



Urban LandMark



INTRODUCING THE AL+HDC

South Africa's residential property market is an important sector of the national economy and widely reported on in the press. Almost daily, newspaper articles report on the progress of house prices, up or down, and the implication this has on general consumer confidence, economic growth, and so on. The focus of this reporting and analysis, however, is on property generally affordable to only about 15% of the population in South Africa. The residential property market dynamics of the so-called "affordable" or lower-value market goes generally unreported.

The dearth of reporting and analysis in the so-called affordable market makes it especially difficult to identify market opportunities and encourage both lenders and developers to engage in this market. Work undertaken previously by the FinMark Trust has also shown that if this market is not working, lower income households (including beneficiaries of the housing subsidy scheme and the former Financial Sector Charter target market) will also not find value in their properties.

To address this gap, the FinMark Trust and Urban LandMark have teamed up with Eighty20 and Lightstone to develop an Affordable Land and Housing Data Centre (AL+HDC). The Centre compiles data from a range of sources (deeds registry, Stats SA, AMPS, etc., as well as local qualitative and quantitative surveys) to enable locally specific analyses of residential and non-residential property data in the affordable market. The parties will use the Centre to analyse trends in the affordable housing market and make recommendations to both the policy and commercial sectors.

This newsletter will come out quarterly, and will highlight key findings from the Centre. We invite you to engage with its findings and explore opportunities in the affordable land and housing sector in South Africa.

Any questions can be directed to Kecia Rust, at the FinMark Trust on: Kecia@iafrica.com

EXPLORING AFFORDABILITY OF RE-SALE MARKET TRANSACTIONS

An initial analysis based on deeds office data for selected township areas. by Illana Melzer, Eighty 20.

Anecdotal evidence suggests that the entry-level price of new developer-built houses in and around major urban areas in South Africa is now around R250,000. To afford such a house using a 20-year mortgage at an interest rate of Prime¹ +2 (the rate that typically applies for lower income borrowers) households would need an income of almost

R10,000 per month assuming a 30% installment to income ratio. According to the All Media and Products Survey² ("AMPS") roughly 36% of households in large metropolitan areas would be able to afford such a house³.

A focus on the affordability of new houses presents only part of the picture. While certainly less active than former white suburbs, re-sale market activity does exist in former townships. What has happened to affordability of this existing stock?⁴

1. In June 2009 Prime Interest Rate was 11%

2. AMPS is a nationally representative survey of over 21,000 adults conducted by the South African Advertising Research Foundation.

3. This is likely to be a generous estimate. In the first instance, the assumption that households can allocate 30% of their income to housing may be unrealistic. In addition other factors, such as the need for a sizeable deposit, may limit access to mortgage finance.

4. Aside from deeds office data sourced from Lightstone, various survey data sources were used to inform this analysis. They include: (1) Township Residential Property Markets Survey ("TRPM"): This survey of 2002 households was conducted in 2004. The sample covers eighteen study areas in former black townships of Johannesburg, Ekurhuleni, Ethekweni and Cape Town The purpose of the study into Township Residential Property Markets was to understand the current dynamics of township property markets in South Africa. (2) Income and Expenditure Survey ("IES"): This is a detailed nationally representative survey of 24,000 households. The survey of was conducted between September 2005 and August 2006. The data is weighted to April 2006. (3) All Media and Products Survey ("AMPS"): This survey of 21,083 adults (aged 16 and over) is conducted by the South African Advertising Research Foundation.

In exploring this question, the nature of the market in some townships presents a number of challenges both theoretically and analytically. While the underlying factors shaping property market activity may well differ from place to place⁵ township markets can be characterised as exceptionally thin, with very limited activity⁶. By way of example in 2006 there were just 340 registered sales in Diepkloof Extension, an area consisting of almost 12,000 residential erfs⁷. Prices in such markets can be extremely volatile, making the data difficult to interpret.

The nature of activity in some former township property markets is also of interest. Government is often a significant participant, or has been in the recent past, primarily because of the delivery of new-build subsidized houses, but also because of the transfer of ownership of existing rental stock to households under programmes such as the discount benefit scheme. In areas such as Delft and Tsakane which comprise RDP stock, the State was a participant in over 60% of property transfers to individuals in 2004. These transfers are not re-sale transactions and should therefore be excluded from the analysis.

