

# Analysis of South Africa's Housing Sector Performance

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**FINMARK TRUST**

MAKING FINANCIAL MARKETS WORK FOR THE POOR

*The new human settlements plan reinforces the vision of the Department of Housing, to promote the achievement of a non-racial, integrated society through the development of sustainable human settlements and quality housing.. Within this broader vision, the Department is committed to meeting the following specific objectives:*

- **Accelerating the delivery of housing** as a key strategy for poverty alleviation
- Utilising provision of housing as a major **job creation** strategy
- Ensuring property can be accessed by all as an **asset for wealth creation** and empowerment
- **Leveraging growth** in the economy
- Combating crime, promoting social cohesion and **improving quality of life** for the poor
- Supporting the **functioning of the entire single residential property market** to reduce duality within the sector by breaking the barriers between the first economy residential property boom and the second economy slump.
- Utilizing housing as an instrument for the development of **sustainable human settlements**, in support of **spatial restructuring**.

**A New Housing Vision**, from *Breaking New Ground: A comprehensive plan for the development of sustainable human settlements*. September 2004

- ❑ **Background:** policy and market responses to South Africa's housing market
- ❑ **Housing pressures:** analysis of demand
- ❑ **Residential opportunities:** overview of housing and finance supply
- ❑ **South Africa's housing outcome:** consequences of the demand / supply dynamic
- ❑ **Conclusions**

# Background: 1994 housing challenge

- Huge housing backlog - estimated at 3 million households
- 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

← Subsidy eligible population

- Duplicated and poorly targeted subsidies
- 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
- Mono-use residential dormitories
- Economically and racially segregated areas

## Socio-political and environmental issues

- High expectations
- Lack of consumer protection
- Poor consumer education
- Low levels of household expenditure dedicated to housing (est. 9% - Mayo)
- Limited perceptions of housing: especially as an investment
- Non-payment
- Crime and violence
- Other issues, such as traditional tenure

## Stabilising the housing environment

- Based on the Record of Understanding and New Deal agreed to between the government and the formal banking sector
- Focused on political risk
- Established:
  - **Masakhane Campaign**
  - **Mortgage Indemnity Fund**
  - **Servcon & Thubelisha Homes**
  - **NHBRC**
- Goals:
  - Resumption of lending by the banks: est. 100 000 loans per year
  - Normalized environment in which clients pay for services received

## Mobilising credit

- Focused on commercial risk
- Involves various risk sharing initiatives
- Established:
  - **NHFC and later RHLF**
  - **Nurcha**
  - **SHF**
- Goals:
  - Increased number of financial intermediaries to provide credit to low income households
  - Formal banks to come back 'down market'

## Housing subsidies

- Focused on affordability
- Established:
  - **Project-linked (Individual)**
  - **Rental (institutional)**
  - **Self-build (PHP)**
- Goals:
  - 1 million in 5 years
  - Linkage with credit to enhance affordability and improve quality (size) of housing product

# Background: 2004 Financial Sector Charter



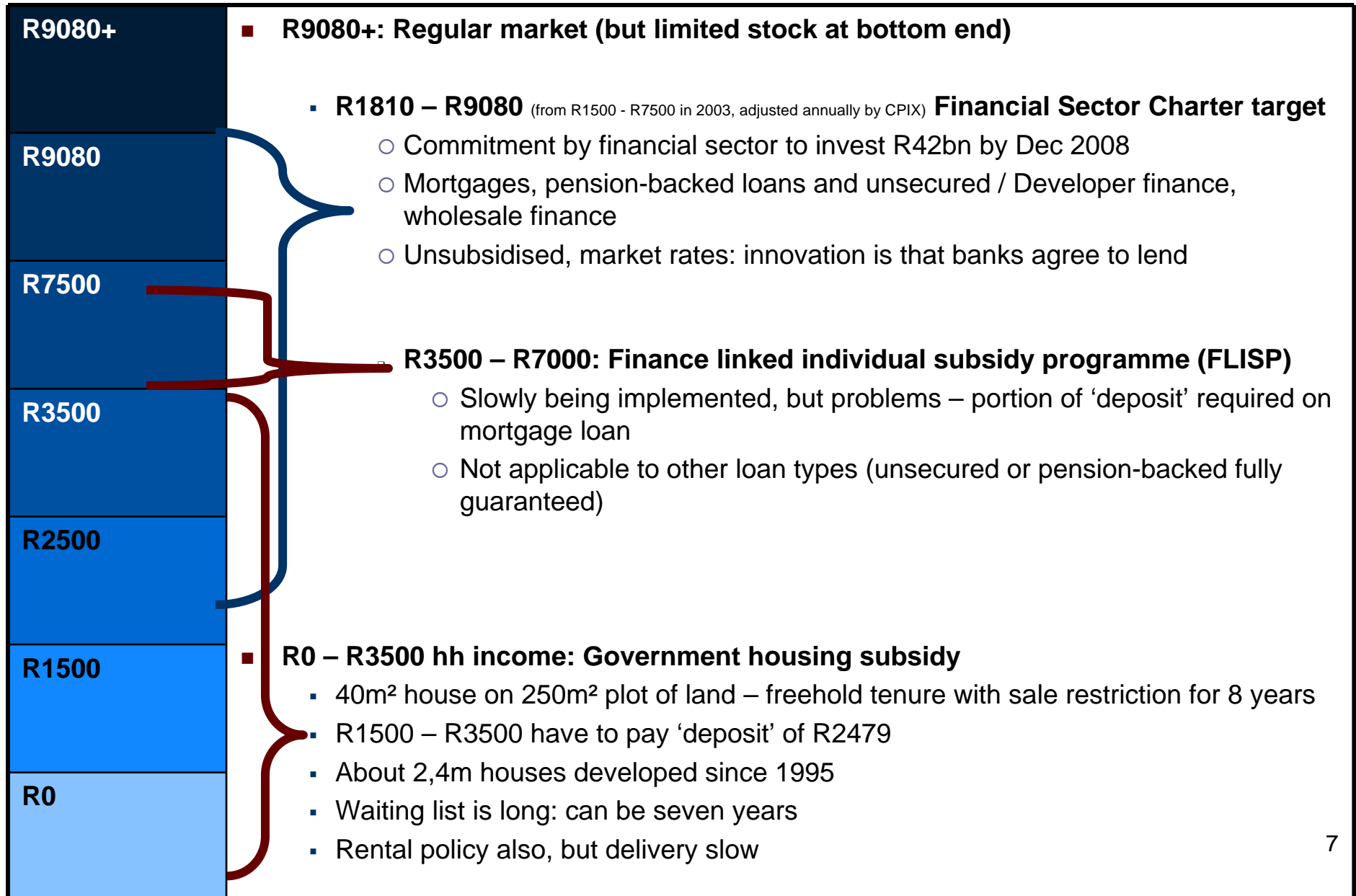
“The Financial Sector Charter will add a deep social dimension to the functioning of our financial system. It goes to the core of how the financial sector will address the urgent need to make business sense of a more sustainable, inclusive and equitable future.

