Trends in RDP and related markets
1994 - present

Urban LandMark Conference: 28-29 October 2009

Opportunities in a Failing Market: What's been happening at the low end of the urban land market?

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28 October 2009

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Affordable Land & Housing Data Centre

Outline

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- Background to the al+hdc
- The question: performance in RDP markets
- Methodology
    - Market definitions
- Findings
    - Market sizes
    - Primary transfer analysis
    - Resale analysis
    - Sales in execution
    - Impact on surrounding markets
- Conclusions

Background

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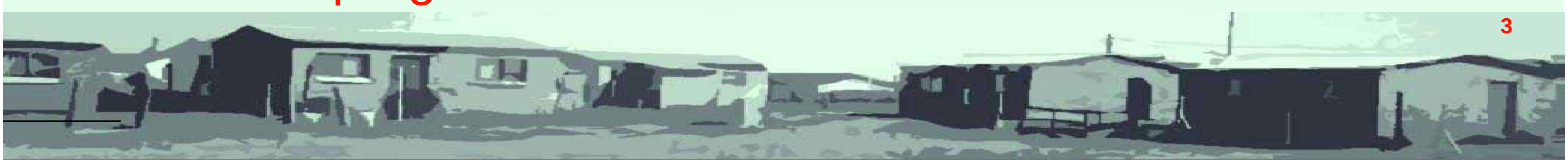
- Partnership initiative:

FinMark Trust — Urban LandMark — EIGHTY20 — Lightstone

- A data driven resource focusing on property performance (residential and non-residential) at the bottom end of the market
- Bringing together deeds office data with survey data to better understand property dynamics
- A work in progress



The question:
performance in RDP markets

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- "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, p... social cohesion and improving quality of life for the poor
  - Supportin... ...ire **single residential property market** to reduc... ...breaking the barriers between the first economy ... ...d the second economy slump.
  - Utilizing h... ...the development of sustainable human settlements, ...tructuring." (Breaking New Ground)

But: how to identify RDP properties on deeds registry?

Methodology

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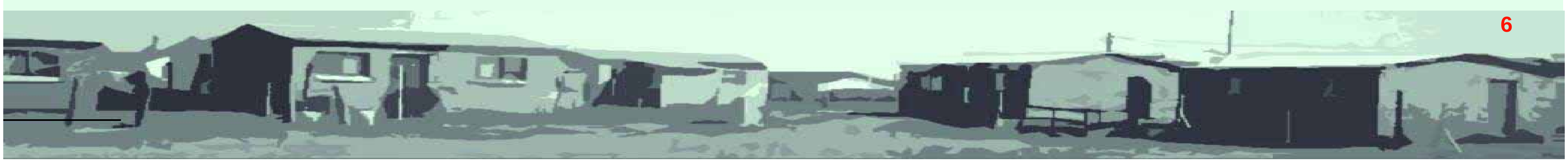
- 99-year lease conversion = Discount Benefit Scheme
  - Located in former black township areas
  - Transferred to an individual since

- RDP/BNG market
  - Property located in an 'affordable', 'mid range' or 'township' area
  - Freehold stand: 60-400/500m2
  - Transferred to a private individual
  - Primary transfer:
    - after 1 Jan '04
    - Seller was gov't or developer
  - First owner had never owned property before

Data analysis by Lightstone

Methodology

- Identify government-subsidised units
- Track asset growth through re-sales
  - Are properties being resold? How many?
  - What is the selling price?
- Investigate role of housing finance
  - Are government-subsidised units being used as collateral?
  - Are the banks participating?
  - How significant are repossessions in this market?
- Consider impact of state investment on neighbouring areas



Findings

Market sizes

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About 7.25 million properties in South Africa

200 000 farms

Remainder commercial etc.

