

## Affordable housing: investing for human rights and good returns

Authors: Kearon Gordon, Investment Analyst

Published: July 2021

South Africa is a country of immense promise. We have a vibrant young population that can stand up to the many challenges that we face, as we have done in the past. However, in order to reach our potential, we need to ensure that the fundamental needs of our people are taken care of: food, water, healthcare, safety, education - and equal access to the abundance of economic opportunities in our country. At the core of these fundamental needs is a decent home.

While we have made some progress since the dawn of democracy in giving more people access to decent housing, a large swathe of our population still does not have this. While governmental structures work towards addressing the issue, they are unlikely to be able to meet the growing need on their own. This presents an opportunity for the private sector – both property businesses/entrepreneurs and capital providers – to play a meaningful role in facilitating access to decent housing, while generating satisfactory risk-adjusted returns on their investment.

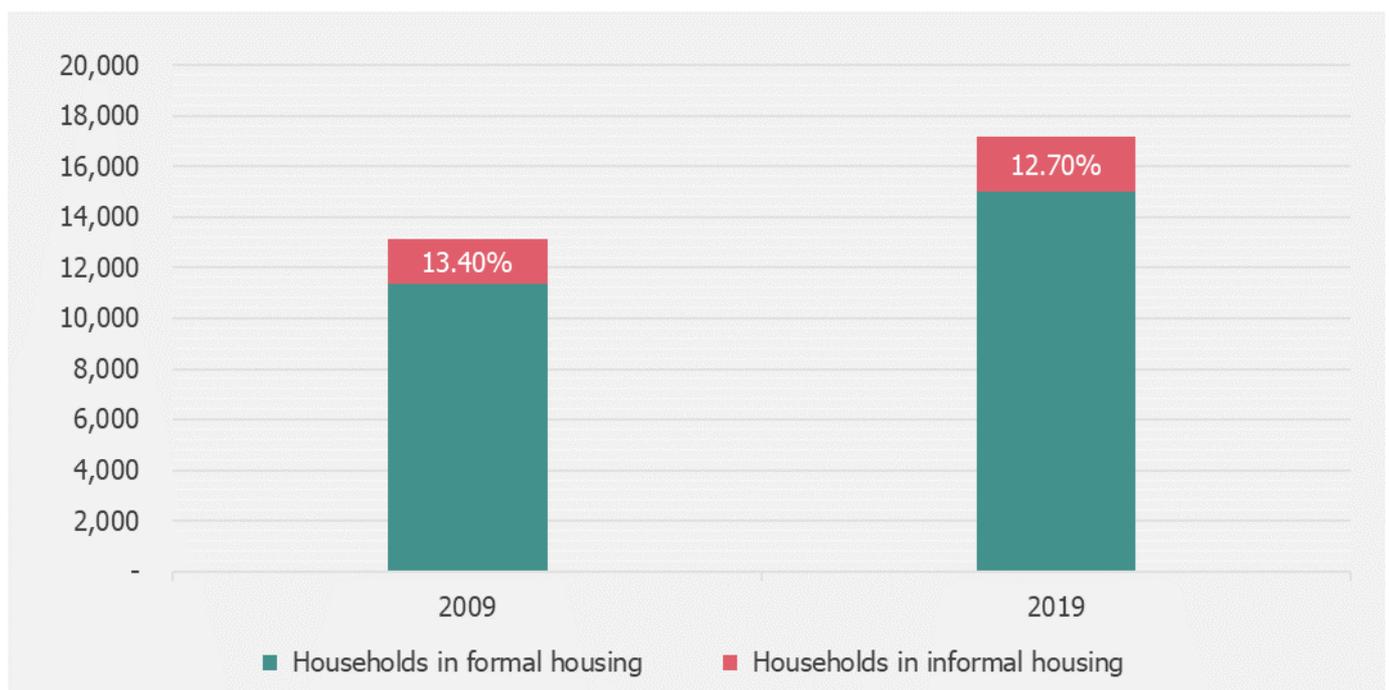
### *Some small gains but a large challenge remains*

In 2019, there were an estimated 17.2 million households in South Africa, according to Statistics South Africa's General Household Survey. While up only 2.95% from the 2018 number, this was a mammoth 30.8% higher than 10 years earlier.

The Bill of Rights and the Constitution both enshrine the right of South Africans to adequate housing, which puts an obligation on the government to take all reasonable steps to achieve this. Globally, this is also considered a basic human right. While government actions have not been above reproach, there were some improvements in the overall housing situation in the country, despite the burgeoning need for housing, over the 10 years leading up to 2019.

