

SA's missing link

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Intro

Housing funds - Attracting interest from JSE investors

Joan Muller, Financial Mail:

It's no secret that SA, too, has a huge demand for affordable housing. So specialist residential funds should, in theory, attract keen interest from JSE investors looking for a regular and growing cash flow

Strict mortgage lending and strong demand for affordable rental housing have greatly boosted the earnings of listed housing funds in the US.

In fact, US housing funds such as Equity Residential, with a market cap equivalent to a cool R123bn — nearly equal in size to the SA listed property sector in its entirety — count among some of the biggest companies on the New York Stock Exchange.

It's no secret that SA, too, has a huge demand for affordable housing. So specialist residential funds should, in theory, attract keen interest from JSE investors looking for a regular and growing cash flow.

But the long-awaited listing of a housing-focused fund on the JSE has yet to materialise. Pretoria-based Premium Properties offers investors some exposure to inner-city housing but the latter comprises only 40% of its total portfolio.

The most recent attempt to list a housing fund on the JSE was that by Gerald Leissner, former CEO of ApexHi Properties (now merged with Redefine Properties), who was forced to can his proposed Kwami Residential Fund late in 2010. At the time, Leissner said he had battled to assemble a big-enough portfolio that would offer the size and liquidity to pique the interest of institutional investors.

But industry players believe there will be a successful listing of a housing fund within the next 12- 18 months. "It has to happen sooner rather than later, given that housing is the only sector of the broader SA real estate market where demand outstrips supply, particularly in the R200000- R600000 market," says Rob Wesselo, managing partner at International Housing Solutions (IHS) in SA.

Speaking at the annual IPD property investment conference in Cape Town, Wesselo maintained that size and liquidity were not the key factors stalling residential listings in SA. He blames a lack of reliable performance data on which analysts and fund managers can base profit and earnings forecasts.

But some of the bigger residential property players are starting to make progress in this regard, says Wesselo. He notes a number of developers and owners are now running housing portfolios like professional institutional funds, earning decent returns in the process.

"If these performance statistics can be made available to the broader investment market, there's no doubt that fund managers will start to take housing more seriously as an asset class."

Quasi government organisations such as the Public Investment Corp and the Development Bank of SA have begun to invest in a few of the bigger unlisted housing funds. “That should start to stimulate demand for housing investments from institutional investors.”

Wesselo says he won't be surprised to see a housing listing in the next year or so from the ranks of experienced housing players such as Urban Nest, South Point, Aengus, and the Affordable Housing Company.

It's also possible that IHS could at some stage spin off its portfolio for a potential listing. The latter's R1,9bn SA Workforce Housing Fund was established three years ago by offshore private equity investors and it has entered into partnerships with SA developers to deliver 35000 housing units by year-end.

Wesselo concedes that perceptions of risk as far as rental arrears and defaults in the affordable housing market are concerned remain an issue for investors. “However, if you build the right product and manage your portfolio well, arrears and vacancies can be kept to a minimum.”

Jeffrey Wapnick, MD of Premium Properties, which owns around 2000 rental units, mostly in the inner cities of Pretoria and Johannesburg, shares this view. He says in reality the residential property market poses less investment risk than the retail, office or industrial sectors, as it's much easier to evict and replace a defaulting residential tenant than a corporate one.

Andrew Brooking of Java Capital, who sponsors companies looking to debut on the JSE, is involved with at least two potential residential-focused listings. These could materialise within the next six to 12 months.

But Brooking believes the right model through which to bring housing-focused funds to the market is one where the bulk of the portfolio is exposed to inner-city buildings comprising a mix of apartments and ground-floor retail. He says the retail exposure alleviates the perception of risk that has traditionally been associated with the affordable housing market.

Latest figures from the Affordable Land & Housing Data Centre, a joint initiative between FinMark Trust and Urban LandMark, show that a hefty 68% of SA's total population can afford housing priced between R250000 and R700000. Yet only 14%, or around 17500 out of 125000, of all new home registrations in 2010 fell within that bracket.