..... At the same time, measures designed to achieve our empowerment & transformational goals must be implemented in such a way that they do not jeopardise ongoing financial stability”

(Extract from the Trevor Manuel presentation to Financial Sector Campaign Coalition 2005)

- First phase:
  - 1 January 2004 - 31 December 2008
- Housing targets:
  - R42bn for origination (R40bn for big 4 banks)
  - R32bn for targeted investment (R30bn for big 4)
- Target market: R1500 - R7500 hh income (adjusted annually by CPIX)
  - Estimated 4m households
  - Banks estimate that about 800 000 - 1.1m qualify for credit
- Products: mortgage / secured / unsecured / wholesale / development
  - Banks estimated about 250 000 new loans for housing; 400 000 loans for home improvements

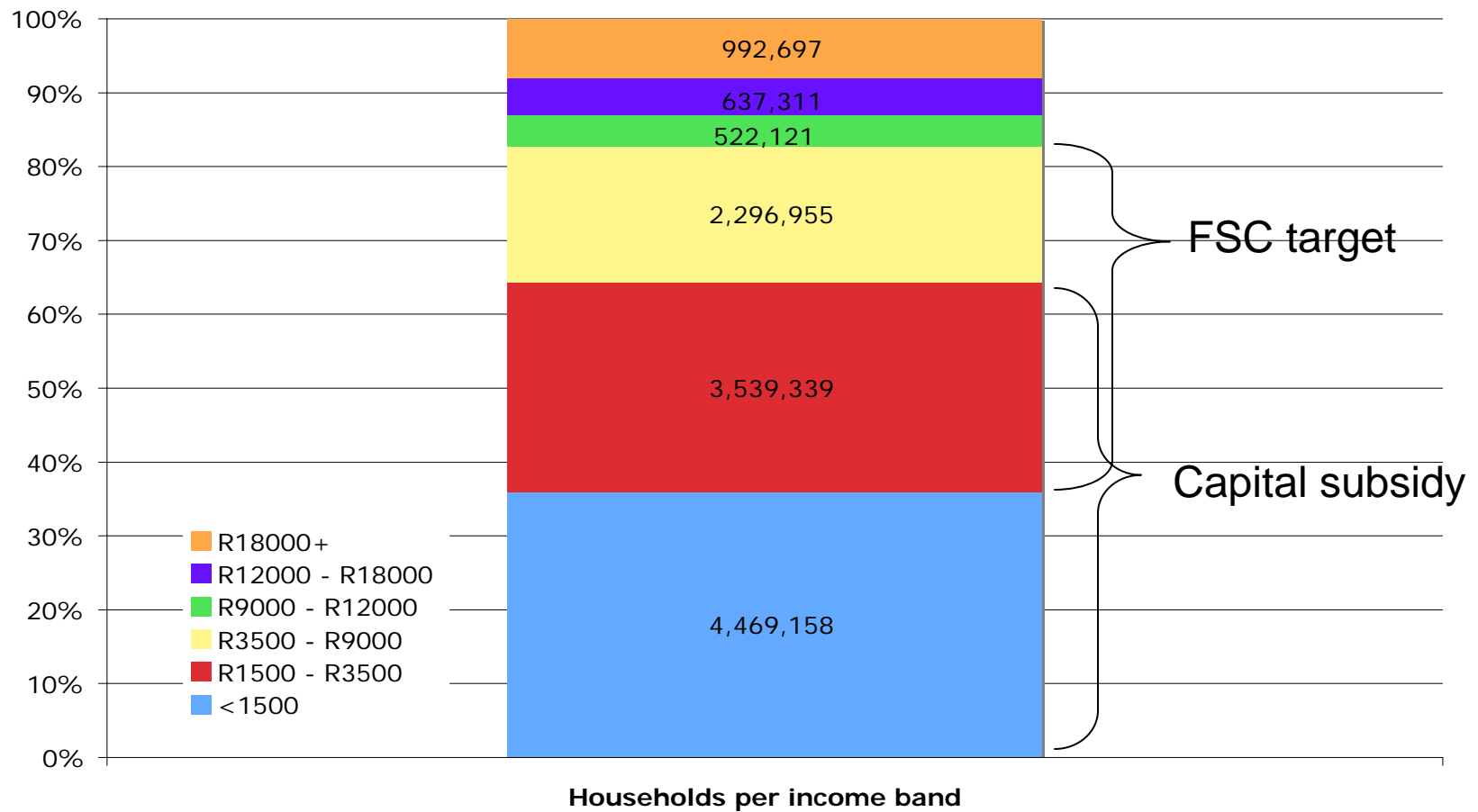
# Background: current finance framework



# Housing pressures

Analysis of demand

# Demand: over 80% still require affordability support



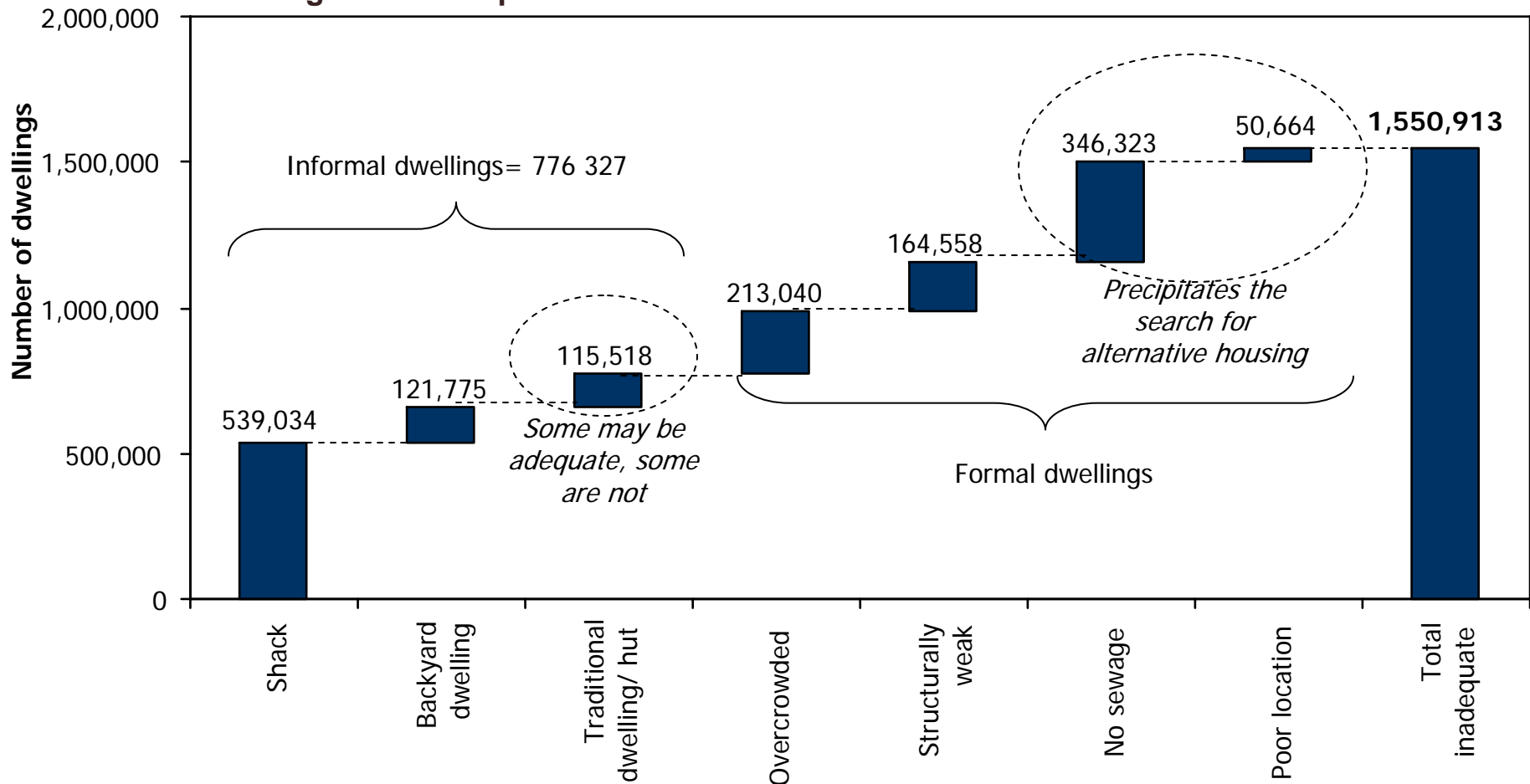
Source: Income and Expenditure Survey 2005/06