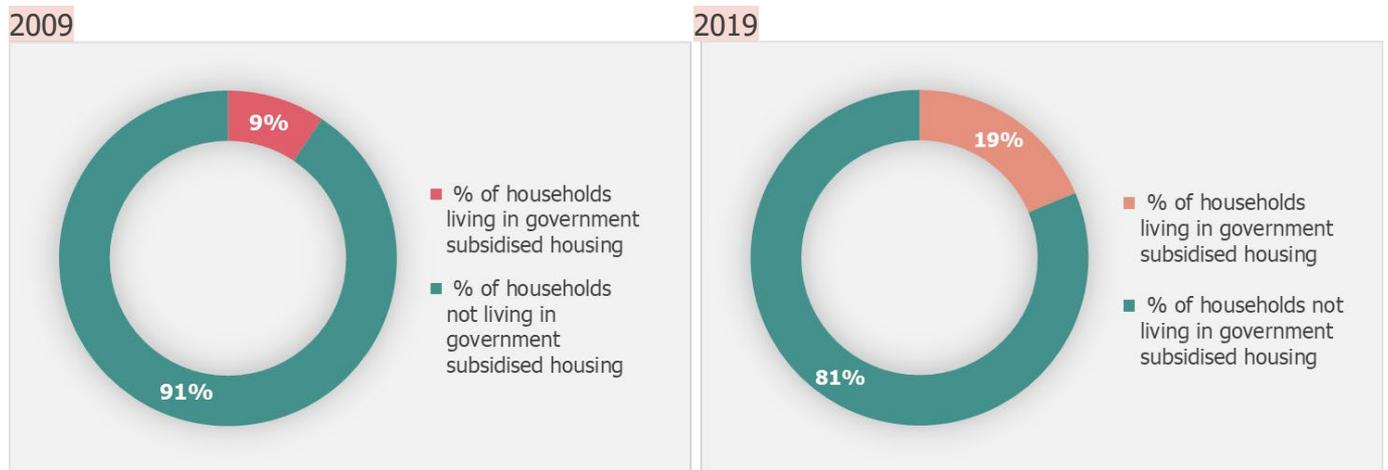
One sign of progress was the proportion of households living in informal dwellings, which decreased - albeit marginally - from 13.4% in 2009 to 12.7% in 2019.

**Figure 1:** Number of households in SA



Another indicator of progress is the percentage of households who report having received a government housing subsidy. In 2009, this stood at 9.4%, and increased to 18.7% by 2019, with steady increases reported in each general household survey conducted over the period.

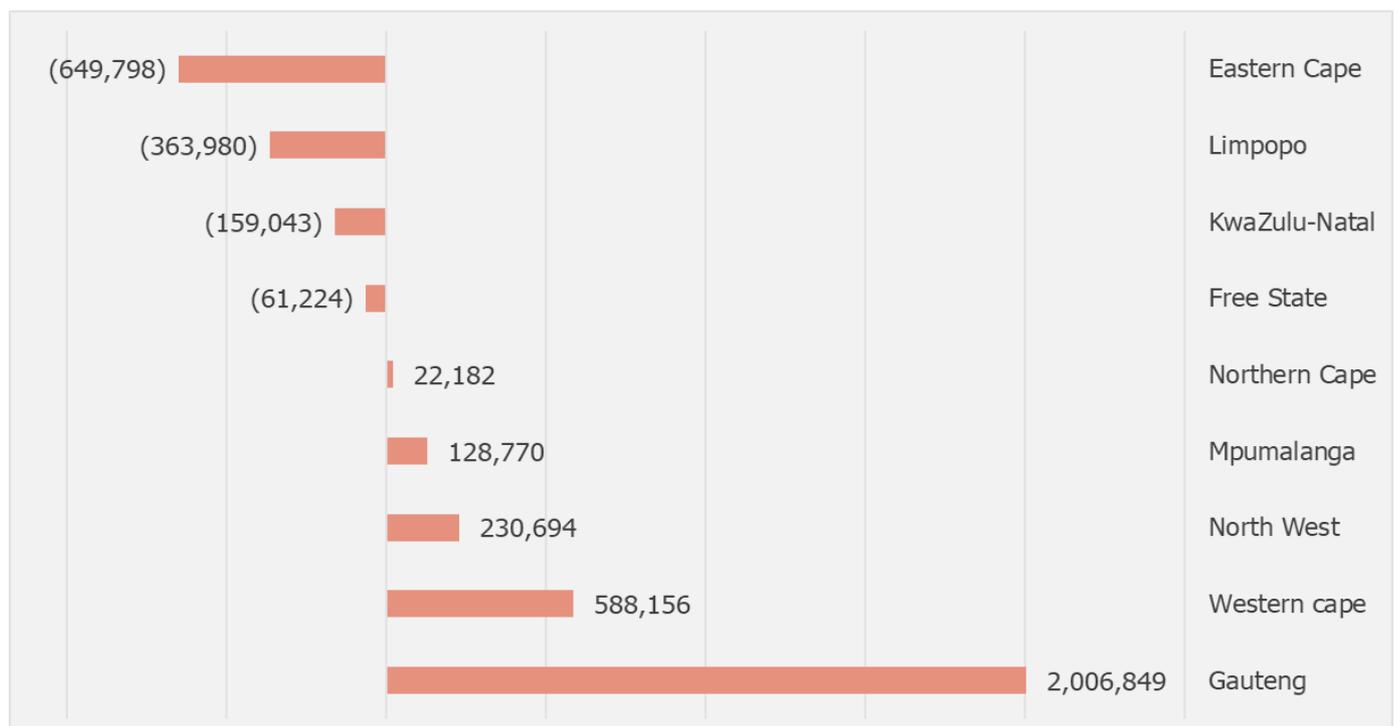
**Figure 2/3:** Number of households that received a government housing subsidy



