

Raising International Capital for affordable Housing in Africa: A Case Study from International Housing Solutions

Strategy

Why Housing?

- Inadequate supply of workforce housing due to legacy of apartheid and rapid urbanization
- Inadequate pace of housing development in low and mod income bands
 - Private sector meeting upper income housing needs
 - Public sector/government addressing lower income bracket

Opportunity: high demand, inadequate supply, strong rental growth/sales appreciation

Why South Africa?

- Solid Economic Fundamentals
 - Established capital markets infrastructure
 - Strong GDP growth forecasted
 - Strong presence in global industries
 - Public sector support for development and transparency
- Social Challenges Persist But Gradually Improving
 - High unemployment due in part to educational catch up requirement and housing accessible to jobs
 - Continued income disparity by race improving with employment growth
 - 11% HIV infection rate now being better addressed by public health programs

Why Low and moderate income housing? Meeting Housing Demand

Private market
developers



Serve the top income tiers, 1.8
million households

International
Housing Solutions



Provides workforce housing for
the "missing middle", 3.7
million households earning
R1,500 – R15,000/month

South African
government



Offers fully subsidized units for
the poor; 7 million households

Unmet Housing Demand

- Urbanization
 - Movement from homelands & rural areas to cities
 - Rural-to-urban migration as agriculture and mining jobs are lost to mechanization
 - In-migration from other African countries
- Housing quality upgrades required
 - From “informal” to “formal” units
 - Larger units/better physical condition
 - Better access to sanitation and services
- Workforce housing needed near jobs
- New household formations add demand
- Increase in disposable income; growth of middle class

Moderate & Low-Income Market?

- Moderate Income:
 - Average product is 80-220 m² (860-2,370 ft²)
 - Priced at R200,000-R500,000
 - Target households earning R7,500 - R15,000/month
- Low Income:
 - Average product is 40-80 m² (430-860 ft²)
 - Priced below R200,000-R226,000
 - Target households earning R1,500 - R7,500/month
- Strong commitment from lenders
- Prices rose 70% in 3.5 years

Constraints / Mitigants to New Supply

- Development capacity limited by few experienced homebuilders and need for skilled labor
 - Need to work with strong partners, while promoting new developers
- High cost for land due to inadequate infrastructure, and rezoning
 - Public sector commitment to extend infrastructure
 - Opportunity to invest in infrastructure
 - Strong local partners are critical

Property prices in the townships
are increasing faster than those in
the middle class market