# Housing pressures: housing quality is poor

(Melzer, 2006)

**Within the FSC target market there are over half a million households in shacks. One million more dwellings are inadequate**

Source: Labour Force Survey September 2004. Note there is no double counting. Categories are mutually exclusive



# Background: Financial Sector Charter

Financial Sector Charter ("FSC") Employment Finance – Housing Perspective September 2008

Value of loans (2004 to 2008Q3) Big 4

Period	Mortgage	Fully Guaranteed	Unsecured	Residential Development	Wholesale and Social	Total
2004	7 262	1 013	338	88	658	9 359
2005	6 045	1 083	552	530	828	9 037
2006	6 319	1 181	216	954	1 016	9 686
2007	5 775	795	1 221	1 211	906	9 908
2008Q1	966	136	373	98	71	1 643
2008Q2	772	174	396	287	65	1 694
2008Q3	692	146	305	799	38	1 980
<b>Total</b>	<b>27 831</b>	<b>4 527</b>	<b>3 401</b>	<b>3 965</b>	<b>3 583</b>	<b>43 307</b>

1.

Number of loans Originated (2004 and 2008Q3)

Period	Mortgage	Fully Guaranteed	Unsecured	Residential Development	Wholesale	Total
2004	57 324	56 106	40 660	2	35 124	189 216
2005	53 159	58 787	51 720	39	45 974	209 679
2006	43 721	59 635	30 736	166	53 677	187 935
2007	55 287	38 212	94 265	88	33 023	220 875
2008Q1	9 235	3 438	26 783	35	1 234	40 725
2008Q2	6 855	6 355	29 878	27	2 321	45 436
2008Q3	6 030	5 515	22 522	16	3 766	37 849
<b>Total</b>	<b>231 611</b>	<b>228 048</b>	<b>296 564</b>	<b>373</b>	<b>175 118</b>	<b>931 714</b>

## Other banks that provide housing related loans

**Origination:** Information submitted by smaller banks indicates that about R9 billion worth of loans have been originated since 2004. Taking the smaller banks' origination into account, total origination has now reached a level of about R52 billion, which is R10 billion more than the FSC target of R42 billion. Origination is now expected to reach a level of about R55 billion at the end of December 2008.

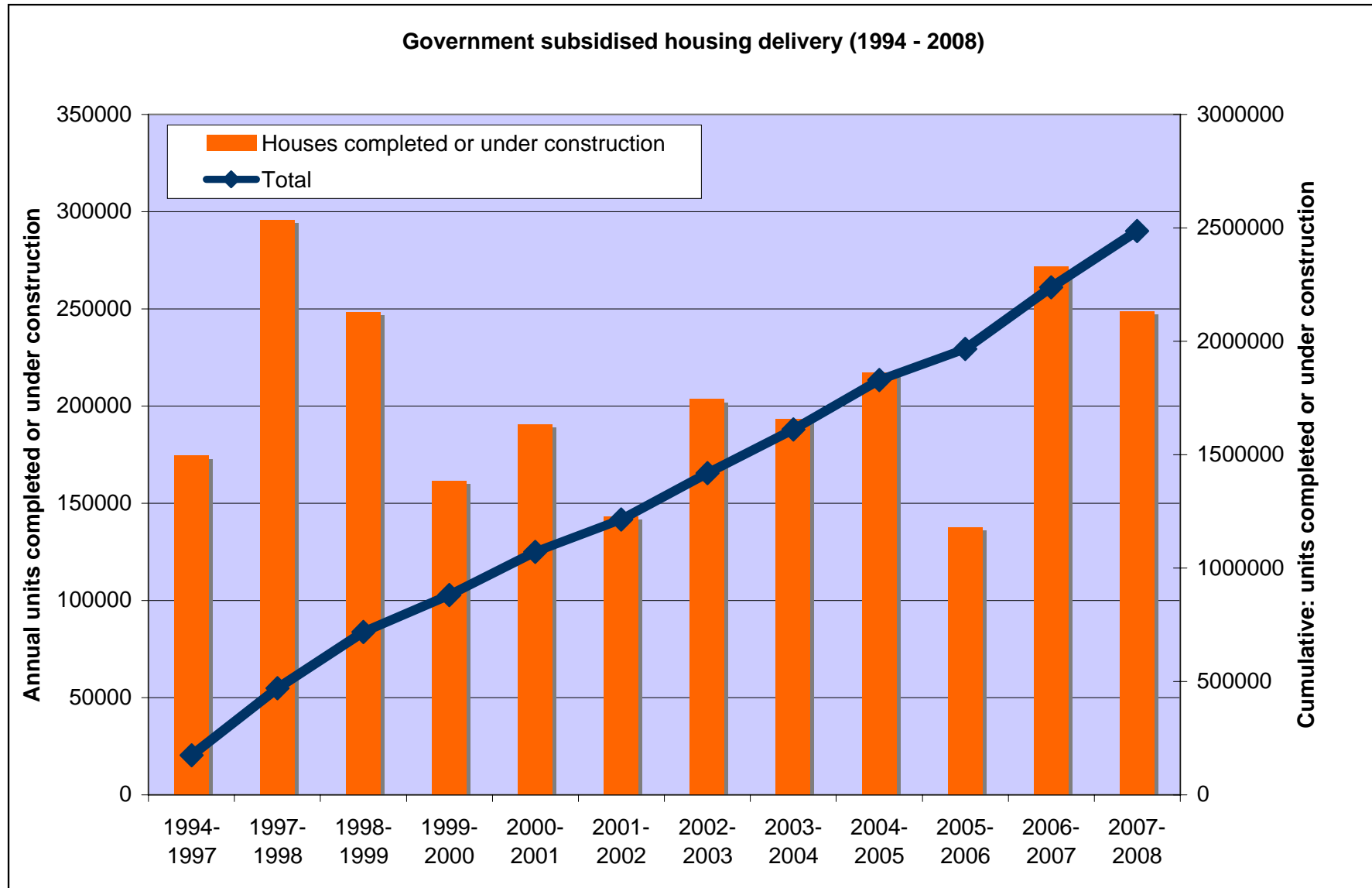
**Targeted investment:** By the end of the third quarter of 2008, targeted investment by the four originating banks amounted to R29,7 billion. The four originating banks appear to be much closer to achieving their R30 billion target set for the end of December 2008. Smaller banks have not provided their targeted investment figures. We estimate that the targeted investment for the smaller banks could have been around R1 billion at the end of September 2008.