5.8 million residential

2.55 million freehold in affordable or mid-range

1.88 million privately owned

1.22 million transferred after 1 Jan 94

797,000 are 60-400/ 500m2

691,000 have gov't or dev as seller and first time owner

1.77 million freehold in townships

1.49 million privately owned

171,000 RDP units

838,000 99-yr lease conversions

862,000 RDP/BNG units

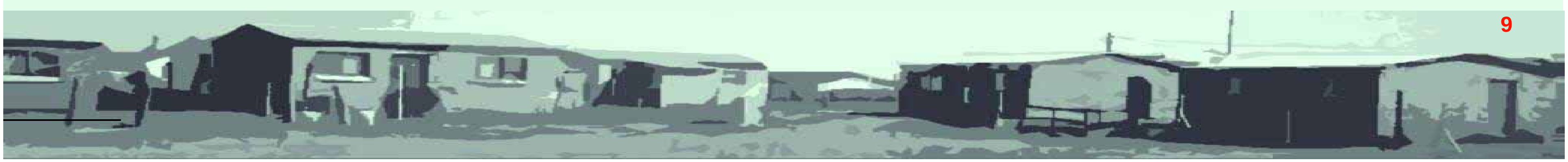
1.7 million registered government-subsidised units

Market sizes: what about 2.4m?

An example from the W Cape

- Sample of 1578 properties of which 1372 are approved:
  - ± 20% before 2001
  - ± 8% between 2001-2005
  - ± 10% in 2006
  - ± 7% in 2007
  - ± 37% in 2008
  - ± 6% in 2009
- **Less than 50% are in the deeds registry**
- Various scenarios:
  - PHB date 3 years before transfer date
  - Subsidy and purchase prices differ
  - 99-year leaseholds that received additional subsidies later
  - Vacant land (223 units between 2007 and 2009)

- Delays in the transfer process - deeds office backlog
  - Fitting within 8 year gap
  - Poor follow through
- If RDP units in deeds registry = 50% of all delivered…
  - then get to 2.5 million units
  - But that means ±862 000 households cannot trade formally



Market distribution: by province

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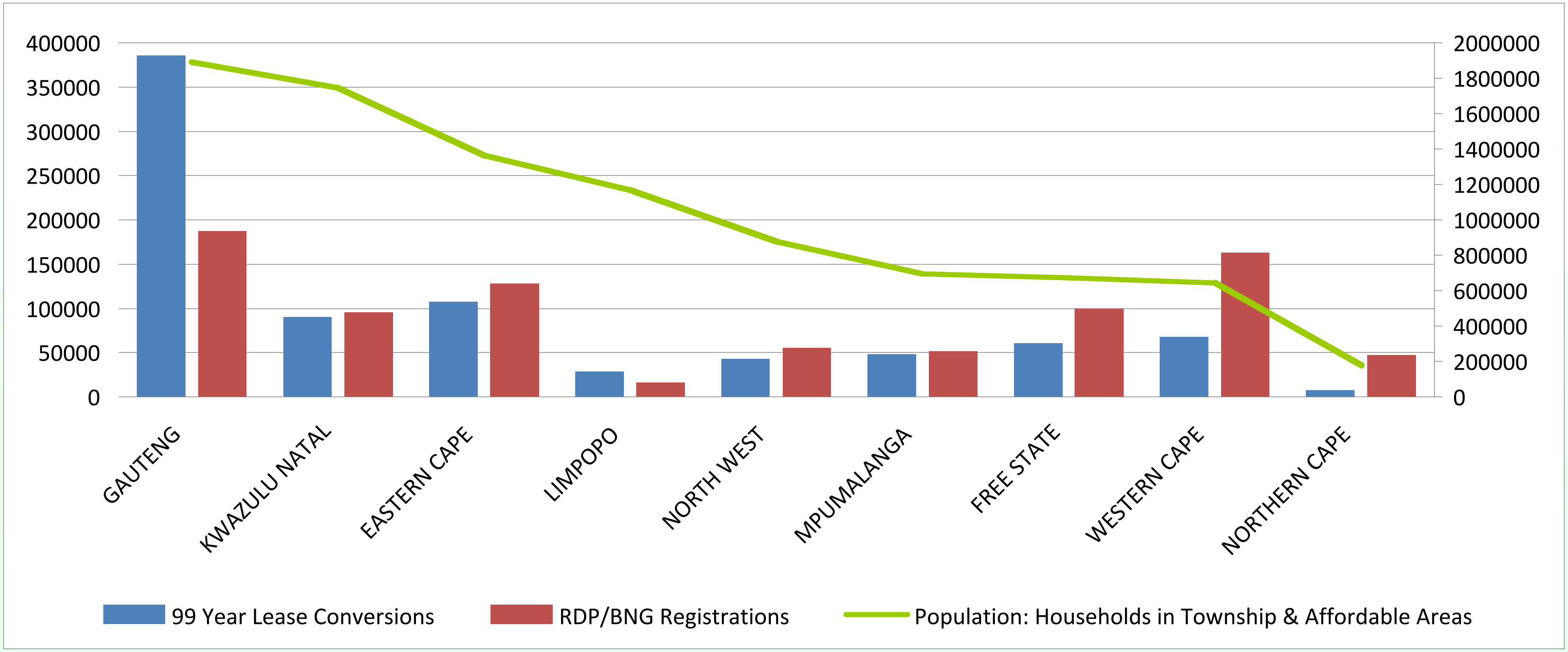