-- *Nick Wilson, Business Day, 22 November 2006*

Economy

South Africa's Economic Strengths

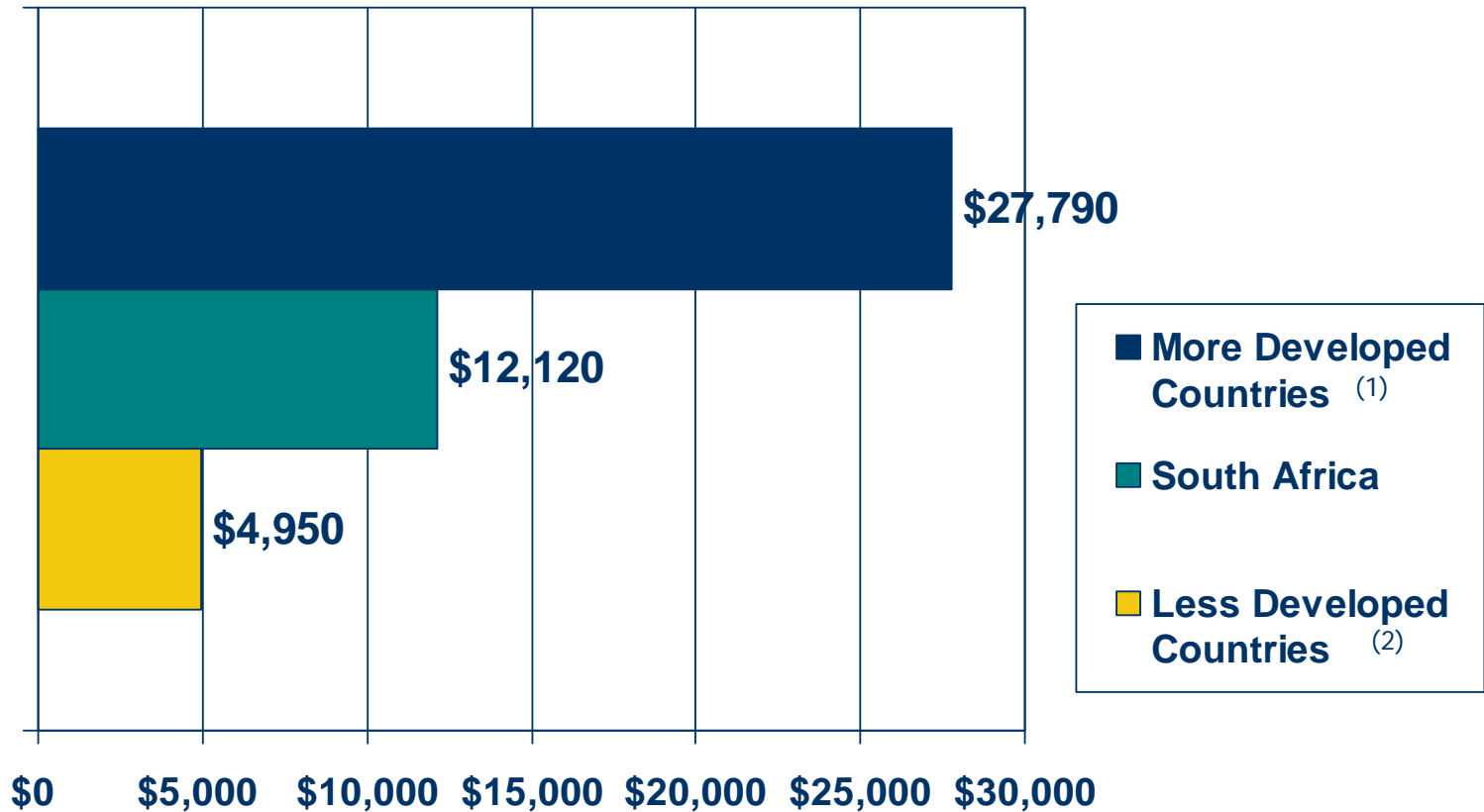
- Diversified, open, dynamic economy
- Stable, coherent economic policy
- Healthy public finances (debt to GDP ratio below 30% by end of '07)
- Low foreign debt
- Strengthening external liquidity
- BBB+ credit rating above Brazil, India or Mexico

Economic Engine of Africa

- Top-quality financial services
 - Long-established banks and insurance companies
 - 10th largest stock exchange in the world
- World's largest producer of gold, platinum, chromium, and other minerals
- Abundant supply of coal, diamonds, iron ore, natural gas

A Middle-Income Nation

Per Capita 2005 Gross National Income
Purchasing Power Parity (\$)



(1) Includes US, Canada, Australia, New Zealand, Japan, and Western Europe

(2) Includes Non SA Sub-Saharan Africa, Egypt, Argentina, Brazil, Indonesia, India, Former Soviet Bloc Countries

Demographics

Demographics Overview

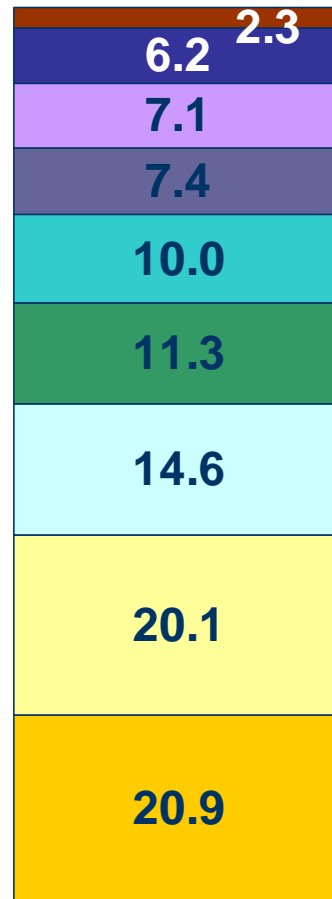
- Increasing urbanization with geographic concentration in key provinces
- HIV/AIDS impacting life expectancy and aging trends
 - HIV/AIDS now being better treated through government programs
- Uneven income distribution, particularly by race
 - However, black population annual income growth higher than most other groups at 9%
- High Unemployment
 - Fairly high literacy rate
 - 94% of 15-24 year olds
 - 82% of all adults
 - Strong job formation projected