# Residential opportunities

Analysis of supply

# Supply

Subsidised delivery insufficient - backlog remains



# Supply insufficient and not growing

## Residential plans passed and buildings completed: 2008



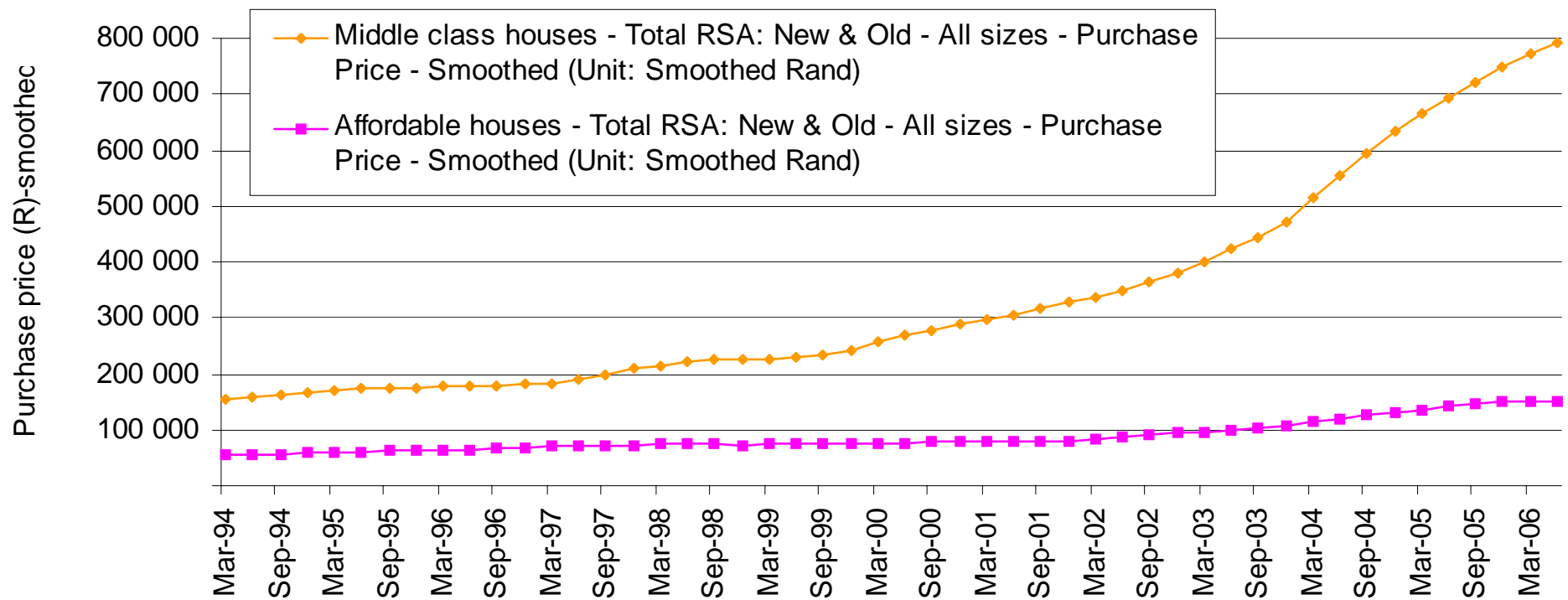
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# Affordability weakening

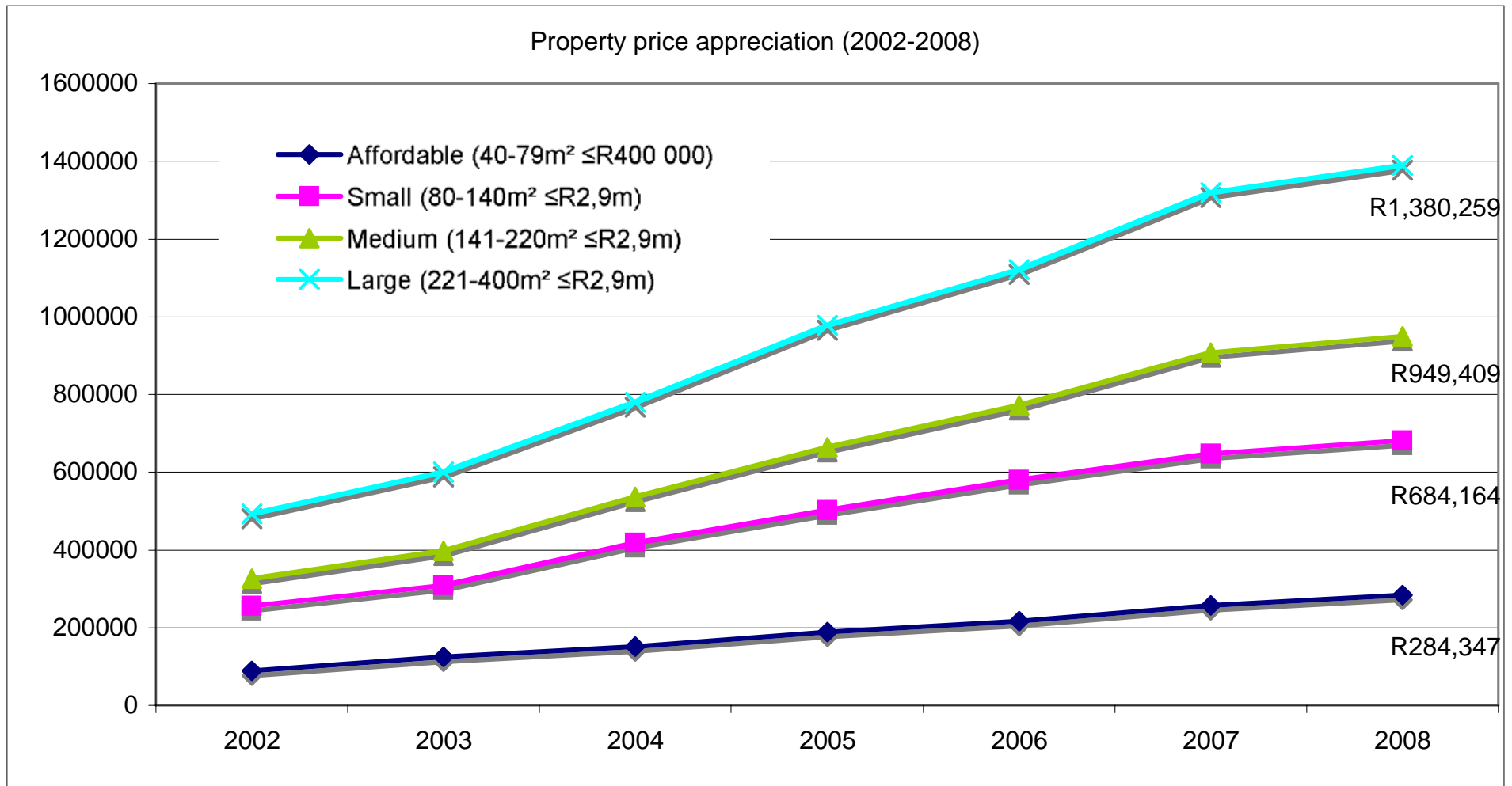
Housing prices escalating rapidly, creating gaps