In some cases, there appears to be evidence of investor or trader activity⁸. Repeat transactions involving these participants are often associated with high rates of return and may indicate information asymmetries between buyers and sellers. Including these transactions can skew average prices. Finally, banks are also often significant players selling what are likely to be distressed assets at lower prices. In assessing affordability we therefore restrict transactions to what appear to be voluntary transactions between individuals, excluding those that involve government, banks, companies and property traders where

Tsakane % Sales By Seller Type

	2003	2004	2005	2006	2007	2008
Govt	77%	63%	26%	29%	1%	0%
Company	5.6%	11.2%	31.0%	22.2%	16.2%	17.0%
Trader	5.5%	3.7%	9.3%	8.0%	7.2%	7.6%
Individual	5.3%	11.7%	21.4%	39.6%	73.7%	74.2%
Bank	4.6%	9.0%	11.2%	0.9%	1.8%	0.4%
Unknown	1.8%	1.2%	0.7%	0.7%	0.6%	0.4%

Profile of sales to individuals in Tsakane

- Differences reflect historical factors such as titling processes, structural factors such as the absence of market makers, issues relating to local government and service delivery as well as the characteristics of households and the community itself (levels of poverty, strength of community structures and attitudes to property ownership).
- Housing markets in general are characterised as thin due to the diverse nature of housing stock and the personal tastes of the buyer
- Just 18 of these sales were between individuals
- Traders are defined as individuals who purchase more than two properties in a year.
- Traders are individuals who purchase more than two properties in a year
- The data is for sales made by individuals to individuals excluding those transactions by individuals who appear to be traders and landlords [definition]
- The characterization of housing types for the areas under review is based on the TRPM study. See http://www.finmarktrust.org.za/documents/2004/JUNE/TRPMPH3_CT.pdf. Residential erfs are those that are less than 1,200 m². Data excludes records where the sales price is missing, where the buyer's name is the same as the seller's name, where erf size is less than 10m², where the cost per m² exceeds R2,900 for properties of less than 400m² and where the purchase or registration date is prior to 2003

QUESTION: How significant is the informal property market? Why do homeowners prefer to transact informally? Is there an information and awareness constraint? Do homeowners not recognise the benefits of formalizing property market transactions or are formal mechanisms inaccessible?

prices may be distorted for a range of reasons.

It should be noted that the transactions reflect only formally registered transactions. In many areas there is a vibrant informal re-sale property market. For instance the 2004 Township Residential Property Market Survey (TRPM) indicates that in Delft South 142 households purchased property in the year leading up to the survey while the deeds office recorded 63 transactions over that period. Deeds office data on prices is summarized below. The table provides data for all transfers where a price is

Average Price By Seller Type

	2003	2004	2005	2006	2007	2008
Govt	8,918	9,337	7,128	4,279	84,000	17,000
Company	44,806	45,588	50,369	79,777	120,394	148,542
Traders	28,731	61,500	81,749	164,434	210,208	251,500
Individual	39,680	74,080	94,116	139,117	163,809	166,424
Bank	46,795	47,437	34,385	38,000	110,000	160,000
Unknown	7,063	10,743	8,000	97,690	198,000	80,000

Summary data for property transactions¹¹

QUESTION: Why are markets so thin? Internationally, thin markets are typically associated with a restricted set of buyers. However, most explanations relating to thin township markets in South Africa relate to a restricted set of sellers ascribed to the missing steps in the housing ladder. If this is the case, why do significant price gaps exist between the re-sale market and the new-build market (ie. Why are prices not bid up)?

