debt finance model
  - Impact of global economic crisis and lack of liquidity in local financial institutions
  - Banks selective and cautious about size of loans
- Advantages of equity model
  - As an investor and partner, IHS works with property developers to mitigate market risk
  - IHS capital enables developers to obtain larger loans at lower borrowing costs
  - As a business partner IHS shares in the profits but does not charge interest
  - The issue of “patient capital”

# Types of Projects/Partners

## As of 30 August 2011:

- Committed funds of +R1.0 billion (about \$150 mn) or 53% of the Fund in housing projects
- Closed 19 deals (14 in Gauteng Province, 3 in Western Cape, 1 in Free State, 1 in Mpumalanga)
- 16 different developer/JV partners
- 2 large Integrated Developments (Fleurhof and Jabulani)
- 25,567 affordable units for **sale and rent**
- About 70% of units are Financial Sector Charter Compliant – serving low income homeowners/tenants
- Social Impact Reporting that quantifies job creation, skills transfer, community development and other social and economic outcomes

# Contact

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