(historical data)



# House prices leveling after rapid rise

Interest rate / new demand / credit crunch



**Assumptions/input:**

Prime interest rate	15.50%
FSC market i	16.50%
Regular market i	15.50%
Maximum loan term	20
Premium/HH Income ratio	30%

Note: this table calculates loan affordability without a deposit (i.e. 100% LTV)



HH Monthly Income	Annual interest rate	Monthly premium	Present value (loan amount)	
±7% earn more than R18 000	R 18,000	15.50%	5400	R 398,853
	R 17,500	15.50%	5250	R 387,774
	R 17,000	15.50%	5100	R 376,695
	R 16,500	15.50%	4950	R 365,616
	R 16,000	15.50%	4800	R 354,536
±6%	R 15,500	15.50%	4650	R 343,457
	R 15,000	15.50%	4500	R 332,378
	R 14,500	15.50%	4350	R 321,299
	R 14,000	15.50%	4200	R 310,219
	R 13,500	15.50%	4050	R 299,140
	R 13,000	15.50%	3900	R 288,061
	R 12,500	15.50%	3750	R 276,982
±5%	R 12,000	15.50%	3600	R 265,902
	R 11,500	15.50%	3450	R 254,823
	R 11,000	15.50%	3300	R 243,744
	R 10,500	15.50%	3150	R 232,665
	R 10,000	15.50%	3000	R 221,585
±17%	R 9,500	15.50%	2850	R 210,506
	R 9,000	15.50%	2700	R 199,427
	R 8,500	15.50%	2550	R 188,347
	R 8,000	15.50%	2400	R 177,268
	R 7,500	15.50%	2250	R 166,189
	R 7,000	16.50%	2100	R 146,966
	R 6,500	16.50%	1950	R 136,469
	R 6,000	16.50%	1800	R 125,971
	R 5,500	16.50%	1650	R 115,473
	R 5,000	16.50%	1500	R 104,976
±29%	R 4,500	16.50%	1350	R 94,478
	R 4,000	16.50%	1200	R 83,981
	R 3,500	16.50%	1050	R 73,483
	R 3,000	16.50%	900	R 62,985
	R 2,500	16.50%	750	R 52,488
±36%	R 2,000	16.50%	600	R 41,990
	R 1,500	16.50%	450	R 0
	R 1,000	16.50%	300	R 0
	R 500	16.50%	150	R 0
	R 1	16.50%	0.3	R 0

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▪Price: R320 000

- Savings required (90% LTV) = R32 000
- Mortgage required = R288 000
- @ 15.5%, instalment = R3900
- Required HH monthly income = R13000

▪Price: 350 000

- Savings required (90% LTV) = R35 000
- Mortgage required = R315 000
- @15.5%, instalment = R4250
- Required HH monthly income = R15 000

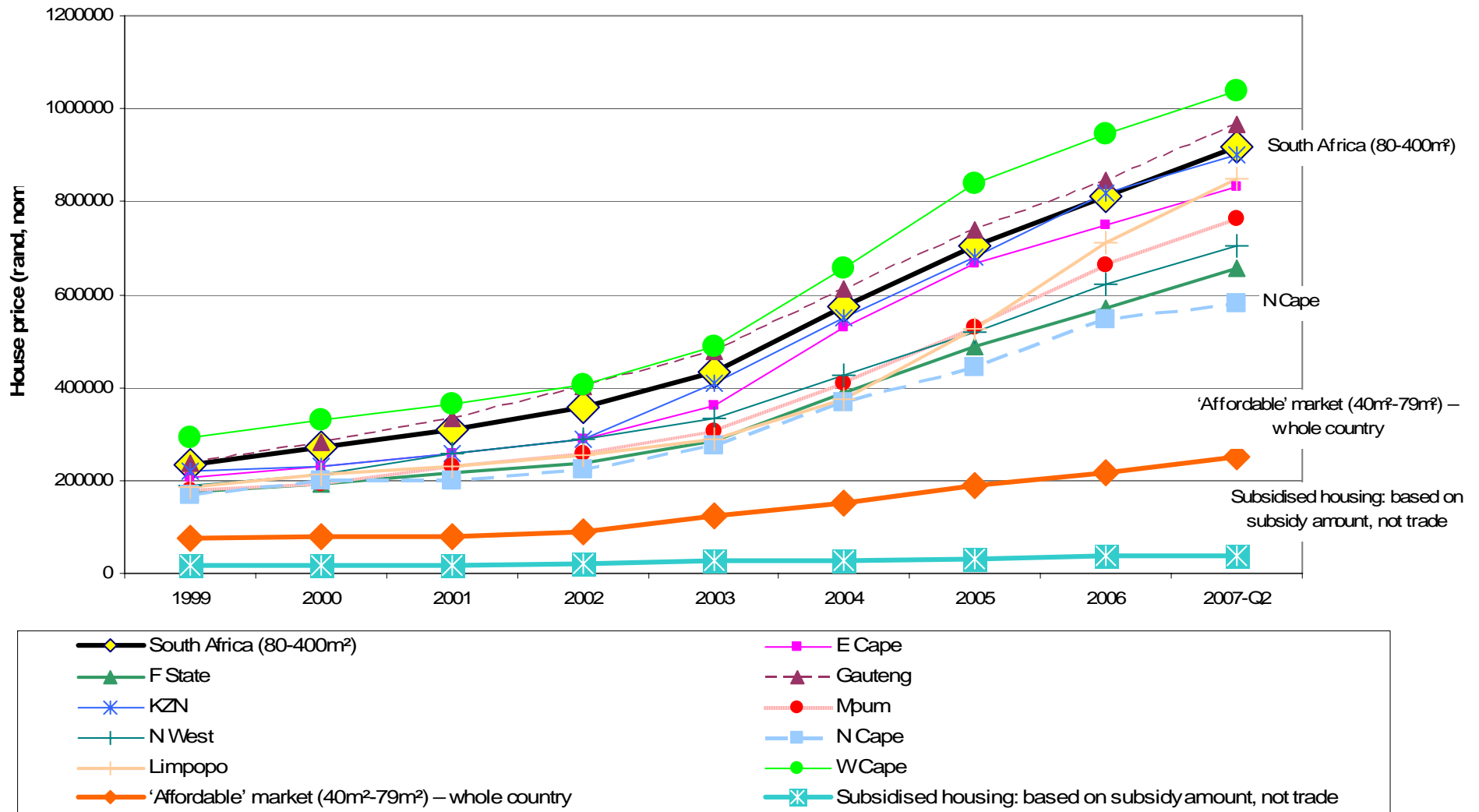
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# Residential opportunities

Gaps are spatially defined by province



# Affordability weakening

## A search for the cheapest properties...



**For Sale**  
**43,200**  
**TSAKANE EXT 15**  
BRAKPAN  
Gauteng

### House

Bedrooms: 1.0 Bathrooms: 1.0 Garages: 0  
Building Size: Stand Size: ± 260 m²

Ref # MP147200  
Realnet Brakpan  
Maphepha Nkosi



**For Sale**  
**70,000**  
**TSAKANE EXT 16**  
BRAKPAN  
Gauteng



**For Sale**  
**70,000**  
**PETRUS STEYN**  
PETRUS STEYN  
Freestate

### House

Bedrooms: 3.0 Bathrooms: 1.0 Garages: 1  
Building Size: Stand Size:  
**EXCELLENT OPPORTUNITY WAITING FOR YOU!!**  
**!!! This Is A Great Opportunity If You Want To Start Thinking A...**