South Africa's Nine Provinces



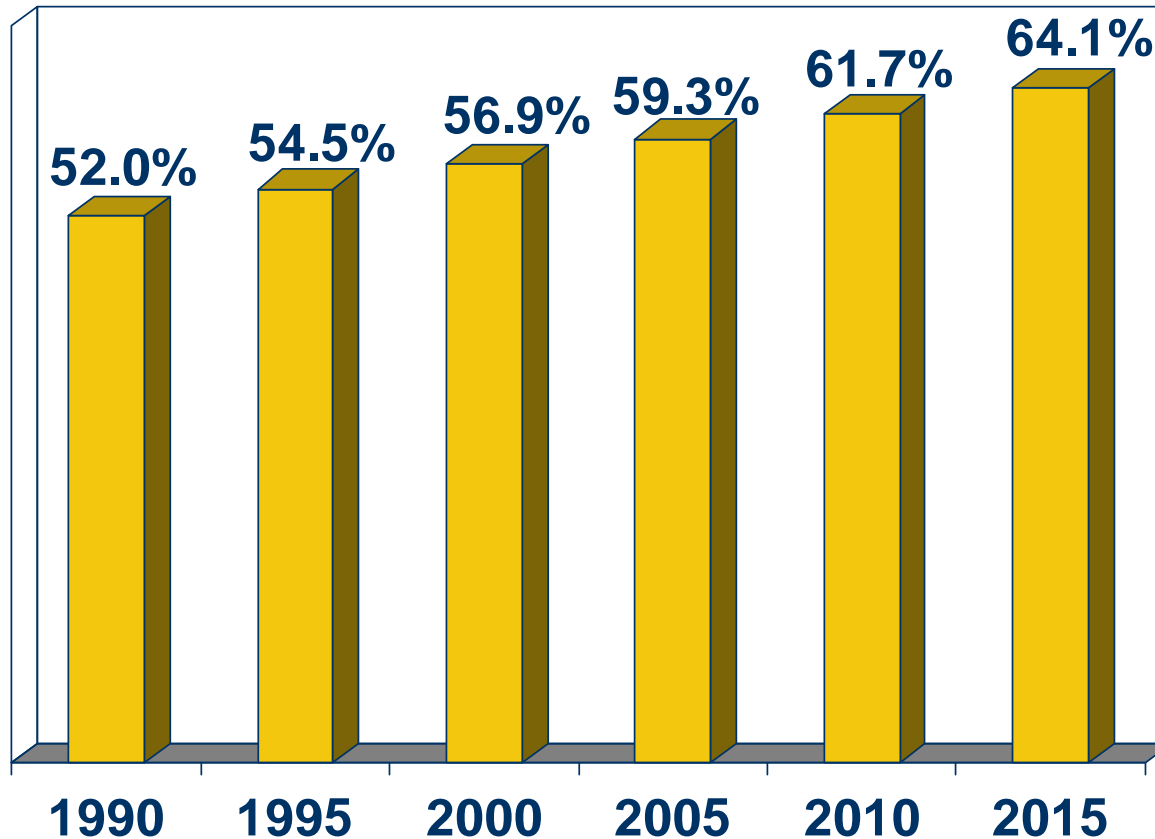
Distribution of 2006 Population by Province

Percent of
Total
Population



- Northern Cape
- Free State
- North West
- Mpumalanga
- Western Cape
- Limpopo
- Eastern Cape
- Gauteng
- KwaZulu-Natal

