



The current situation and trends within the township residential property markets, Understanding housing as a household asset within the sustainable livelihoods approach. Activating residential property markets in the townships. What regulation can do to promote or impede housing market operation? Urban management and social conditions necessary to secure effective residential property market operation.

Day 3: Housing Finance and Residential Property Markets

Kecia Rust - 31 October 2007



Understanding SA's housing finance system

Understanding SA's property markets

Fitting it together: why the housing "asset" is important for low income households

An incremental approach

Outline



Understanding SA's housing finance system

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1994 Policy makers faced two problems:

- Low levels of income (1994 Housing White paper estimates)

Income category	Percentage	Number households
>R3501	13,9%	1,15m
R2500-R3500	5,6%	0,46m
R1500-R2500	11,8%	0,98m
R800-R1500	29,0%	2,42m
R0-R800	39,7%	3,30m
Total	100%	8,3m

} **86%**

- Lack of end-user finance
 - Lack of appropriate retail lending capacity
 - Reluctance of formal financial institutions to lend in certain areas and to certain groups

1994 Policy response

- Housing subsidy for hh < R3500 / month
- Strategy to mobilise credit involved establishment of NHFC and RHLF
 - Bring banks down market
 - Mobilise unsecured micro lending



Subsidised core house

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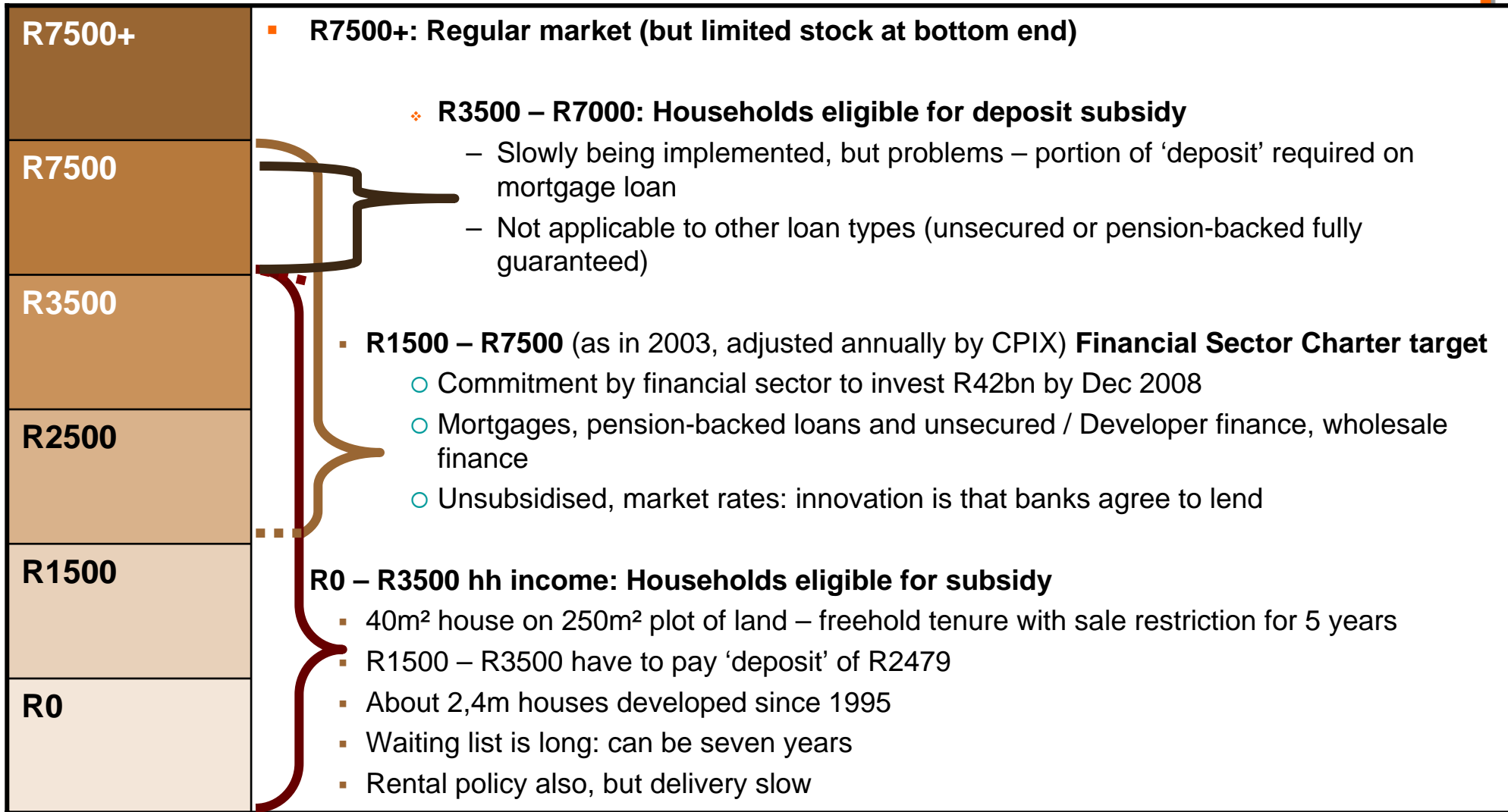
Housing microloans

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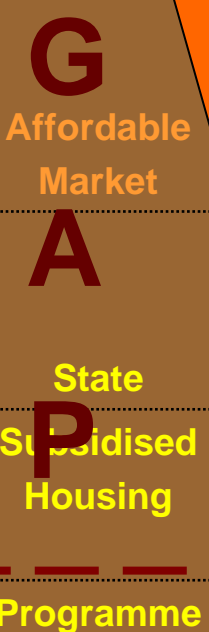
Housing asset

Current policy (2007)



Housing finance in SA

Income	House cost	% pop (LFS 2004)	Estimated backlog	Ownership	Rental
>R7500	"Normal" Suburban	10%	None specified	Focus of delivery, rapid price escalation	Limited delivery now growing
R7500 (+CPIX since Dec 2003)	<R200 000	11%	± 650 000 units <R200 000, growing @ 132 000 pa	Average 20 000 units delivered annually	Social housing stock: 35 000 units total nationally
R3500		6%		No new housing delivered is affordable here	Some private sector rental: inner city & backyard
R2500	R39 000	10%	About 2 million remaining: ± 2,3m subsidised units to date	Only subsidised housing	Backyard rental; inf settl; overcrowding
R1500	R39 000	63%		271 000 subsidised houses delivered in 2006/07 year	BY rental; informal settlement; overcrowding
R0					