			2003	2004	2005	2006	2007	2008	CAGR (2003-2008)	
Gauteng	Diepkloof Ext (Private Sector – Upper Income)	Number of erf's 11984	Total sales	1603	447	343	348	120	122	
			Average price	R8,441	R22,203	R33,715	R44,825	R182,488	R137,919	75%
			Median price	R5,754	R5,769	R5,766	R5,767	R150,500	R50,000	54%
			Indiv to indiv sales	47	61	63	78	81	58	
			Average price	R79,872	R92,660	R132,879	R176,881	R247,148	R237,241	24%
			Median price	R61,000	R95,000	R130,000	R150,000	R260,000	R266,000	34%
	Dube (Old Township stock)	Number of erf's 3204	Total sales	63	30	33	30	27	14	
			Average price	R23,903	R89,053	R96,442	R132,566	R211,815	R248,256	60%
			Median price	R1,452	R88,500	R60,000	R110,000	R195,000	R297,298	190%
			Indiv to indiv sales	13	24	24	24	23	11	
			Average price	R72,692	R101,021	R116,658	R156,667	R222,043	R305,163	33%
			Median price	R70,000	R100,000	R90,000	R137,500	R230,000	R350,000	38%
	Kathlehong Phooko (Old Township stock)	Number of erf's 501	Total sales	4	4	1	4	1	3	
			Average price	R52,425	R28,891	R65,000	R59,538	R140,000	R98,333	13%
			Median price	R3,350	R20,765	R65,000	R65,575	R140,000	R85,000	91%
			Indiv to indiv sales	2	2	1	2	1	3	
			Average price	R101,500	R46,500	R65,000	R53,500	R140,000	R98,333	-1%
			Median price	R101,500	R46,500	R65,000	R53,500	R140,000	R85,000	-3%
	Protea North (Private Sector Middle Income)	Number of erf's 2978	Total sales	95	99	85	71	62	25	
			Average price	R121,558	R159,732	R211,824	R322,366	R412,156	R442,920	30%
			Median price	R130,000	R170,000	R235,000	R350,000	R445,000	R480,000	30%
			Indiv to indiv sales	72	73	67	67	54	25	
			Average price	R134,592	R177,664	R247,552	R330,866	R426,148	R442,920	27%
			Median price	R140,000	R185,000	R250,000	R350,000	R450,000	R480,000	28%
Tsakane (RDP)	Number of erf's 24996	Total sales	1190	761	643	604	435	330		
		Average price	R15,988	R26,301	R38,484	R91,237	R135,310	R150,699	57%	
		Median price	R8,000	R8,000	R15,000	R50,000	R121,380	R142,500	78%	
		Indiv to indiv sales	41	70	90	182	246	196		
		Average price	R39,680	R74,080	R94,116	R139,117	R163,809	R166,424	33%	
		Median price	R27,000	R65,000	R83,500	R140,000	R156,000	R160,000	43%	
KwaZulu Natal	Inanda (Private Sector – Middle Income)	Number of erf's 1973	Total sales	39	29	35	49	43	25	
			Average price	R31,784	R43,152	R43,553	R70,821	R84,924	R73,400	18%
			Median price	R20,000	R30,000	R31,929	R36,528	R36,528	R20,000	0%
			Indiv to indiv sales	22	21	32	41	37	23	
			Average price	R24,859	R41,800	R43,886	R72,844	R87,452	R73,913	2%
			Median price	R10,200	R25,800	R30,965	R36,528	R36,528	R20,000	-59%
	Lamontville (Old Township stock)	Number of erf's 1870	Total sales	16	20	14	19	17	36	
			Average price	R91,351	R91,810	R116,286	R135,295	R177,130	R98,629	24%
			Median price	R82,000	R100,000	R112,500	R150,000	R180,000	R963	25%
			Indiv to indiv sales	13	14	12	17	14	11	
			Average price	R94,509	R108,786	R124,583	R125,918	R193,500	R274,364	32%
			Median price	R88,000	R106,500	R150,000	R120,000	R185,000	R270,000	32%
	Ntuzuma (Informal Settlement)	Number of erf's 11894	Total sales	138	115	187	181	211	93	
			Average price	R38,297	R56,732	R52,889	R68,955	R77,723	R153,246	28%
			Median price	R32,550	R50,000	R38,000	R50,000	R34,049	R130,000	25%
			Indiv to indiv sales	61	71	81	114	96	77	
			Average price	R48,229	R64,979	R92,933	R88,593	R138,897	R162,636	28%
			Median price	R45,000	R63,000	R89,000	R80,000	R120,000	R140,000	25%
	Westrich (RDP)	Number of erf's 2232	Total sales	73	67	62	44	50	34	
			Average price	R24,337	R29,540	R57,712	R87,041	R135,607	R138,457	42%
			Median price	R19,220	R15,105	R28,900	R36,528	R41,000	R40,000	16%
			Indiv to indiv sales	18	27	34	42	46	33	
			Average price	R44,866	R46,358	R87,913	R88,445	R135,549	R141,623	26%
			Median price	R25,290	R25,800	R77,750	R36,528	R40,000	R40,000	10%