Market distribution: by year

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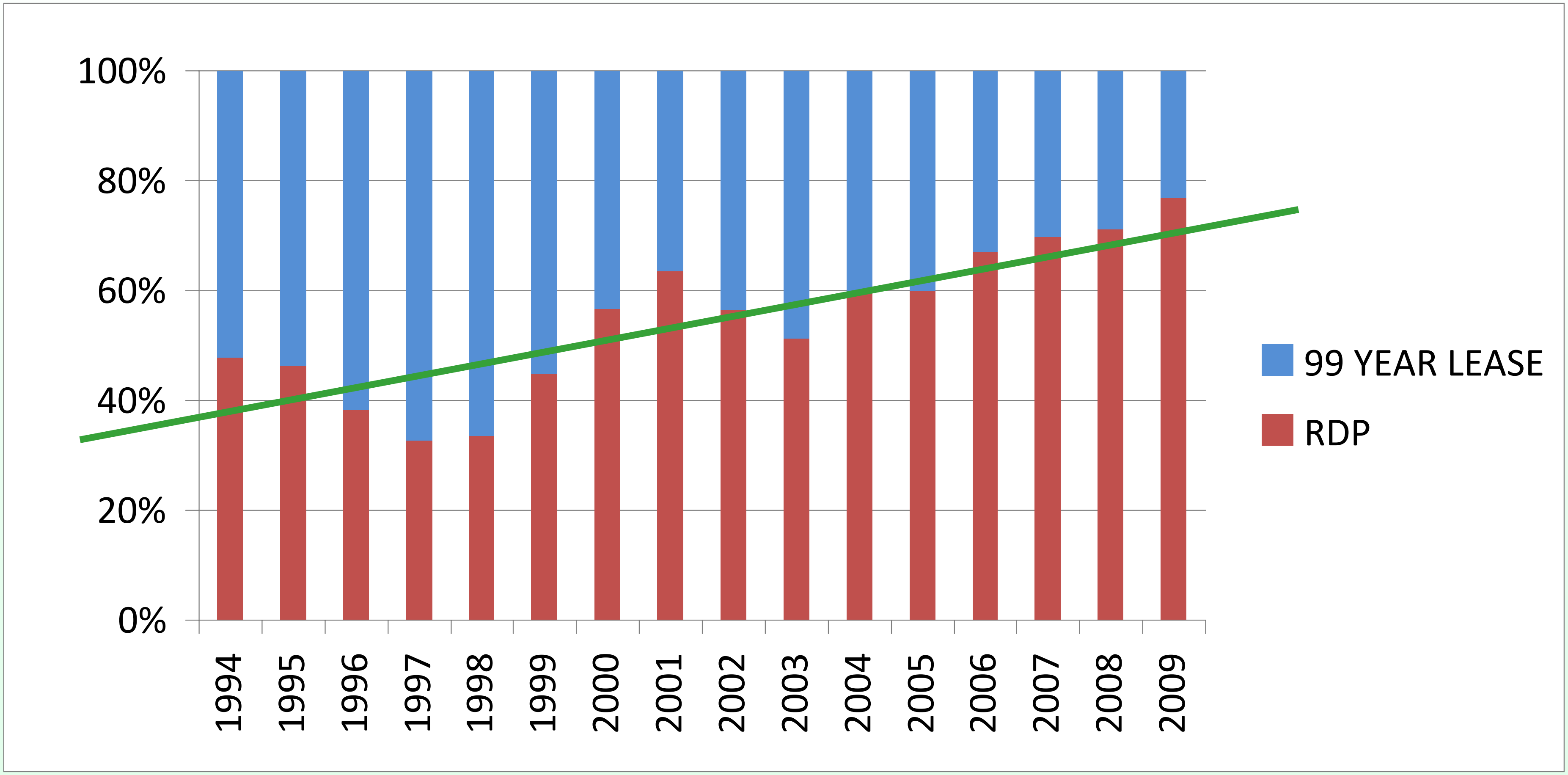