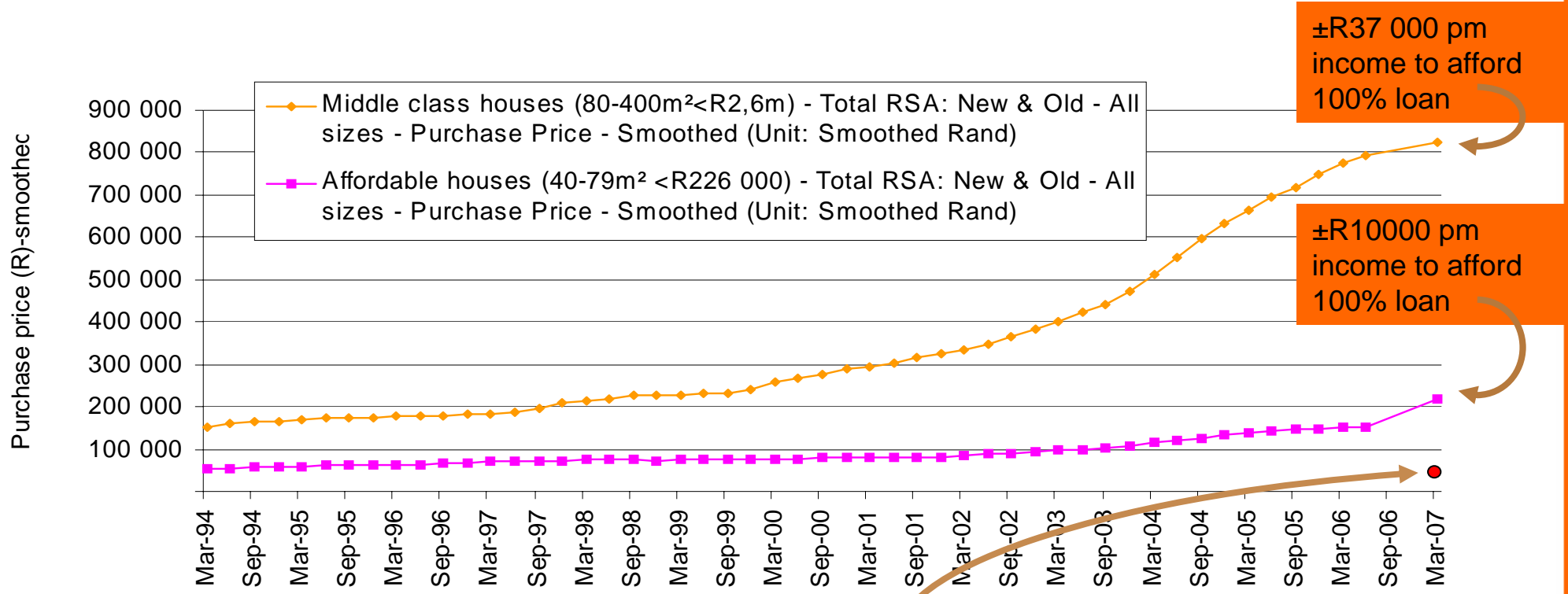
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Nature and price of property in SA



±R37 000 pm income to afford 100% loan

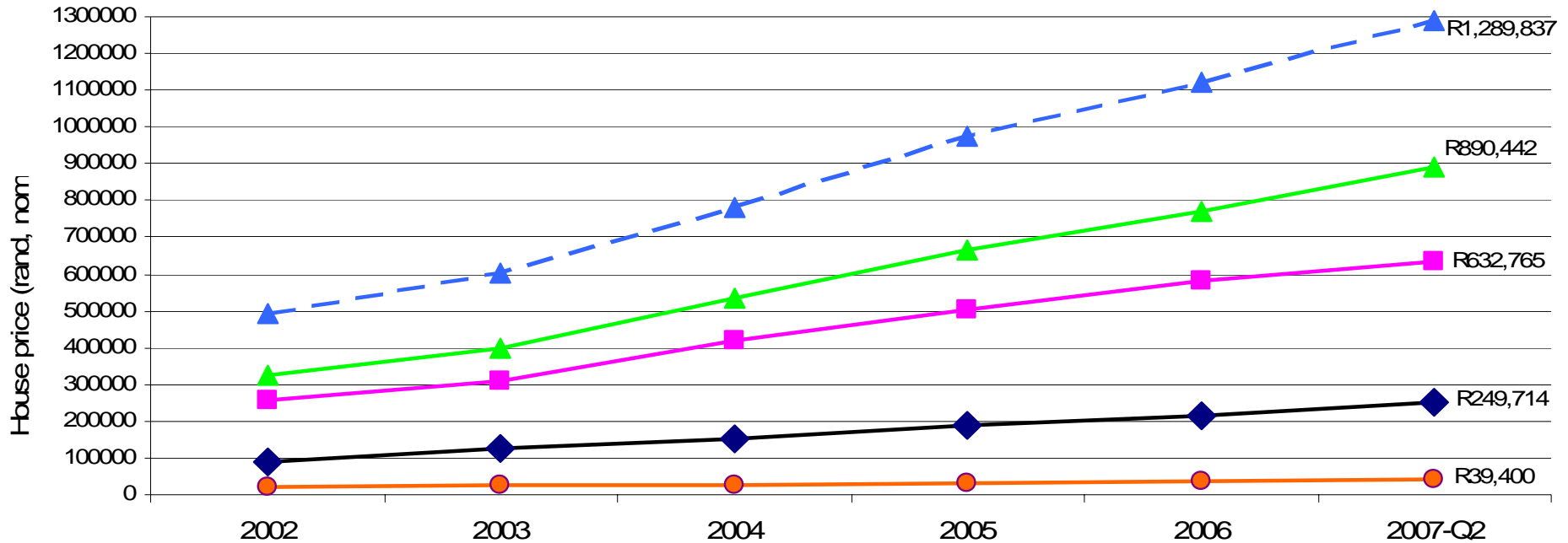
±R10000 pm income to afford 100% loan

Subsidised house = R39 400 for households earning less than R3500

10% of the population earns > R7500 per month

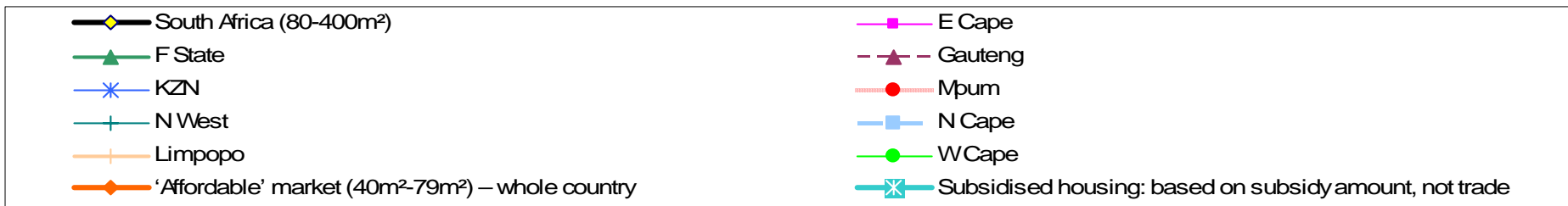
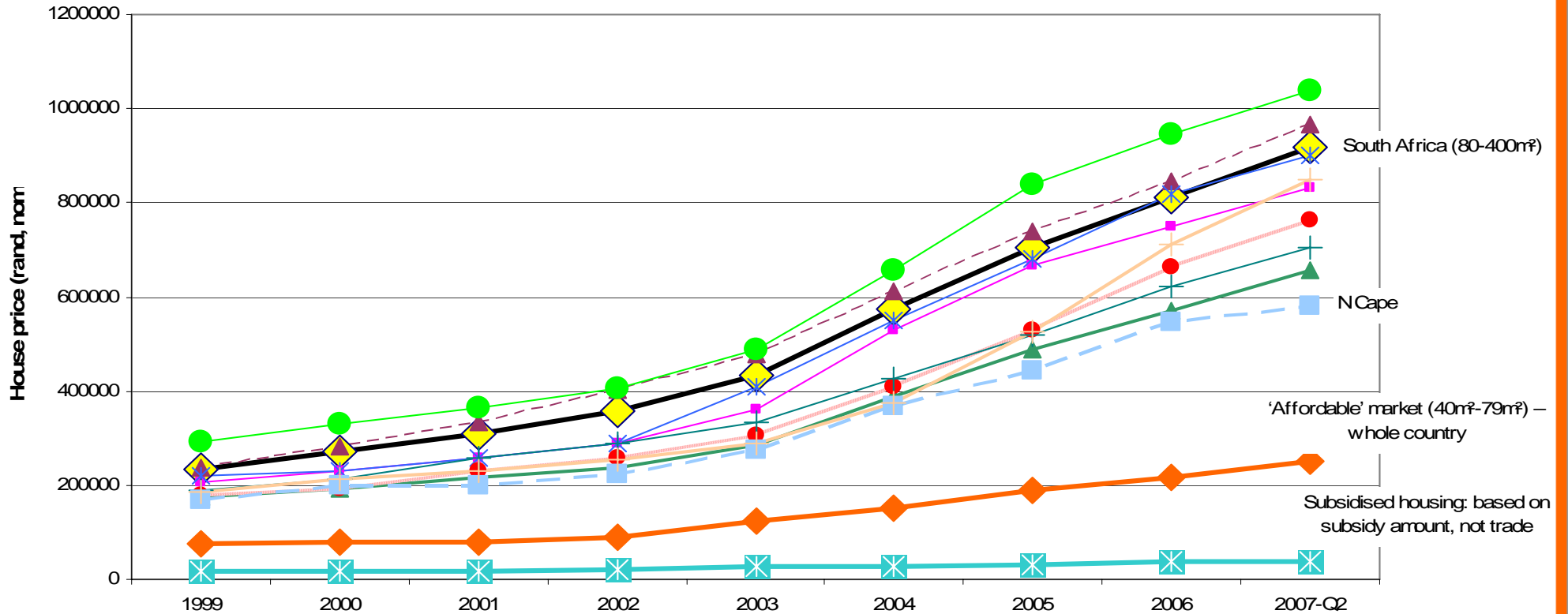
Gaps in the housing ladder