Increasingly Urbanized Population



2.3 million more urban dwellers between 2005 and 2015

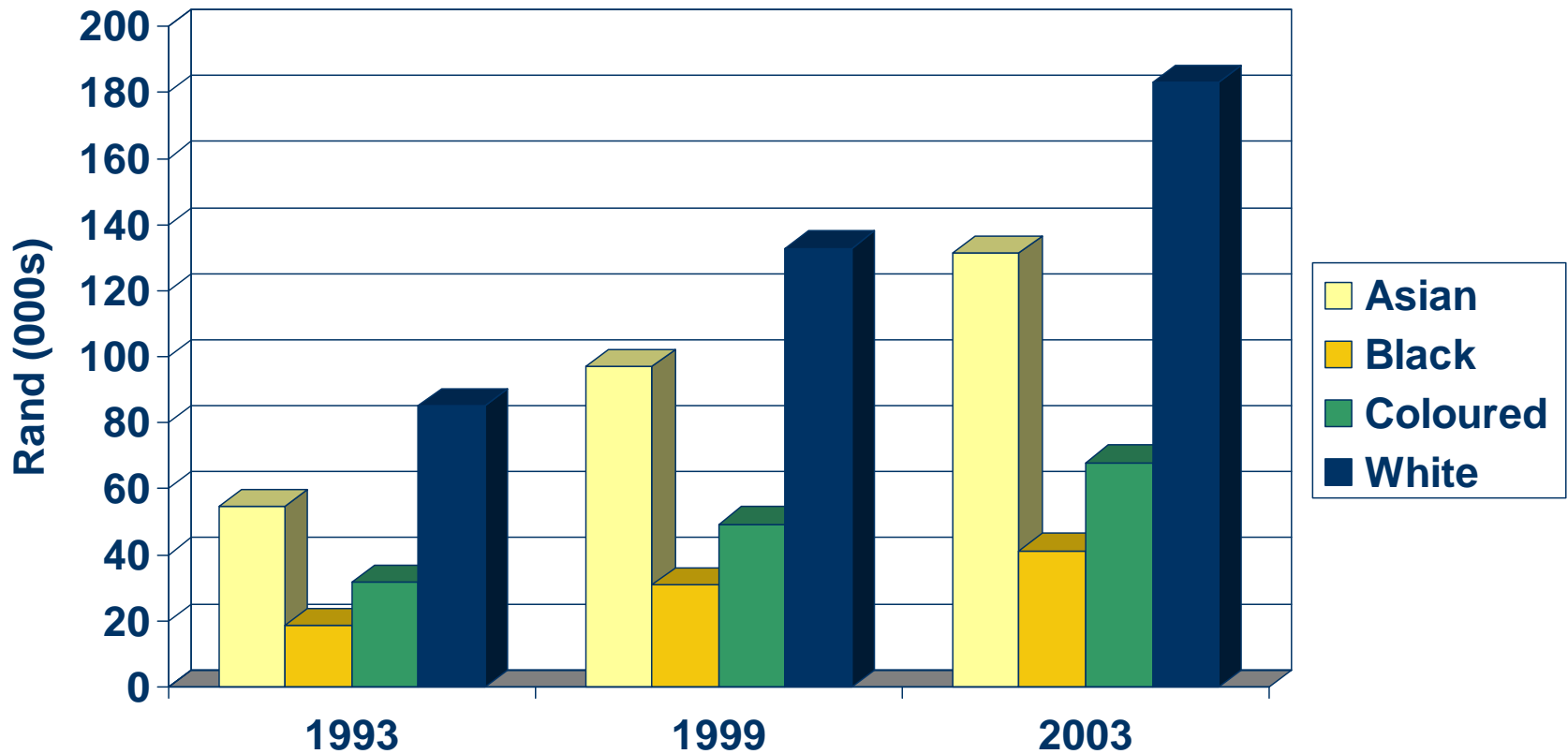
Population Composition

- Total Population 47.4 million
- Population < 15 years 32%
- Population > 65 years 5%
- Life Expectancy 47 years

- 11% of population infected with HIV/AIDS
 - 18% among those 15-49 years old
 - Disproportionately affects women and children
 - Fewer middle-age people in 2025, especially women