Maphepha Nkosi

details



**For Sale**  
**164,000**  
**VENTERSBURG**  
VENTERSBURG  
Freestate



**For Sale**  
**180,000**  
**KWANOBUHLE**  
UITENHAGE  
Eastern Cape

### House

Bedrooms: 3.0 Bathrooms: 0.0 Garages: 0  
Building Size: Stand Size:  
**Needs some TLC, turn into your own dream home.**  
**Make an offer...**



**For Sale**  
**175,000**  
**NAMAKGALE**  
PHALABORWA  
Limpopo



**For Sale**  
**180,000**  
**TESSELAARSDAL**  
CALEDON  
Western Cape

### House

Bedrooms: 0.0 Bathrooms: 0.0 Garages: 0  
Building Size: Stand Size: ± 1074 m²  
**INVESTMENT - PLOT IN THE MAIN ROAD OF TESSELAARSDAL WITH VERY OLD COTTAGE ON. BE THERE WHEN THIS TOWN BOOMS!!!!...**

Dining room, kitchen....

details



**For Sale**  
**175,000**  
**TSAKANE EXT 11**  
BRAKPAN  
Gauteng

### House

Bedrooms: 3.0 Bathrooms: 1.0  
Building Size: Stand Size: ± 300 m²

**For Sale**  
**170,000**  
**HILLBROW**  
JOHANNESBURG  
Gauteng

### Flat

Bedrooms: 2.0 Bathrooms: 1.0 Garages: 1  
Building Size: 93 Stand Size:  
**Well looked after 2 bedrooms, kitchen, lounge, dining area with wooden tiles and balcony, with 24 hour securit...**

type: Residential Property

country: South Africa (85900)

province: Gauteng (45615)

town: all towns

suburb: all suburbs

status: For Sale

price: any mini to R400,00

Sort: Low to High search

4593 residential properties found in this price range across SA

Mostly vacant land, some timeshare

to available



# Rental comparisons

## Cosmo City

- Rent (@30% rent to income)
  - R4500 rental = R13 500 hh income
  - R1400 = R4200 hh income
  - R1700 = R5100 hh income
  - R2000 = R6000 hh income
  - R3200 = R9600 hh income
  
- Mortgage affordability (20 years, 15.5% @ 30% i2i, no deposit)
  - R13 500 hh income = R299 140 mortgage
  - R4200 hh income = R90 000
  - R5100 hh income = R105 000
  - R6000 hh income = R125 971
  - R9600 hh income = R211 000

**simple search**

Residential Rentals  0 to

[property alerts](#) [search](#)


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**Categories:** [Residential Sales](#), [Commercial Sales](#), [Residential Developments](#), [Farms & Smallholdings](#), [Land](#), [Conveyancers](#), [Rentals](#), [House Share](#).

**Results:** 1 - 10 of 10

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**Cosmo City**



**Cosmo City, 3320 Greece Street** [CLICK TO VIEW](#)

Brand new unit in Cosmo City, never been lived in! ...

*2 bedrooms, 2 bathrooms house*

**Price: R 4,500**

**Cosmocity, 8304 Moldavia** [CLICK TO VIEW](#)

1 Bedroom available in a 3 bed house, fully walled, locked gates, adt alarm system, ample parking sp...

*3 bedrooms, 2 bathrooms house*

**Price: R 1,400**

**Cosmo City, 3568 Bulgaria** [CLICK TO VIEW](#)

2 bedroom house, lounge, kitchen, lounge, bathroom an separate toilet. Looking for a person to rent ...

*2 bedrooms, 1 bathrooms house*

**Price: R 1,700**

**LONE HILL, 209 Villefranche, SUNSET BOULEVARD** [CLICK TO VIEW](#)

Idea for single female or student ...

*1 bedrooms, 1 bathrooms simplex*

**Price: R 2,000**

**Cosmo City, 1009 Kentucky Crescent** [CLICK TO VIEW](#)

Good sized house with 3 bedrooms and 2 bathrooms. Close to transport routes in Fourways and Randburg....