House Price Appreciation in SA
(Source: ABSA Residential Property Perspective - First Quarter 2007)



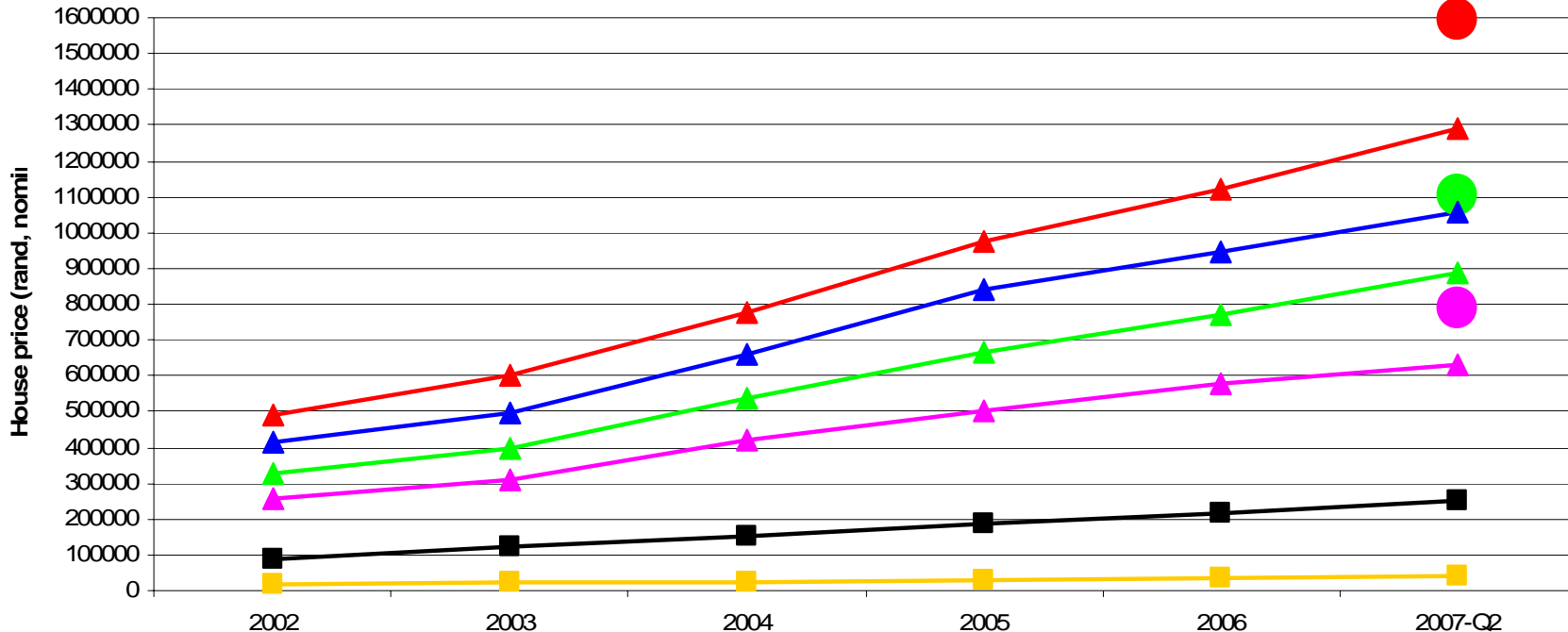
- ◆ Affordable (40-79m² ≤R370 000)
- ▲ Medium (141-220m² ≤R2,7m)
- Small (80-140m² ≤R2,7m)
- ▲ Large (221-400m² ≤R2,7m)
- Subsidised housing: based on subsidy amount, not trade

