

Home loans and affordable housing

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Although the [South African](#) economy is expected to grow by 2.6 percent in 2013 according to Nedbank, the bank remains committed to affordable housing in the country.



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Although the South African economy lost significant momentum in Q3 2012, it is still growing and on a recovery path, says Nicky Weimar, senior economist at Nedbank.

Weimar says they expect the economy to grow by 2.6 percent in 2013, 3.5 percent in 2014 and 3.6 percent in 2015.

She notes that household debt remains high, but however gloomy the situation is, she says the good news is the economy will grow in 2013, albeit modestly and warns consumers to remain cautious and watch their spending habits as well to use 2013 to strengthen their finances.

In the housing market, she says those with access to finance should use this time to buy as it is a buyer's market with many properties reasonably priced.

Manie Annandale, head of affordable housing development and finance at Nedbank says the affordable housing sector in South Africa is showing potential for growth with new entrants buying homes more than they do in the traditional home sector.

He says despite the economic doom and gloom, there will always be a need for housing.

Asked what drives this market, he says income levels and now with the new Financial Sector Code, the threshold for affordable housing has been increased to R17 600, an amount that is adjusted annually according to CPI and building index.

Homes that qualify as affordable are priced below R550 000 and as the bank, he says they work and have to ensure that developers create enough stock to meet demand within the price range.

In some cases, he says, developers build housing stocks for rental purposes so those who are not quite financially ready to buy can still have access to decent housing.

According to Jeff Lawrence, head of affordable home loans sales and distribution, it is a tough market and the big issue in this sector is credit worthiness and buyer affordability.

Lawrence explains that affordability means the buyer can demonstrate the ability to repay the home loan debt, at the same time, be able to pay all other living expenses without getting into trouble.

On credit worthiness, he says the buyer's records should show that he pays his debt on time, has no judgement and has enough income left over - and if this is the case, the bank does grant a loan.

"We finance up to 100 percent loans where a buyer has a good credit record and meets the affordability test."

He says sometimes it happens that a buyer is turned down by a bank where they have high debt levels and serious buyers easily rectify the situation and are able to re-apply within six months when their finances are looking positive.

On whether the bank asks for a deposit when applying for a home loan, he says they encourage borrowing as little as possible and paying off debt as quickly as possible.



Nedbank grants up to 100 percent loans where a buyer has a good credit record and can demonstrate affordability.

What this means is that it is in the buyer's interest to put down funds towards their new home, that way, they will not have to borrow as much.

As a rule of thumb, he says the deposit is usually not higher than 10 percent of the loan.

Lawrence says particularly for first-time buyers, buying into a new development has benefits as all costs are built into the loan compared to when buying an existing property where one has to pay transfer fees for example.

Lawrence is upbeat about the prospects for the affordable housing market in 2013.

“We had a good year in 2012 and we expect 2013 to be even better and as a bank, we remain committed to the sector.”

Meanwhile, Asrin Property Developers report that Phase one of the affordable housing development in [Heideveld, Vanguard Village](#), is completely sold out.

Shiraz Hassan, commercial director at Asrin, says this is proof that there is a huge gap for this type of housing in [Cape Town](#).

“There is not enough housing in the R450 000 to R600 000 bracket to accommodate all the qualified purchasers and there are possibly 5 percent of buyers who fall outside of the gap housing criteria but cannot qualify for bonds of R600 000.”

Hassan says it is a challenge to provide housing in the bracket where it is needed the most and to find finance for these buyers.

Most buyers need 100 percent finance but the banks will not ease up on their lending criteria.

On projects such as these there is usually a 10 percent appreciation from day one, so the banks would not be losing any equity should they have to repossess the unit, he says.

“It is difficult to deliver quality products within the affordable sector that includes the lifestyle additions such as gatehouses, landscaping, play parks, entertainment areas and security, for example, but Asrin are committed to doing this by sticking to low mark-ups on their developments.”

Hassan says Melkbosch Village, which is almost complete, is a mixed residential scheme launched in 2007 with 486 units offering a mix of affordable to high end housing.

“We hope to launch a new affordable housing development within the next few months in the [Strandfontein](#) area,” he says. – **Denise Mhlanga**