Notwithstanding these improvements, there were still approximately two million households (making up roughly seven million people) living in informal dwellings in the country in 2019.

The situation is notably worse when viewed at a municipal level. In the two largest municipalities, the City of Cape Town and City of Johannesburg, the percentage of households living in informal dwellings stood at 19.6% and 19.1% respectively. These higher-than-national-average percentages can, at least in part, be attributed to the concentration of economic opportunities in these regions. The Western Cape and Gauteng saw the highest net inward migration of all the provinces in the country between 2011 and 2021, at 588 156 and 2 006 849 people respectively.

**Figure 4:** Net migration by province



### *An opportunity for the private sector*

Our fiscal situation has become increasingly constrained as the national debt to GDP ratio has climbed over the past decade. On a 3-year rolling basis from the 2010/2011 fiscal year, the percentage of total consolidated expenditure allocated to housing has been on a downward trend. Given the current fiscal trajectory, it is clear that the state will not be able to address the housing shortage on its own.

According to the Centre for Affordable Housing in Africa (CAHF)'s 2020 African Housing Finance Yearbook, the cheapest newly-built two-bedroom house on a plot of 40m<sup>2</sup> in Johannesburg costs R539 830. The CAHF puts the percentage of South Africans who can afford this at only 21.15%.

In this context, it is clear that the private sector has an important role to play in helping South Africans gain access to adequate housing. This is particularly evident in the affordable rental accommodation sector.

### *Why the rental sector is attractive to investors*

The percentage of households living in formal dwellings only increased marginally from 2009 to 2019 (from 20.9% to 21.9%). However, given the increase in the number of households (13.1 million in 2009 to 17.2 million in 2019), this resulted in the rental market in South Africa increasing from approximately 2.7 million to 3.8 million over this period.

In addition to households living in formal dwellings, the large number of households living in informal dwellings presents a market opportunity for participants in the residential rental accommodation sector. This large, addressable market has drawn many entrepreneurs into the sector, and, in recent years, has become an increasingly attractive asset class for institutional investors.

### *A sector with promise, but not without its challenges*

Notwithstanding its promise, the residential accommodation sector has faced significant challenges in the wake of the coronavirus pandemic. In some instances, residents were unable to pay their rent, leading to a drop in rental collections. In other instances, the loss of employment in the most hard-hit sectors (such as food and hospitality) resulted in a temporary reversal of migratory trends, and this resulted in a spike in vacancies. Notably, those market participants with good quality and value-for-money offerings rebounded strongly following the easing of the initial restrictions.

### *Long-term view*

Given Futuregrowth's experience in the sector, the risk-adjusted returns we believe can be earned on behalf of our clients, and the positive societal impact investment can have, we intend to continue seeking out opportunities to support businesses that aim to grow in the sector.

In the longer term, our belief is that fundamental demographic and economic trends are likely to see the sector prevail beyond the current malaise. While the concept of rental accommodation is familiar to most South Africans, only 21.9% of households living in formal dwellings (or 17.94% of all households) were living in rental accommodation according to the 2019 General Household Survey. While not particularly high compared to the 2019 developed nation benchmark of the OECD, where 26% of households are reported to live in rental accommodation, 21.9% is high relative to the percentage of households living in informal dwellings (12.7%). This presents a significant market opportunity for private sector investors - which can be pursued while pro-actively supporting the basic human right of all South Africans to decent housing.

Futuregrowth Asset Management (Pty) Ltd ("Futuregrowth") is a licensed discretionary financial services provider, FSP 520, approved by the Registrar of the Financial Sector Conduct Authority to provide intermediary services and advice in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. The fund values may be market-linked or policy-based. Market fluctuations and changes in exchange rates may have an impact on fund values, prices and income and these are therefore not guaranteed. Past performance is not necessarily a guide to future performance. Futuregrowth has comprehensive crime and professional indemnity in place. Performance figures are sourced from Futuregrowth and IRESS.