Gaps are spatially defined by province



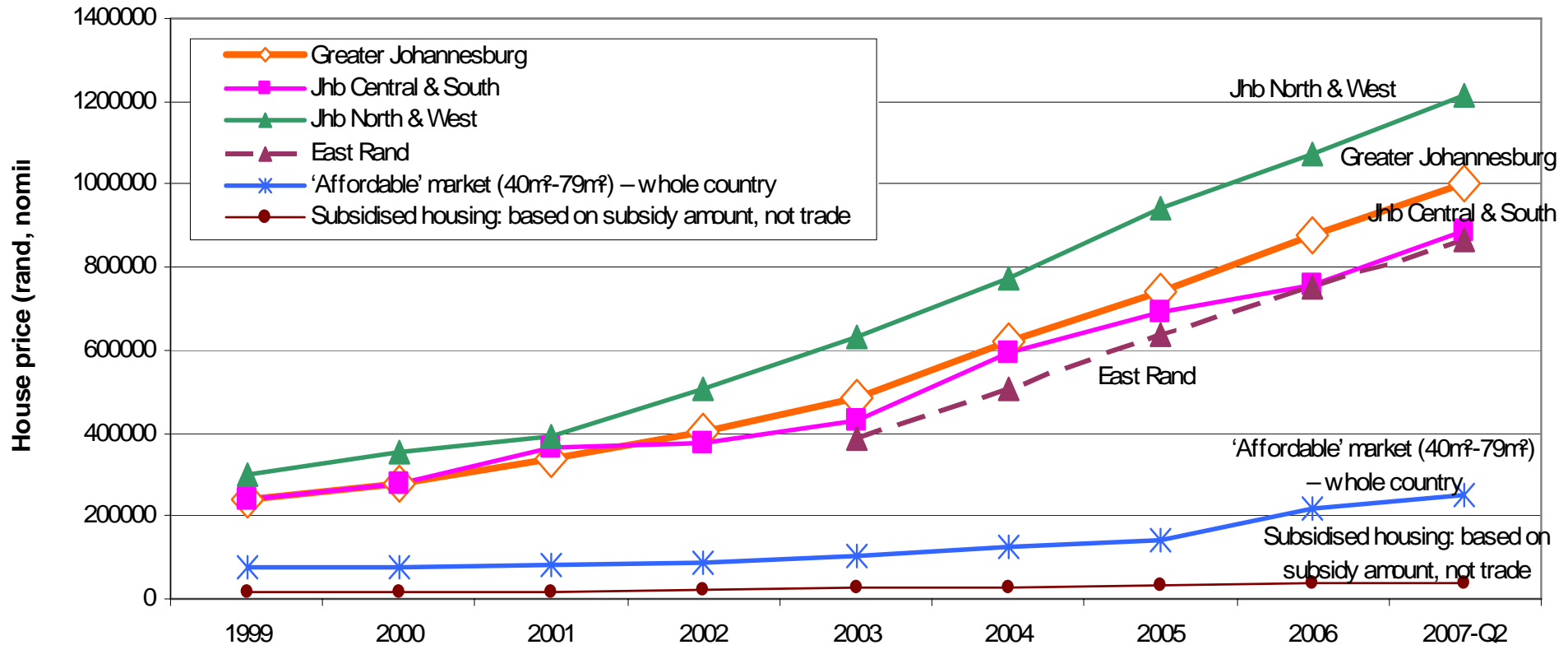
Gaps are greater in some areas (Example, Cape Town)

ABSA House Price figures by house size: National and Cape Town

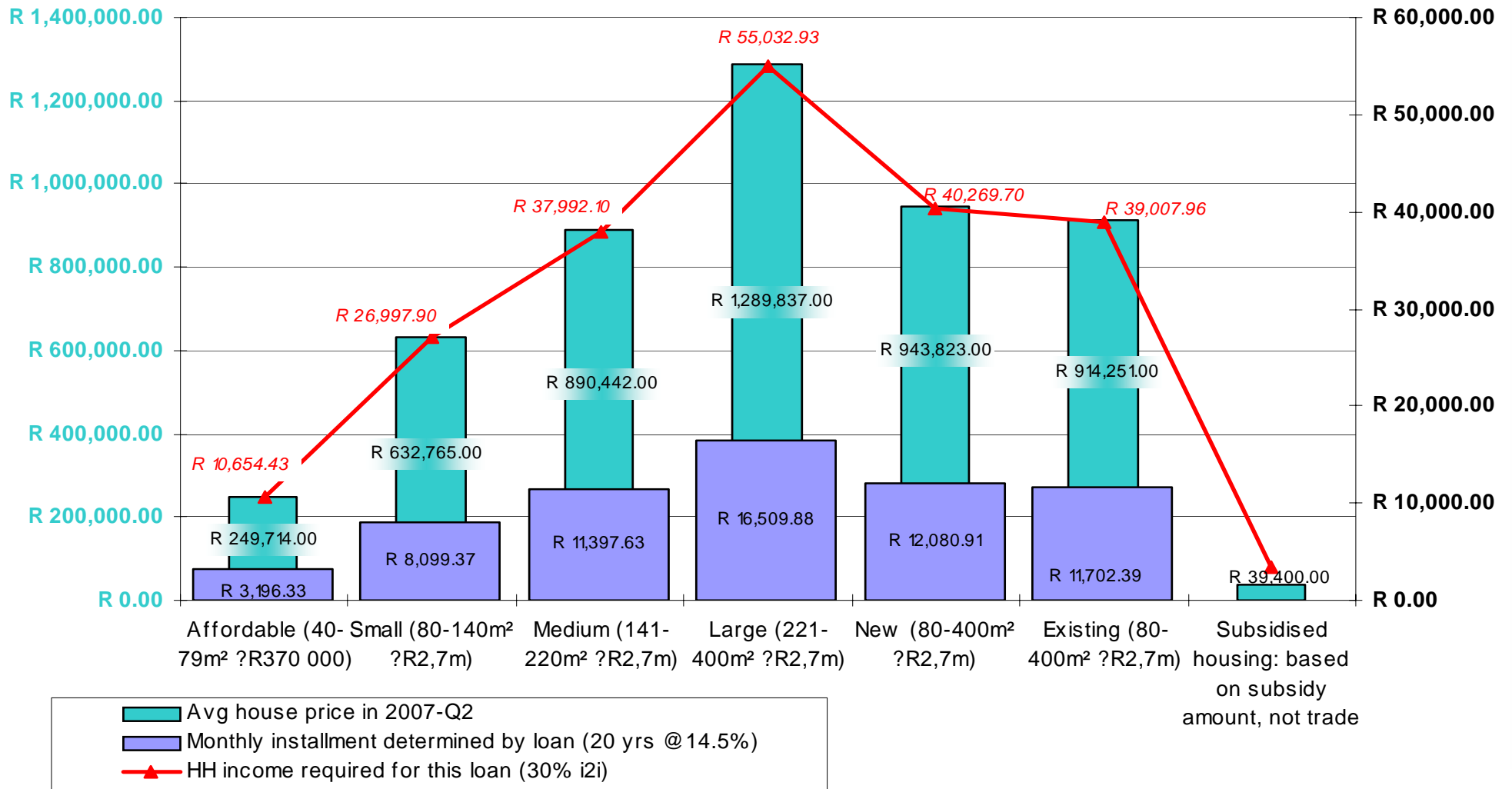


- Affordable (40-79m² ≤ R226 000)
- Cape Town - Small
- Cape Town - Medium
- Cape Town - Large
- Subsidised housing: based on subsidy amount, not trade
- ▲ Small (80-140m² ≤ R2,6m)
- ▲ Medium (141-220m² ≤ R2,6m)
- ▲ Large (221-400m² ≤ R2,6m)
- ▲ Cape Town average (80-140m² ≤ R2,6m)

Gaps are also spatially defined within cities (Example: Johannesburg)