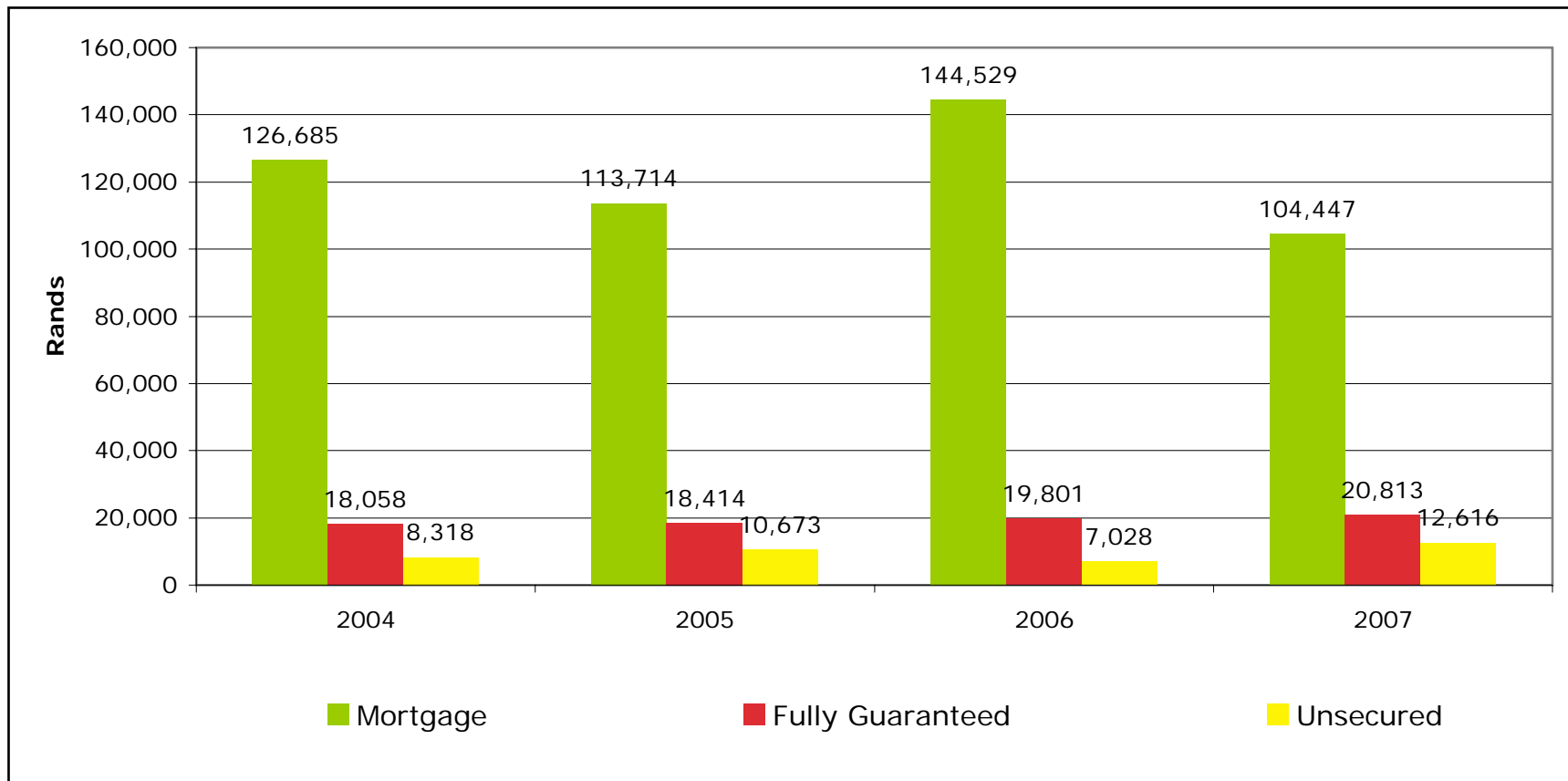
*3 bedrooms, 2 bathrooms house*

**Price: R 3,200**

# South Africa's housing outcome

Consequences of the  
demand/supply dynamic

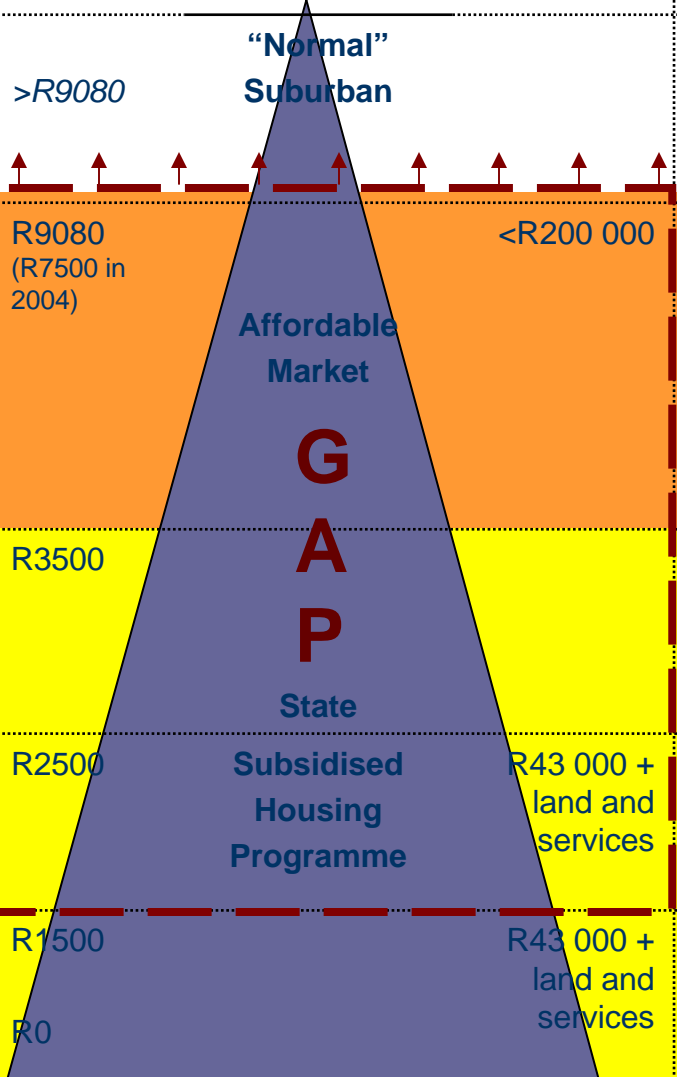
# Loan values indicate nature of investments: home improvements dominate



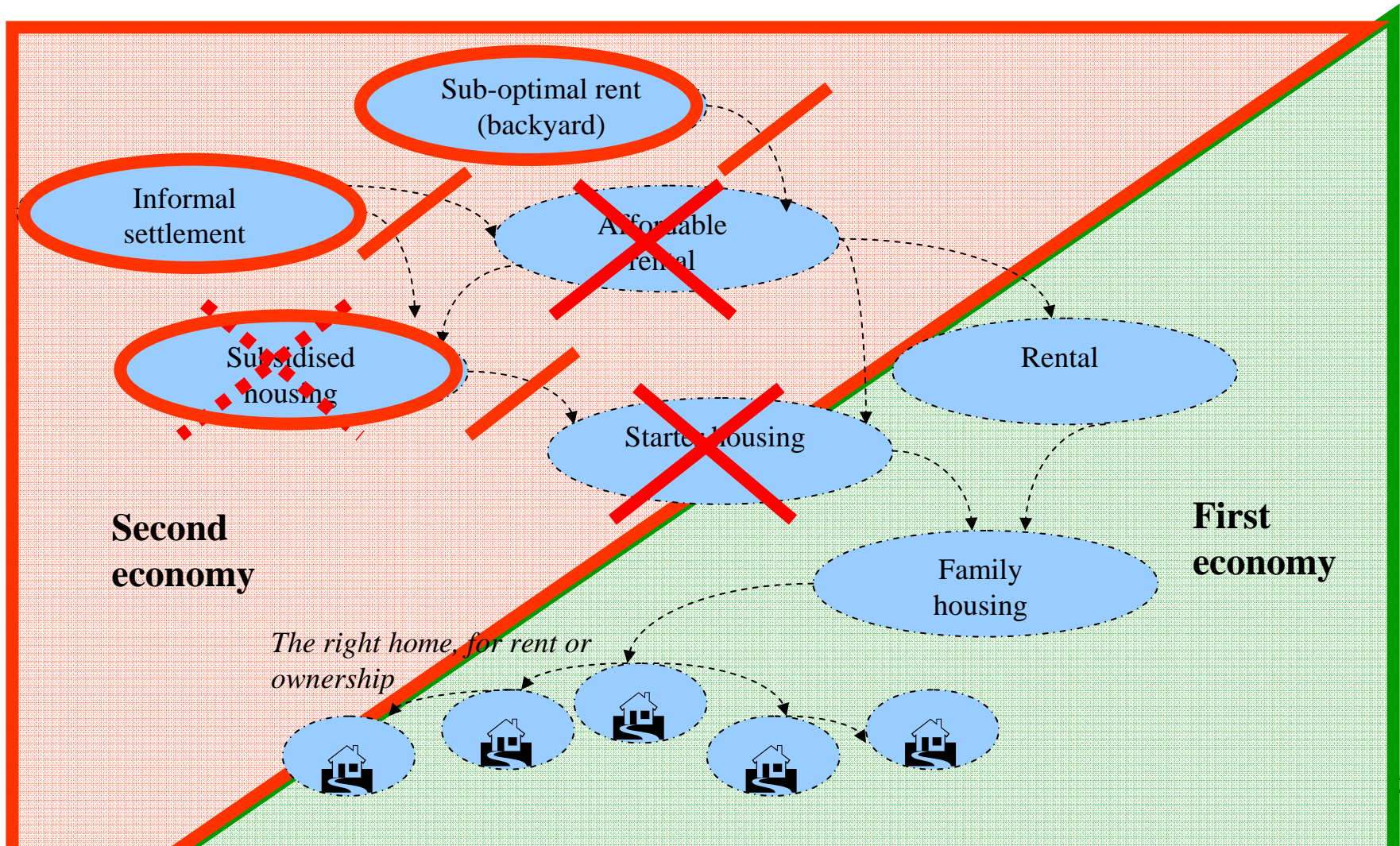
# Resale markets in the “affordable” segment still not functioning well