Note: CAGR: Compound Annual Growth Rate

Western Cape			2003	2004	2005	2006	2007	2008	CAGR (2003-2008)
Delft South (RDP)	Number of erf's 7552	Total sales	72	160	74	108	126	113	
		Average price	R17,676	R15,204	R31,255	R42,518	R66,003	R75,638	34%
		Median price	R15,000	R10,175	R25,000	R35,000	R36,528	R45,000	25%
		Indiv to indiv sales	62	52	61	100	114	99	
		Average price	R17,143	R25,233	R33,972	R42,993	R59,780	R77,471	35%
		Median price	R15,000	R20,000	R25,000	R35,000	R37,000	R45,000	25%
Langa (Old Township Stock and Private Sector - Upper Income)	Number of erf's 2654	Total sales	99	154	81	33	44	34	
		Average price	R48,506	R47,520	R74,354	R197,636	R211,656	R221,250	35%
		Median price	R32,500	R35,340	R42,180	R235,000	R215,000	R194,250	43%
		Indiv to indiv sales	23	18	19	26	40	23	
		Average price	R94,283	R100,233	R132,000	R214,885	R225,671	R247,087	21%
		Median price	R80,000	R92,500	R120,000	R245,000	R245,000	R280,000	28%

Note: CAGR: Compound Annual Growth Rate * For total sales, Finetown has one transaction in 2008 only and is excluded from this analysis.
* Number of erf's: residential and clean

QUESTION: What is a useful benchmark in terms of churn within a housing market? The recent housing bubble might indicate that churn is too high in traditional suburban markets. What are the underlying drivers of churn in traditional markets (new job, lifecycle events, acquisitiveness and rising incomes) and how do they apply in the lives of the poor? What are the experiences in poor areas in other countries where historical factors and cultures differ?

QUESTION: What impact does the delivery of subsidized housing have on the affordability of housing? On the one hand the subsidy market has an impact on newly built 'affordable' housing through cross subsidies and other distortions. On the other, churn within subsidised stock should impact on the affordable re-sale market, particularly as the time period associated with pre-emptive clauses limited sales activities draws to a close?

recorded in the deeds records. In addition data is summarized for transactions between individuals only. This excludes transactions involving government, banks, corporate entities and traders⁹. In some areas, volumes and average and median prices for this restricted¹⁰ but arguably more market-driven set of transactions differ markedly when compared with all transactions in that area. For instance in 2005 in Ntuzuma in KZN the deeds office records a total of 187 transactions with an associated average price of R52,889.

Of these transactions 81 were between individuals with an average price of R92,233. Average prices for sales between individuals increased noticeably between 2003 and 2007 in all but one area¹² and through to 2008 for most of the areas under review. Assuming that housing is a leverage-able, financial asset this has obvious implications for wealth levels of households that are fortunate enough to own properties in these areas. Interestingly enough there does not

appear to be a significant increase in the number of individual to individual transactions although these transactions have become the dominant form of transaction in most of the areas summarized above.

It is worth noting that prices vary significantly across areas highlighting the importance of developing a more nuanced segmentation of township areas. In the Western Cape for instance, prices in Langa, a particularly well-located established township, differ noticeably from prices in Delft, a newly established area further away from the urban centre consisting predominantly of subsidised housing.

Data on prices together with prevailing interest rates can be used to assess affordability. The 2005/6 Income and Expenditure Survey¹⁴ ("IES") has been used to estimate the percentage of urban-based households in each province that could afford to purchase houses at prevailing prices and interest rates. Holding real incomes constant¹⁵ we can assess how this has changed between 2003 and 2008 for each of the provinces under review¹⁶.

12. This is the case in Kathlehong where there were very few transactions.

13. The data is weighted to April 2006

14. The survey contains the most detailed and accurate data on incomes of all nationally representative surveys. However, it is only conducted every five years. It has therefore been assumed that real incomes remain constant in the intervening years

15. It is assumed that households obtain a 20 year bond for 100% of the purchase price at prime rate plus 2. The weighted average prime rate has been used for each year