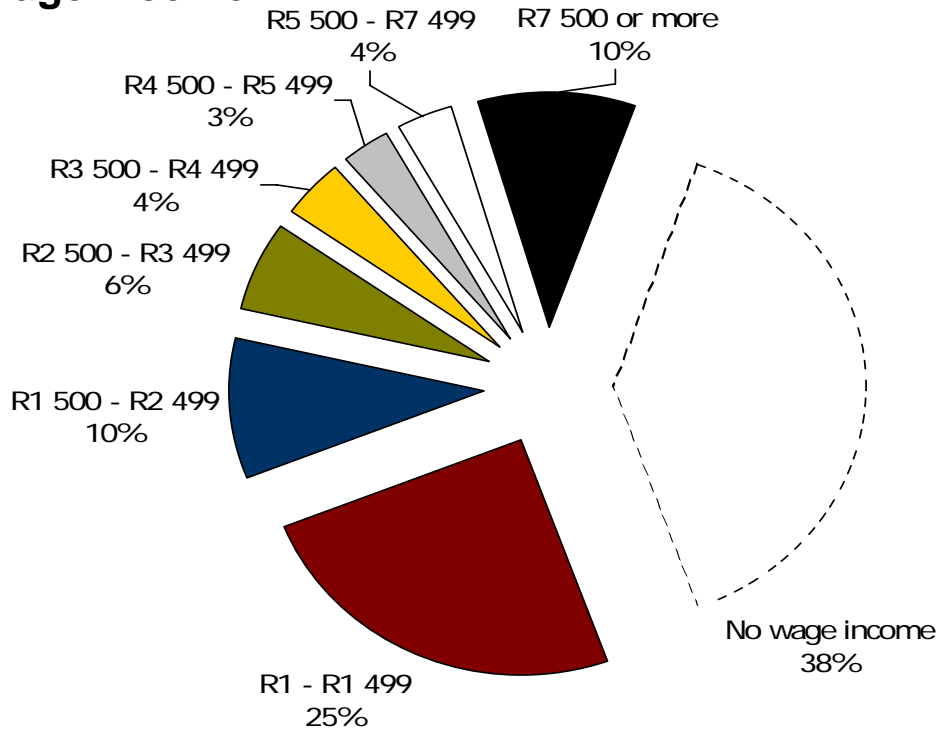
“Affordable” house not so affordable



Dominant property market < 10% of the population

(Melzer, 2006)

Distribution of households by monthly household wage income*



Income	Monthly installment (30% i2i)	Max loan amount (at 14.5% interest over 20 years)
R 1,500	R 450	R 35,156.31
R 2,000	R 600	R 46,875.08
R 2,500	R 750	R 58,593.85
R 3,000	R 900	R 70,312.62
R 3,500	R 1,050	R 82,031.39
R 4,000	R 1,200	R 93,750.16
R 4,500	R 1,350	R 105,468.93
R 5,000	R 1,500	R 117,187.70
R 5,500	R 1,650	R 128,906.47
R 6,000	R 1,800	R 140,625.25
R 6,500	R 1,950	R 152,344.02
R 7,000	R 2,100	R 164,062.79
R 7,500	R 2,250	R 175,781.56
R 8,000	R 2,400	R 187,500.33
R 8,500	R 2,550	R 199,219.10
R 9,000	R 2,700	R 210,937.87

Source: Labour Force Survey September 2004

* Note: Household income incorporates wage income only. Other income sources are not included.



Understanding SA's housing finance system

Understanding SA's property markets

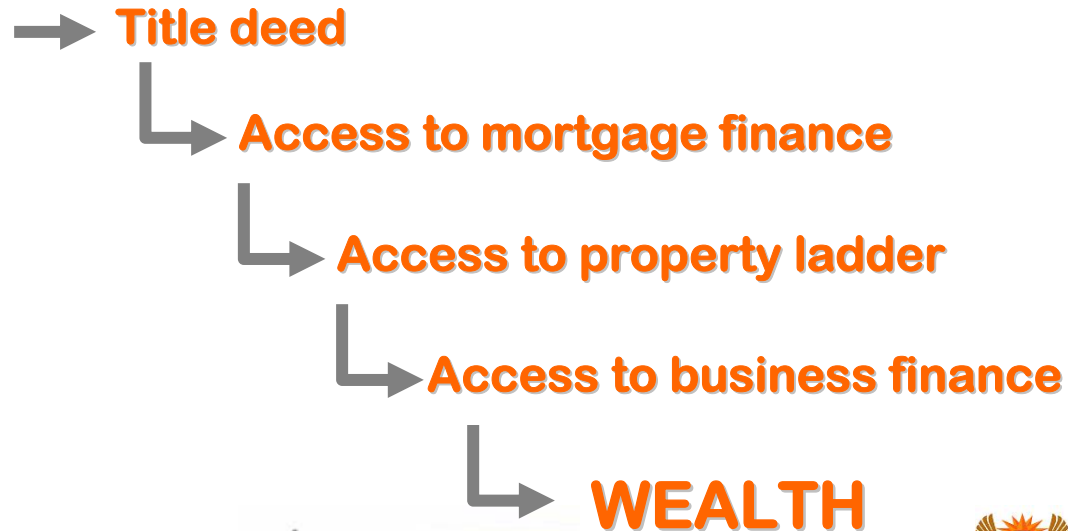
Fitting it together: why the housing "asset" is important for low income households