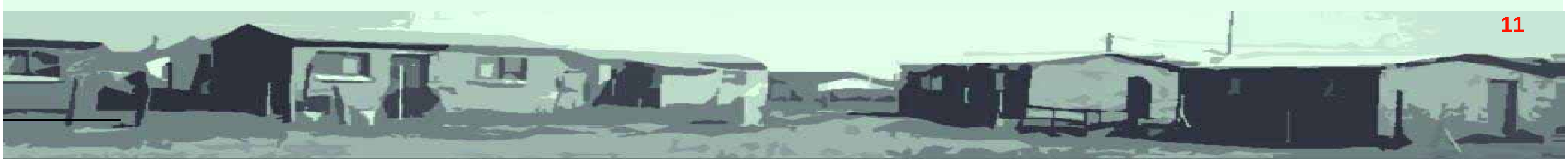

Market distribution: by year

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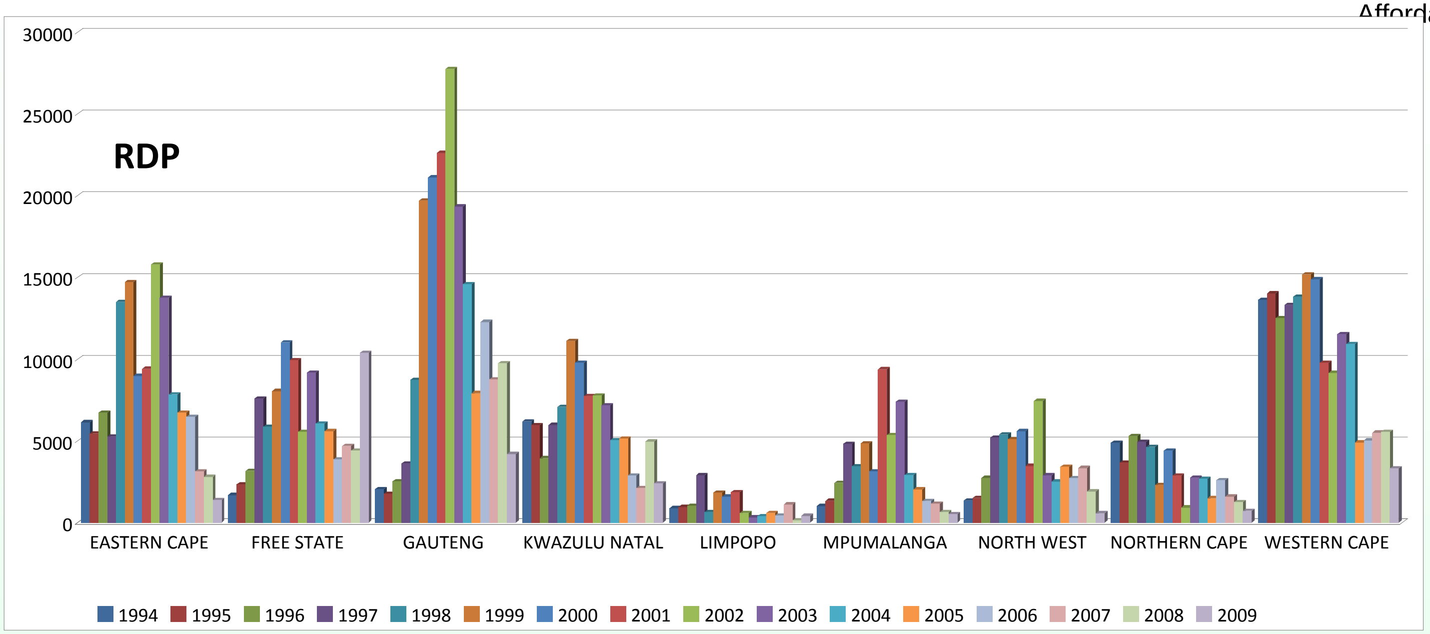