	<b>Informal</b>	<b>Incremental</b>	<b>Old Township</b>	<b>Privately Developed</b>	<b>Overall</b>
Sufficient supply of new stock	Poor / medium	Poor	Nil	Medium / poor	Poor
<b>Sufficient supply of finance</b>	<b>Nil</b>	<b>Low</b>	<b>Low</b>	<b>Good</b>	<b>Low</b>
Secure land property title	Nil	Delayed	Poor	Good	Poor
<b>Ease of transactions</b>	<b>Informal</b>	<b>Difficult</b>	<b>Poor</b>	<b>Good</b>	<b>Poor</b>
Many willing sellers & buyers	Medium	Thin	Thin	Thin	Thin
<b>Good information</b>	<b>Poor</b>	<b>Poor</b>	<b>Poor</b>	<b>Poor</b>	<b>Poor</b>
<b>Overall</b>	<b>Dysfunctional</b>	<b>Dysfunctional</b>	<b>Dysfunctional</b>	<b>Functioning poorly</b>	<b>Dysfunctional</b>

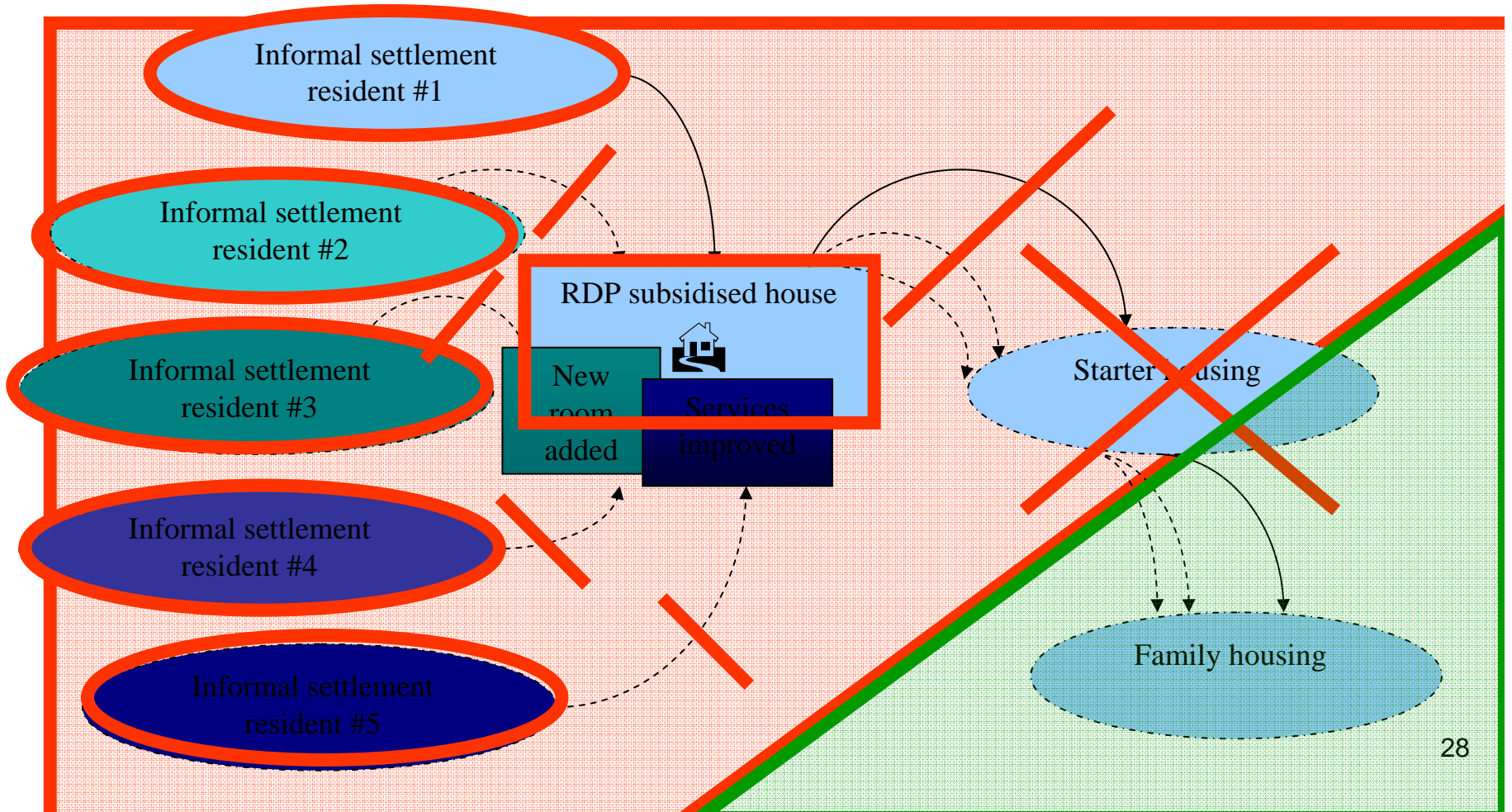
# GAP market does have affordability for finance but supply is poorly targeted

Income	House cost	% pop (IES 5/06)	Estimated backlog	Ownership	Rental	Loan affordability			
>R9080	"Normal" Suburban	17.3%	None specified	Focus of private sector delivery, rapid price escalation	Limited delivery @ high end FSC; none below	R199,427 (@15.5%)			
R9080 (R7500 in 2004)	<R200 000	18.4%	± 650 000 units <R200k and growing	Avg 20,000–30,000 units delivered per year, but becoming unaffordable, so downward raiding	Social housing stock: <75000 units total nationally				
 <p>The diagram shows a pyramid with 'GAP' in the center. The top section is 'Normal Suburban' (Income &gt;R9080, House cost &lt;R200,000, 17.3% pop). The middle section is 'Affordable Market' (Income R9080-R3500, House cost &lt;R200,000, 18.4% pop). The bottom section is 'State' (Income R3500-R1500, House cost R43,000+, 9.7% pop). The bottom-most section is 'Subsidised Housing Programme' (Income R1500-R0, House cost R43,000+, 35.9% pop). A bracket groups the 'Affordable Market' and 'State' sections, with a note 'About 2-3 million remaining'.</p>									
R3500		9.7%	About 2-3 million remaining	± 2,5m subsidised units delivered to date	Some private sector rental: inner city & backyard	R73,483 (@16.5%) or PBL			
R2500	R43 000 + land and services	18.7%					245 000 subsidised houses reported in 2007/08 year	Backyard rental; informal settlements; overcrowding	R52,488 (@16.5%) or PBL
R1500	R43 000 + land and services	35.9%							
R0									

# South Africa's housing outcome: Broken pools & flows



# South Africa's housing outcome: lost opportunity for filtering



# Conclusion

- Although over 200 000 mortgages were extended through the FSC, at most 100 000 new houses were built: mortgages do not necessarily equal new housing
  
- Insufficient housing supply and more people demanding housing has flamed inflation
  
- Supply is urgently needed
  - Gap market: affordable new housing
  - Resale market: upgraded subsidy housing & old township stock
  - Rental market: backyard accommodation & small scale landlords integrated in freehold areas

[www.finmark.org.za](http://www.finmark.org.za)

click on “themes”, then on “housing finance”



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decompressor  
are needed to see this picture.

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