An incremental approach

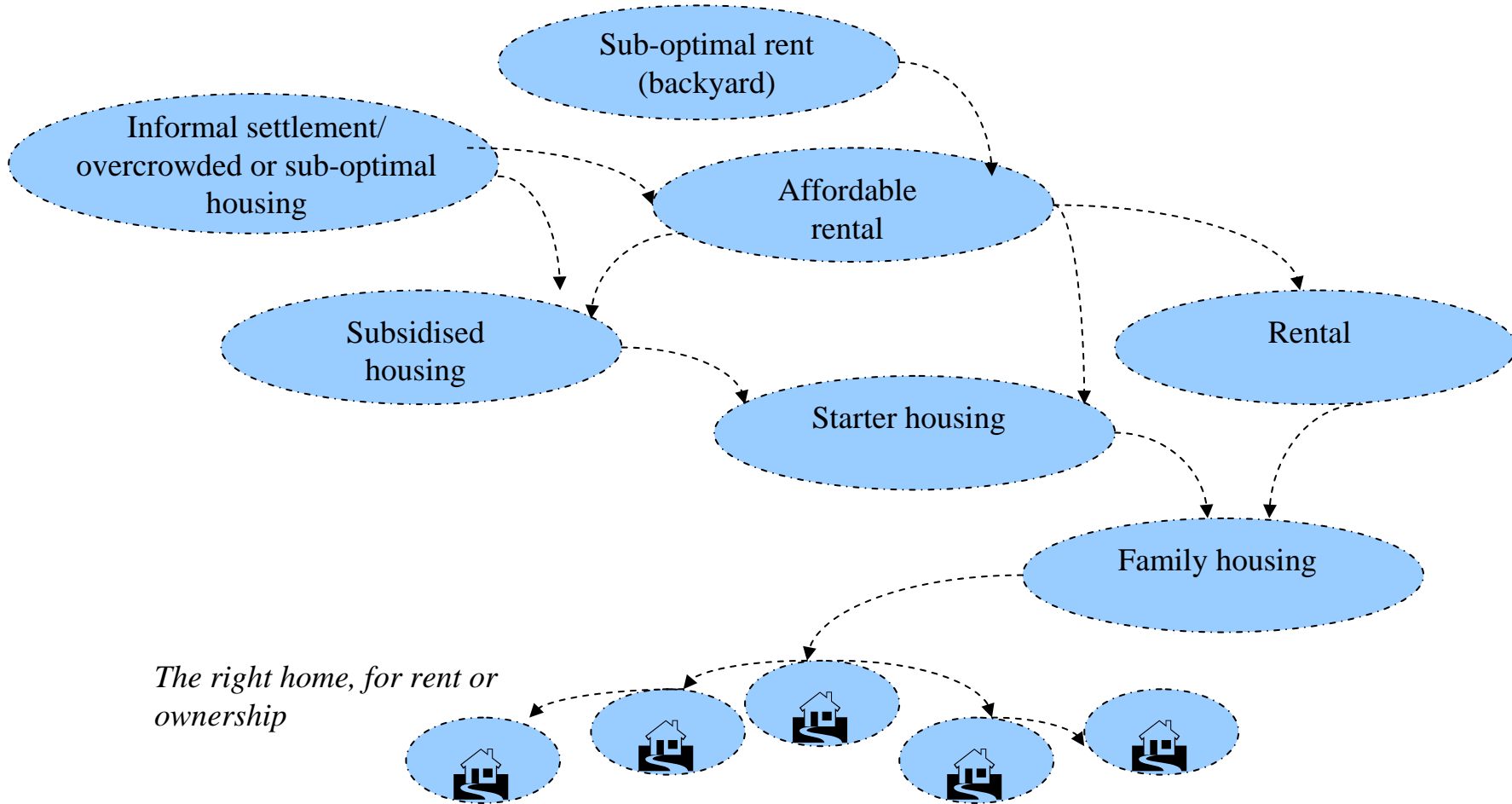
The housing asset

“Poor people save... but they hold these resources in defective forms: houses built on land whose ownership rights are not adequately recorded and unincorporated businesses with undefined liability... Because the rights to these possessions are not adequately documented, these assets cannot readily be turned into capital, cannot be traded outside of narrow, local circles where people know and trust each other, cannot be used as collateral for a loan, and cannot be used as a share against an investment.”

Source: Hernando de Soto (2000) *Mystery of Capital*. Page 6



Functioning property markets: Pools and flows



The housing asset

There is a housing shortage in the <R200 000 market – only 17 339 units were delivered in 2005

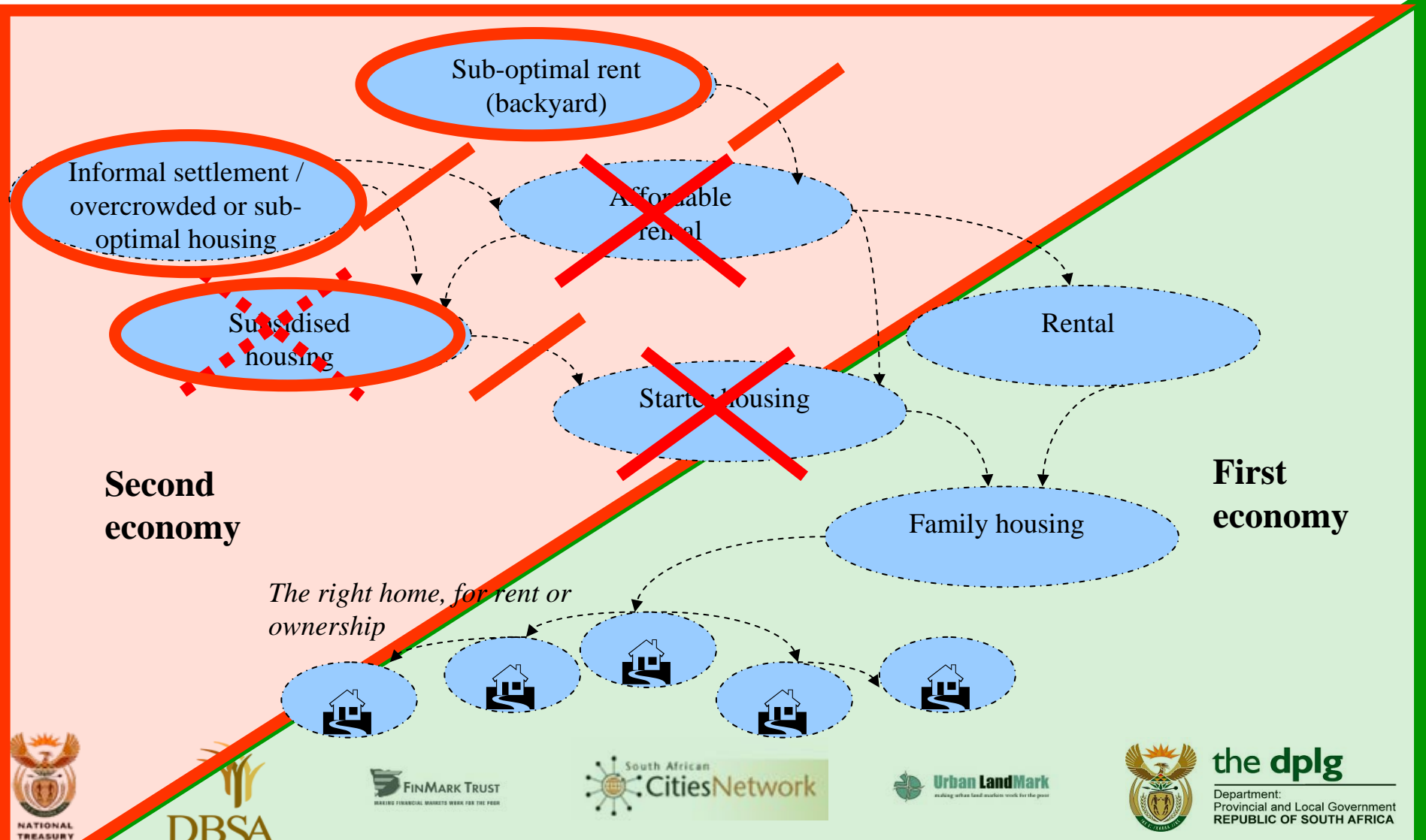
- BUT this depends upon
 - A functioning secondary property market
 - Sufficient, affordable housing stock for the target market
 - Housing affordability for mortgage finance
 - Mortgage lenders willing and able to go down market

The TRPM study found a dysfunctional property market in SA Townships with limited churn and depressed property values

