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

Understanding SA’s property markets

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

An incremental approach
1994 Policy makers faced two problems:

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

<table>
<thead>
<tr>
<th>Income category</th>
<th>Percentage</th>
<th>Number households</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;R3501</td>
<td>13,9%</td>
<td>1,15m</td>
</tr>
<tr>
<td>R2500-R3500</td>
<td>5,6%</td>
<td>0,46m</td>
</tr>
<tr>
<td>R1500-R2500</td>
<td>11,8%</td>
<td>0,98m</td>
</tr>
<tr>
<td>R800-R1500</td>
<td>29,0%</td>
<td>2,42m</td>
</tr>
<tr>
<td>R0-R800</td>
<td>39,7%</td>
<td>3,30m</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>8,3m</strong></td>
</tr>
</tbody>
</table>
# TTRI
Training for Township Renewal Initiative

## Current policy (2007)

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>R7500+</td>
<td>Regular market (but limited stock at bottom end)</td>
</tr>
</tbody>
</table>
| R7500        | R3500 – R7000: Households eligible for deposit subsidy  
  - Slowly being implemented, but problems – portion of ‘deposit’ required on mortgage loan  
  - Not applicable to other loan types (unsecured or pension-backed fully guaranteed) |
| R3500        | R1500 – R7500 (as in 2003, adjusted annually by CPIX) **Financial Sector Charter target**  
  - Commitment by financial sector to invest R42bn by Dec 2008  
  - Mortgages, pension-backed loans and unsecured / Developer finance, wholesale finance  
  - Unsubsidised, market rates: innovation is that banks agree to lend |
| R2500        | R0 – R3500 hh income: Households eligible for subsidy  
  - 40m² house on 250m² plot of land – freehold tenure with sale restriction for 5 years  
  - R1500 – R3500 have to pay ‘deposit’ of R2479  
  - About 2,4m houses developed since 1995  
  - Waiting list is long: can be seven years  
  - Rental policy also, but delivery slow |
| R0           | |
### Housing Finance in SA

<table>
<thead>
<tr>
<th>Income</th>
<th>House Cost</th>
<th>% Pop (LFS 2004)</th>
<th>Estimated Backlog</th>
<th>Ownership</th>
<th>Rental</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ &gt;7500</td>
<td>“Normal”</td>
<td>10%</td>
<td>None specified</td>
<td>Focus of delivery, rapid price escalation</td>
<td>Limited delivery now growing</td>
</tr>
<tr>
<td>$7500</td>
<td>Suburban</td>
<td></td>
<td>±650,000 units</td>
<td>Average 20,000 units delivered annually</td>
<td>Social housing stock: 35,000 units total nationally</td>
</tr>
<tr>
<td>$7500 (+CPI since Dec 2003)</td>
<td>&lt;R200,000</td>
<td>11%</td>
<td>±R200,000, growing @ 132,000 pa</td>
<td>No new housing delivered is affordable here</td>
<td>Some private sector rental: inner city &amp; backyard</td>
</tr>
<tr>
<td>$3500</td>
<td>Affordable</td>
<td>6%</td>
<td></td>
<td>About 2 million remaining: ±2.3m subsidised units to date</td>
<td>Only subsidised housing</td>
</tr>
<tr>
<td>$2500</td>
<td>State</td>
<td></td>
<td></td>
<td></td>
<td>Backyard rental; informal settl; overcrowding</td>
</tr>
<tr>
<td>$1500</td>
<td>Subsidised Housing</td>
<td>10%</td>
<td>±2,3m subsidised units to date</td>
<td>271,000 subsidised houses delivered in 2006/07 year</td>
<td>BY rental; informal settlement; overcrowding</td>
</tr>
<tr>
<td>$0</td>
<td>Programme</td>
<td>63%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Training for Township Renewal Initiative

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Training for Township Renewal Initiative

Nature and price of property in SA

- **Middle class houses (80-400m² < R2.6m)** - Total RSA: New & Old - All sizes - Purchase Price - Smoothed (Unit: Smoothed Rand)
- **Affordable houses (40-79m² < R226 000)** - Total RSA: New & Old - All sizes - Purchase Price - Smoothed (Unit: Smoothed Rand)

- **Subsidised house = R39 400 for households earning less than R3500**

- **±R37 000 pm income to afford 100% loan**
- **±R10 000 pm income to afford 100% loan**

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)
- Small (80-140m² ≤ R2,7m)
- Medium (141-220m² ≤ R2,7m)
- Large (221-400m² ≤ R2,7m)
- Subsidised housing: based on subsidy amount, not trade
Gaps are spatially defined by province

Subsidised housing: based on subsidy amount, not trade

House price (rand, nom)

South Africa (80-400m²)

South Africa (40m²-79m²)

Subsidised housing: based on subsidy amount, not trade

‘Affordable’ market (40m²-79m²) – whole country
Gaps are greater in some areas  (Example, Cape Town)

**ABS A House Price figures by house size: National and Cape Town**

- **Affordable (40-79m² ≤ R226 000)**
- **Small (80-140m² ≤ R2,6m)**
- **Medium (141-220m² ≤ R2,6m)**
- **Large (221-400m² ≤ R2,6m)**
- **Cape Town average (80-140m² ≤ R2,6m)**
- **Subsidised housing: based on subsidy amount, not trade**
Gaps are also spatially defined within cities (Example: Johannesburg)

- Greater Johannesburg
- Jhb Central & South
- Jhb North & West
- East Rand
- ‘Affordable’ market (40m²-79m²) – whole country
- Subsidised housing: based on subsidy amount, not trade
“Affordable” house not so affordable

Avg house price in 2007-Q2

Monthly installment determined by loan (20 yrs @14.5%)

HH income required for this loan (30% i2i)
**TTRI**

Training for Township Renewal Initiative

**Dominant property market < 10% of the population**

(Melzer, 2006)

**Distribution of households by monthly household wage income***

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

Source: Labour Force Survey September 2004

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

The right home, for rent or ownership
The TRPM study found a dysfunctional property market in SA Townships with limited churn and depressed property values.

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

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

- Sub-optimal rent (backyard)
- Informal settlement / overcrowded or sub-optimal housing
- Subsidised housing
- Affordable rental
- Starter housing
- Rental
- Family housing

The right home, for rent or ownership

First economy

Second economy
Current SA property market: Lost opportunity for filtering

Informal settlement resident #1
Informal settlement resident #2
Informal settlement resident #3
Informal settlement resident #4
Informal settlement resident #5

RDP subsidised house
- New room added
- Services improved

Starter housing

Family housing
Understanding the housing asset differently

Small scale landlords

Home based entrepreneurs

Financial asset

Economic asset

Social asset

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)
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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Training for Township Renewal Initiative (TTRI)

- Starter house
  - Borrow microloan to improve

- Improved house with backyard room (for rental)

- 2nd dwelling for business

- Income for retirement

- Sold and buy

- Mortgaged 5-room house with granny cottage

- Mortgaged 2-room house with backyard dwelling

Once homeless, now an investor, providing housing to other low-income earners
Training for Township Renewal Initiative

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
TTRI
Training for Township Renewal Initiative

Incremental housing defined

- Access state subsidised house
- Borrow micro loan
- Make improvements
  - Accommodation for rent
  - Small business
- Realise income
- Pay back micro loan
- Improved housing asset
- Access to property ladder and asset wealth

- 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
Training for Township Renewal Initiative

Thank you!

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