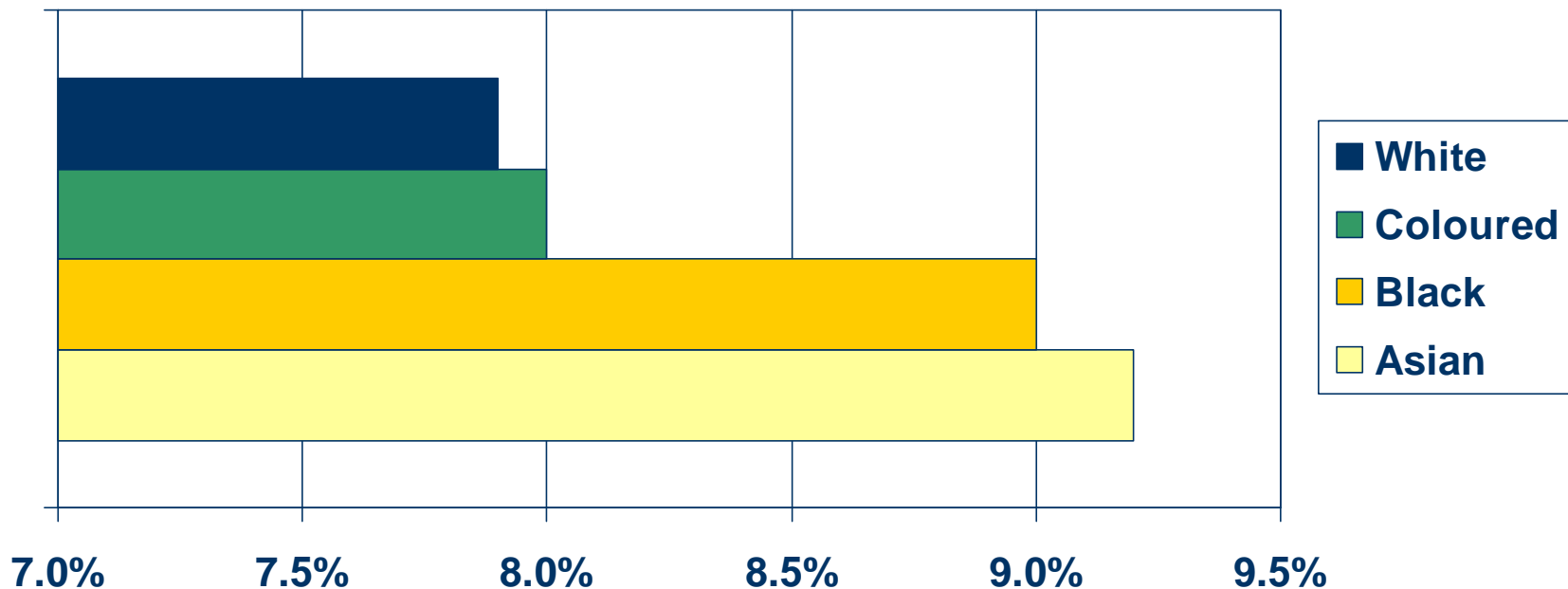
Income Inequality for Black Households

Average Annual Household Personal Disposable Income



...But Black Incomes Growing Rapidly

Annual Growth in Average Per Household Personal Disposable Income, 1992-2003 (%)



Prospects for Employment

- Unemployment at 25% related to several factors
 - Social grants to elderly sufficient to cover young adult household residents, thus a disincentive to job search
 - Mechanization in mining and agriculture reducing jobs in rural areas, forcing urban migration for job search
 - Insufficient urban housing to support workers for new jobs being formed
- Relatively high literacy rates lend optimism
 - 94% of population aged 15-24
 - 82% of all adults

Housing Stock

Housing Types

- Majority of stock is in single family housing
 - Less than 10% of total housing stock is typical multifamily (i.e. flats, duplexes or townhouses)
- 2/3 of South Africans live in formal housing
- Informal housing – including traditional rural dwellings, backyard units, shacks or shared rooms – account for 1/3 of total housing stock