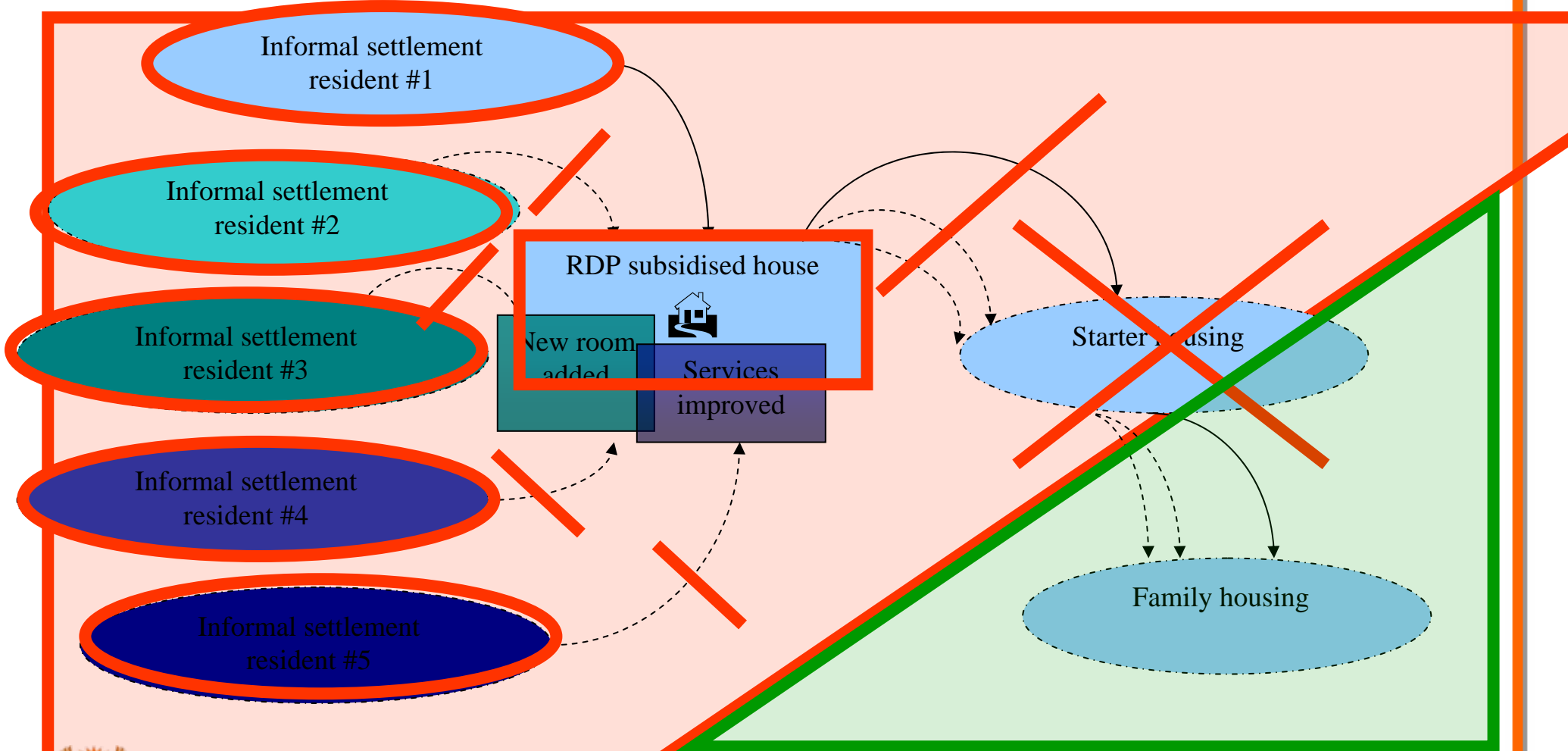
About 90% of South African households cannot afford the mortgage repayments for a R200 000 house.

53% of households in the FSC target market are ineligible for mortgage finance – a further 20% are too poor

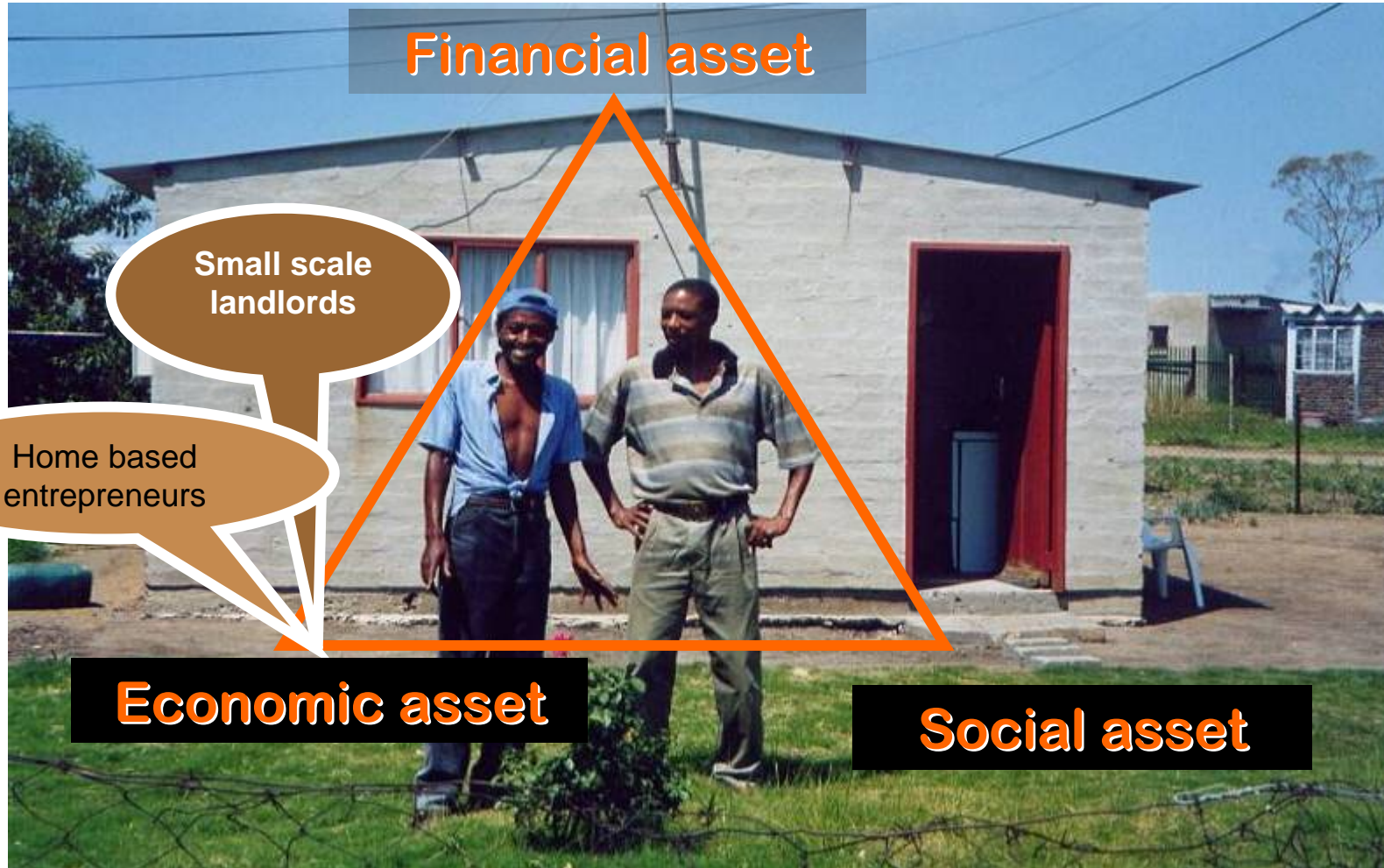
Current SA property market: Broken pools & flows



Current SA property market: Lost opportunity for filtering



Understanding the housing asset differently



Source: Shisaka Development Management Consultants (2006) Research Report: Consolidated analysis of research into small scale landlords and home based entrepreneurs.

Housing as an “economic asset”: small scale landlordism

- Small scale landlords provide accommodation for 15% of all South African households (1,85 million households), and generate a combined rental income in excess of R400 million per month.



“We see as typical the migrant who first builds a one-storey house for his family, then adds a second storey to which he moves, renting the ground floor to tenants; later he builds a slightly better house for himself and the whole of the first house is let; again he might build a new house specifically designed for a few tenants.” (Lloyd, 1990:294)

TTRI

Training for Township Renewal Initiative

Housing as an “economic asset”: Home based entrepreneurs

- HBEs are **income generating activities undertaken by residents from their homes**. In low income areas in South Africa they are predominantly informal in nature and survivalist in scale, but often are the only source of income for the household. There are:
 - **Retail oriented**: spaza shops, frozen food retailers, clothing retailers, etc.
 - **Production oriented**: fence and gate manufacturers, food preparation, etc.
 - **Service oriented**: hair salons, mechanics, traditional healers, B&B operators, restaurants
- **At least 355 000 home based enterprises are active in Townships and Inner Cities – comprising 13% of total population of these areas- generating approximately R476 million per month**





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Once homeless, now an investor, providing housing to other low income earners

Borrow microloan to improve



Starter house

2nd dwelling for business...