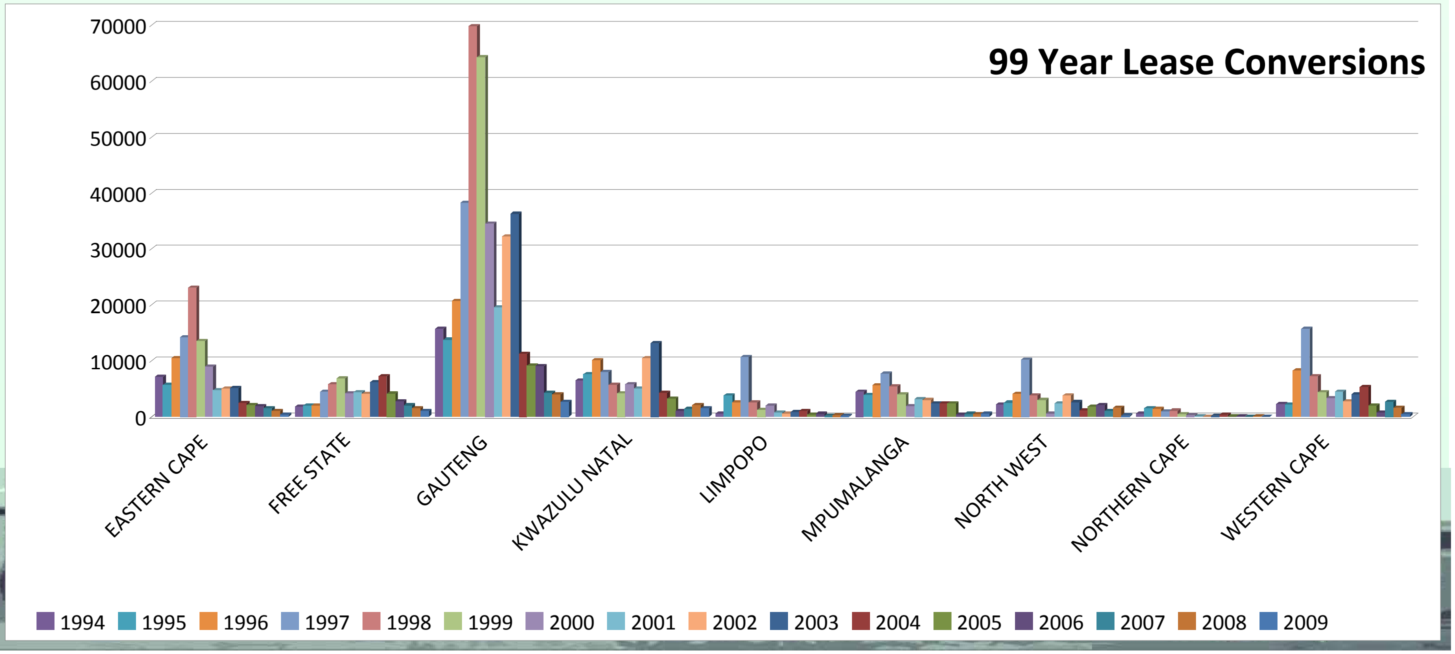

Primary transfer analysis

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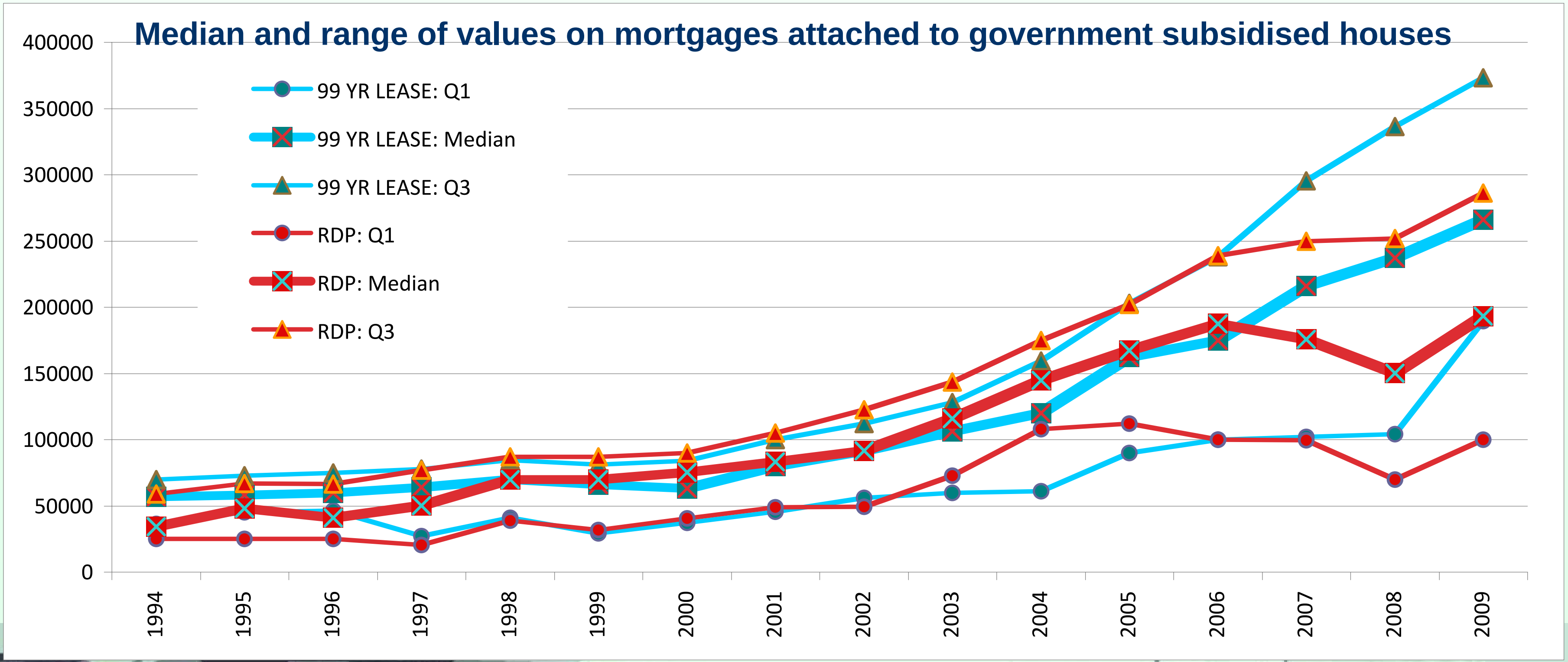
Primary transfer: the first transaction, from government (or a developer) to an individual beneficiary

- 91% have not secured mortgage finance
- BUT: **9% (155 583) have**