16. Using individual to individual transactions only

	2003	2004	2005	2006	2007	2008	
Gauteng	Diepkloof Ext	44%	47%	39%	32%	25%	25%
	Dube	47%	45%	43%	34%	26%	20%
	Kathlehong Phooko	37%	74%	64%	72%	36%	46%
	Protea North	30%	30%	25%	19%	13%	12%
	Tsakane	71%	56%	42%	33%	26%	32%
KwaZulu Natal	Inanda	84%	75%	76%	55%	44%	51%
	Lamontville	34%	37%	35%	35%	23%	16%
	Ntuzuma	58%	56%	44%	46%	30%	27%
	Westrich	61%	70%	46%	46%	31%	29%
Western Cape	Delft South	96%	94%	91%	86%	60%	65%
	Langa	47%	54%	46%	32%	20%	27%

Percentage of urban households in a province that can afford to buy the average house on the re-sale market based on the IES

According to the analysis in 2003 44% of urban households in Gauteng could have afforded to purchase a house at the average price for an individual to individual transaction in Diepkloof Extension. In 2008 this had dropped to 25%. Likewise in Ntuzuma 58% of urban households in KZN could have afforded the average house while the corresponding percentage in 2008 was 27%.

The assumption that real incomes have remained unchanged is critical to the analysis - house price increases could reflect an increase in real incomes. Because the IES is conducted intermittently, an analysis on data from the ("AMPS") has therefore been undertaken as a cross-check. This survey contains data on household income albeit in bands for each year. That data also indicates declining affordability – both in terms of the percentage of households that could afford the average house in townships under review as well as in the number of households indicating that re-sale market house price growth has outstripped income growth.

A further analysis incorporates inferred housing need using IES data on housing conditions. Households in shacks and backyard dwellings as well as those in overcrowded formal dwellings or formal dwellings without sanitation¹⁷ are assumed to have a need for housing. The table below summarises subsidy eligibility and re-sale market affordability for two categories of households; those that live in adequate housing conditions and do not appear to have a housing need and those that live in inadequate housing using the average house price in what appears to be the most affordable areas of those we have analysed in each province¹⁸.

		2004		2006		2008	
Gauteng Adequate= 1,932,184 Inadequate= 918,255	Avg house price*	R74 080		R139 117		R166 424	
	Min income required to afford loan for house	R2 912		R5 428		R8 075	
	Qualify for a subsidy (<R3500)	Adequate 39%	Inadequate 80%	Adequate 36%	Inadequate 77%	Adequate 31%	Inadequate 68%
	No subsidy, cannot afford	n/a	n/a	13%	14%	25%	27%
	No subsidy, can afford	61%	20%	51%	9%	44%	5%
KwaZulu Natal Adequate= 805,297 Inadequate= 474,948	Avg house price*	R64 979		R88 593		R162 636	
	Min income required to afford loan for house	R2 554		R3 457		R7 891	
	Qualify for a subsidy (<R3500)	Adequate 46%	Inadequate 79%	Adequate 42%	Inadequate 77%	Adequate 36%	Inadequate 69%
	No subsidy, cannot afford	n/a	n/a	n/a	n/a	27%	23%
	No subsidy, can afford	54%	21%	58%	23%	37%	8%
Western Cape Adequate= 897,787 Inadequate= 291,542	Avg house price*	R25 233		R42 933		R77 471	
	Min income required to afford loan for house	R992		R1678		R3 759	
	Qualify for a subsidy (<R3500)	Adequate 34%	Inadequate 69%	Adequate 32%	Inadequate 68%	Adequate 26%	Inadequate 61%
	No subsidy, cannot afford	n/a	n/a	n/a	n/a	1%	2%
	No subsidy, can afford	66%	31%	68%	32%	73%	37%

* Note: The areas used for provinces are as follows: Gauteng – Tsakane; KwaZulu Natal – Ntuzuma; Western Cape – Delft South

Housing need and housing affordability: 2004 - 2008

17. No flush toilet in the dwelling or on site, based on the IES

18. This analysis is based on a handful of suburbs only. These are not necessarily the most affordable areas in each province and it is by no means the case the housing in Gauteng in general is more expensive than housing in the Western Cape.