Income for retirement...

Sell and buy...



Sell to buy...



Improved house with backyard room (for rental)

Mortgaged 2-room house with backyard dwelling

Mortgaged 5-room house with granny cottage

What housing entrepreneurs need

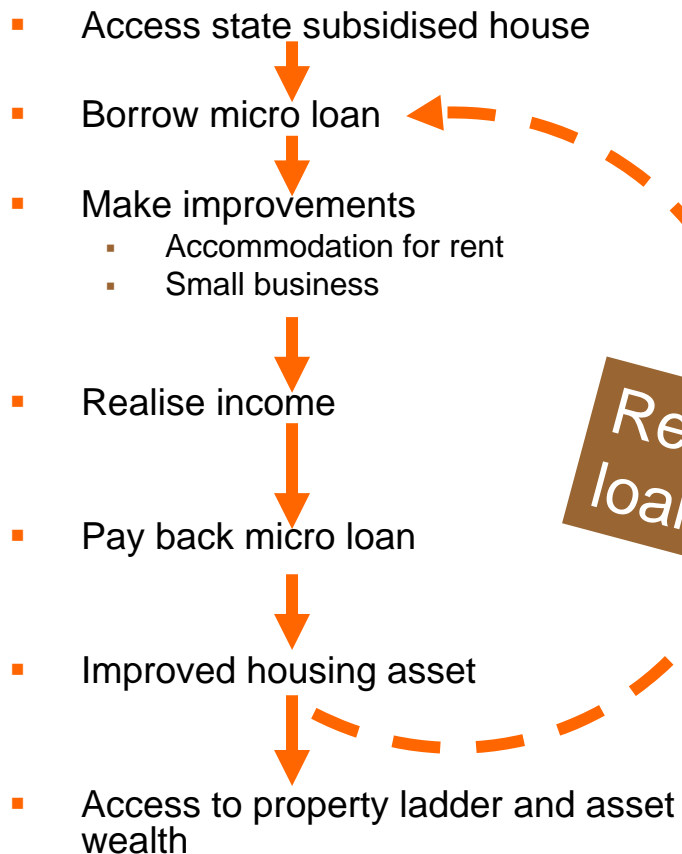
For small scale landlords

- Township, subletting and unit owner landlords
 - personal savings rather than formal loans (62-82% used own money)
 - Access to financial products generally poor :
 - ❖ <1/3 unit landlords used loan to purchase unit
 - ❖ <12% of Township Landlords accessed loan
 - Reluctant to use house as collateral
- Building owner landlords:
 - Access loan finance more easily – three quarters accessed a mortgage loan and half have a current or cheque account
- Commercial Banks risk averse.

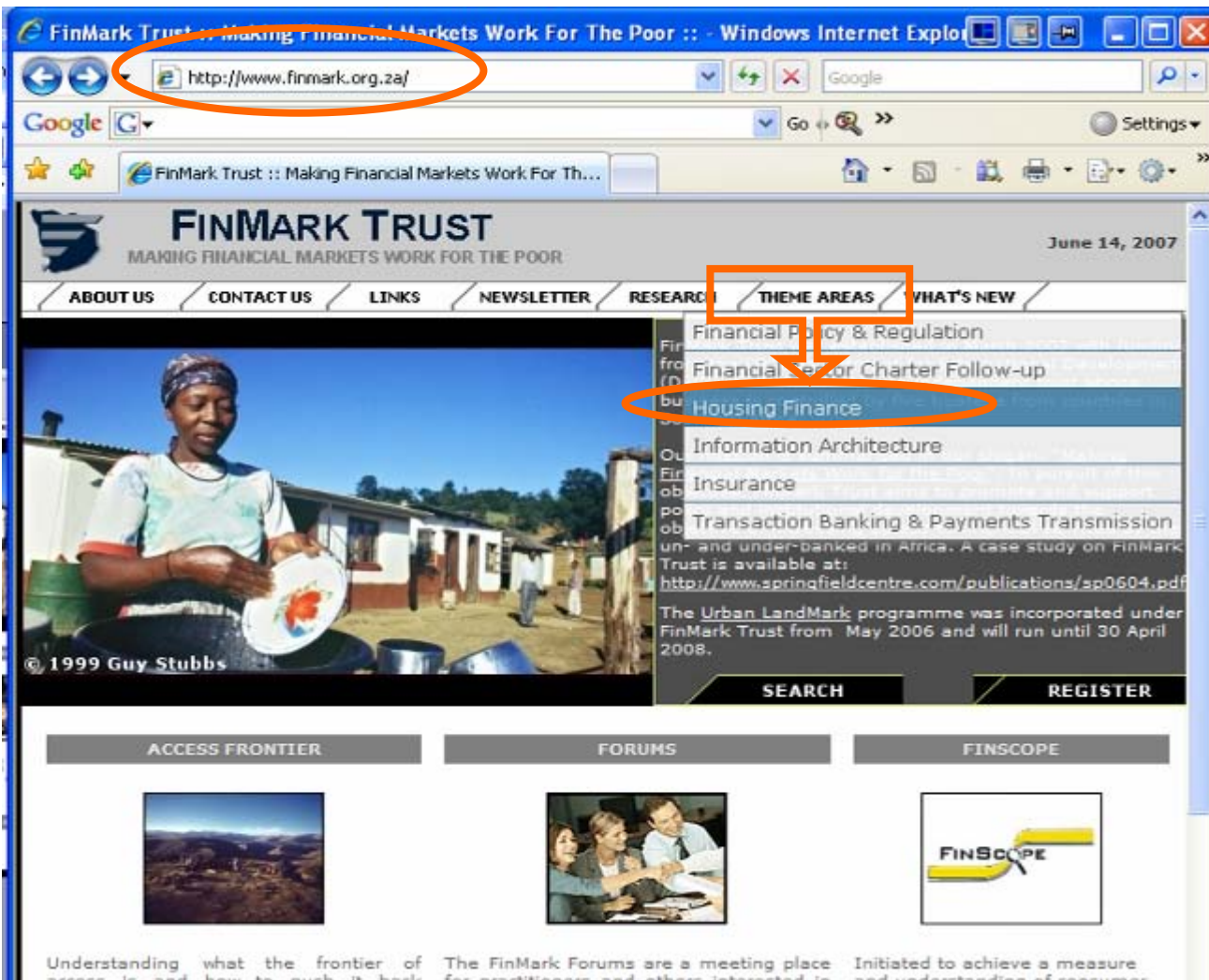
For HBE's

- Access to formal finance limited – most used savings or an informal loan
 - Lack of access due to complexity of lending to small start up's and high levels of informality
- Two main sources for formal loans – Commercial Banks and Specialist Lenders
- Financial support not enough – business skills and helpful environment needed
- Service Providers do not explicitly recognise HBEs
 - Support Programmes need to be focused - high levels of understanding of Entrepreneurs motivation, nature of business and market sector

Incremental housing defined



- The house provides a critical platform for enterprise/business activity – offering opportunities for income generation and poverty alleviation
 - HBEs and SSLs generate significant income and provide appropriate affordable and convenient services for lower income customers
 - This diversifies residential areas and enhances access to services & amenities, building sustainable human settlements
- This is an incremental, perpetual process supported by housing micro finance and developmental local government



Thank you!

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