Housing Tenure

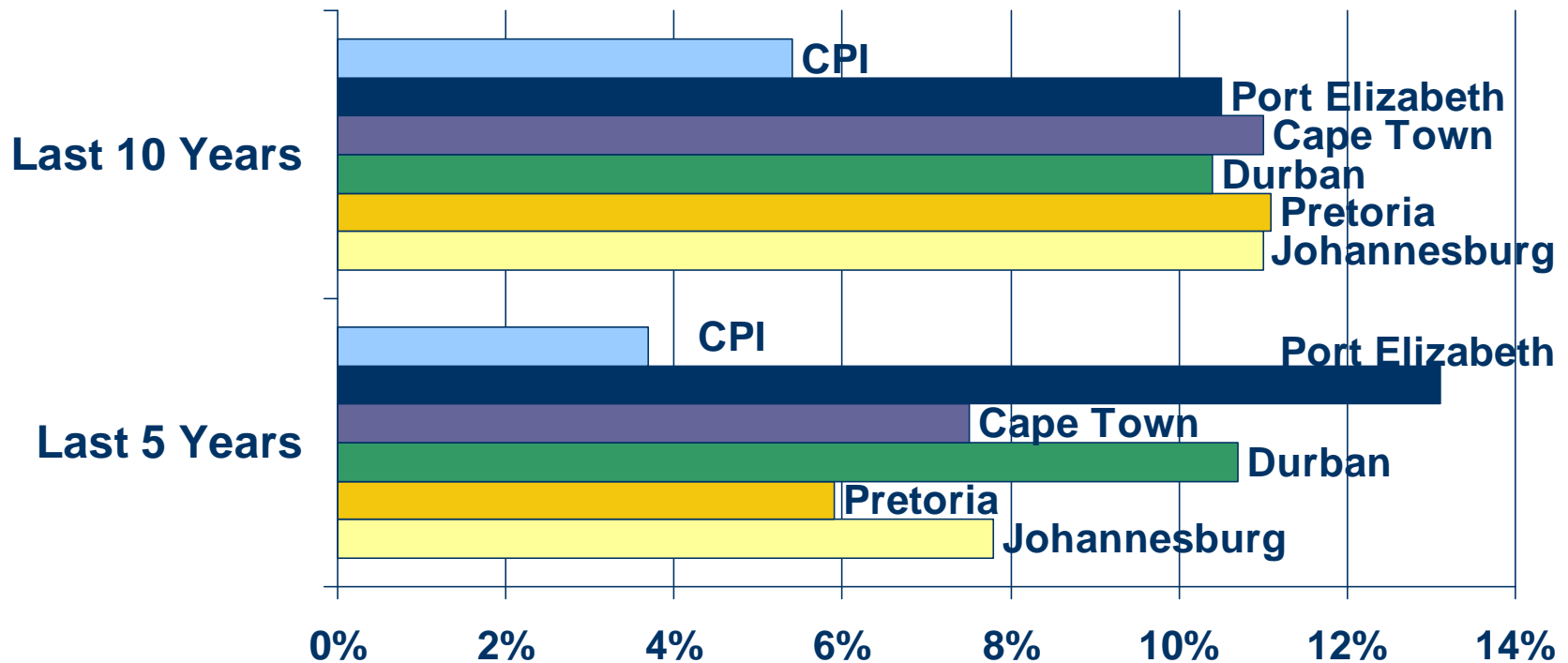
- 53% of households are owners
 - Includes private homes, traditional dwellings, units formerly owned by government, and subsidized housing
- 35% are renters
 - Formal rentals (houses, townhouses, flats) are less than half of the total rental supply
- 12% are “squatters” – informal tenure and informal housing
- Rental share of total occupancy is declining

Demand Growth for Rental Units

Province	Rental Units, 2001	% growth/year, 2006-2011
Eastern Cape	162,924	2.8%
Free State	111,920	3.8%
Gauteng	654,486	7.0%
KwaZulu Natal	344,020	5.4%
Limpopo	53,161	5.3%
Mpumalanga	100,642	4.9%
Northern Cape	30,347	5.8%
North West	128,517	3.0%
Western Cape	232,406	4.0%
TOTAL	1,818,423	5.2%

Apartment Rent Increases Have Outpaced Inflation

Average Annual Compound Rent Growth (%)



All unit sizes combined; standard quality units



What the fund invests in

- Land to stand—entitlement/planning
- Infrastructure
- Top structure
- Rental
- Companies in the housing value chain

How far have we come?

- South Africans need tens of thousand of units of sound, affordable workforce housing located near urban employment for every year for the foreseeable future
- IHS has raised just over \$210 million
- We plan to raise a further \$70 million
- We have closed our first few deals
- We have a pipeline of over \$80 million in new deals
- In addition to earning attractive returns for investors, investments in workforce housing mitigate unemployment and income disparities, while helping to improve overall economic growth an quality of life

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