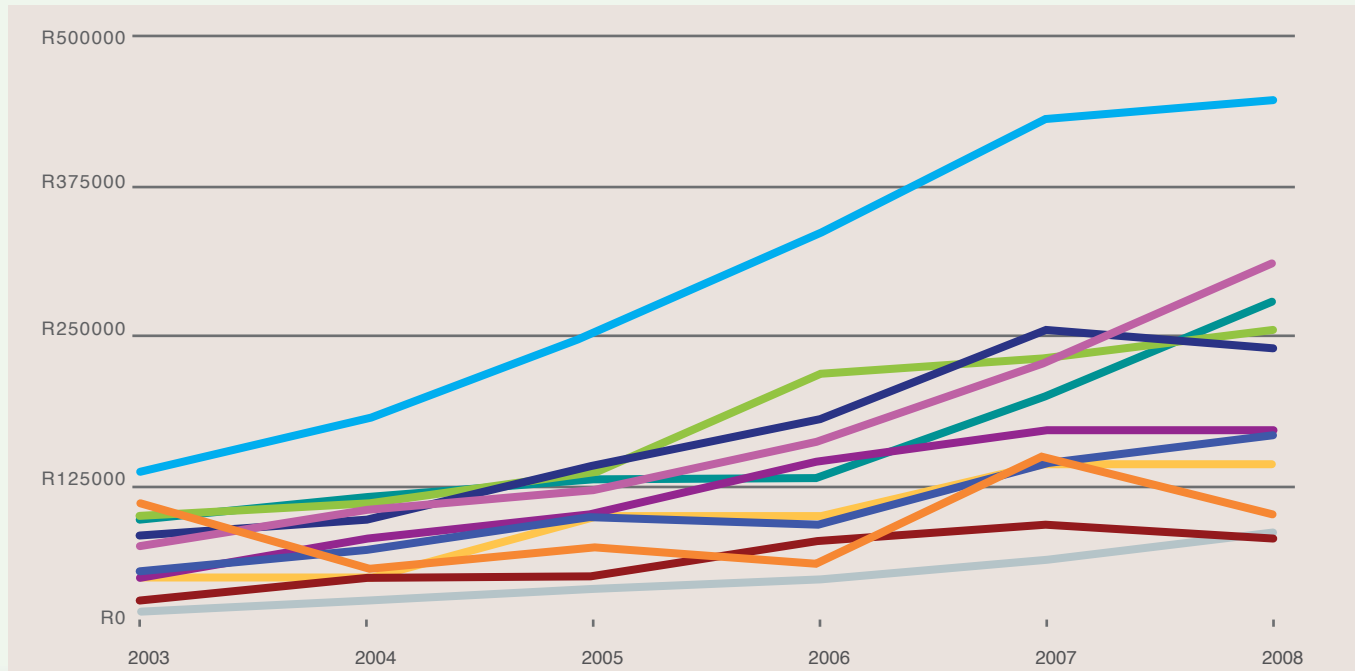
In Gauteng for instance, the minimum monthly income required to afford the average house in the most affordable area under review (Tsakane) in 2008 was around R8,000.

Approximately 44% of households in the province who live in adequate housing would have been able to afford such a house while 25% would have been unable to afford the house. The balance of households (31%) have incomes below the subsidy threshold and so might qualify for a subsidized house. In 2004 all households that did not qualify for a subsidy would have been able to afford to purchase a house. Within the segment of the market that appears to live in inadequate housing, just 5% could have afforded a house in 2008. While 68% of households in that sub-segment earn below R3,500 and so might qualify for a subsidized house, 27% earn above the subsidy threshold, but at the same time cannot afford to purchase a house.

While house price growth even in poorer urban areas has far outstripped inflation and growth in real incomes, the subsidy target market threshold of R3,500 has remained constant. The affordability gap is therefore widening on both ends – at the bottom because of a static subsidy threshold and at the top because of significant house price growth. Affordability constraints have therefore become more and more pronounced with fewer households being able to afford a house as prices rise.

The analysis also highlights critical nuances that require further exploration. These include the availability of RDP stock on the resale market and the impact of RDP stock on affordability, the gap between informal market and formal market prices and the impact of bank repossessions on low income property markets. We look forward to exploring these issues in the future.

Growth in property prices across nine township neighbourhoods



- Diepkloof Ext, Gauteng
- Dube, Gauteng
- Katlehong, Gauteng
- Protea North, Gauteng
- Tsakane, Gauteng
- Inanda, KZN
- Lamontville, KZN
- Ntuzuma, KZN
- Westrich, KZN
- Delft South, WC
- Langa, WC

Average price of individual-to-individual sale transactions per year



Affordable Land and Housing Data Centre
 c/o FinMark Trust and Urban LandMark
www.finmark.org.za
www.urbanlandmark.org.za

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