Primary transfer analysis

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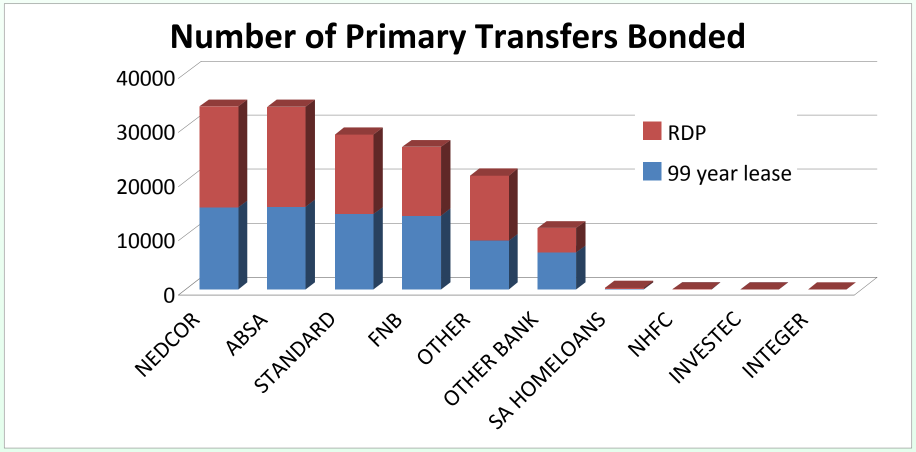
Primary transfer: the first transaction, from government (or a developer) to an individual beneficiary

- NEDCOR and ABSA have each extended 33 800 loans



Resale analysis: number

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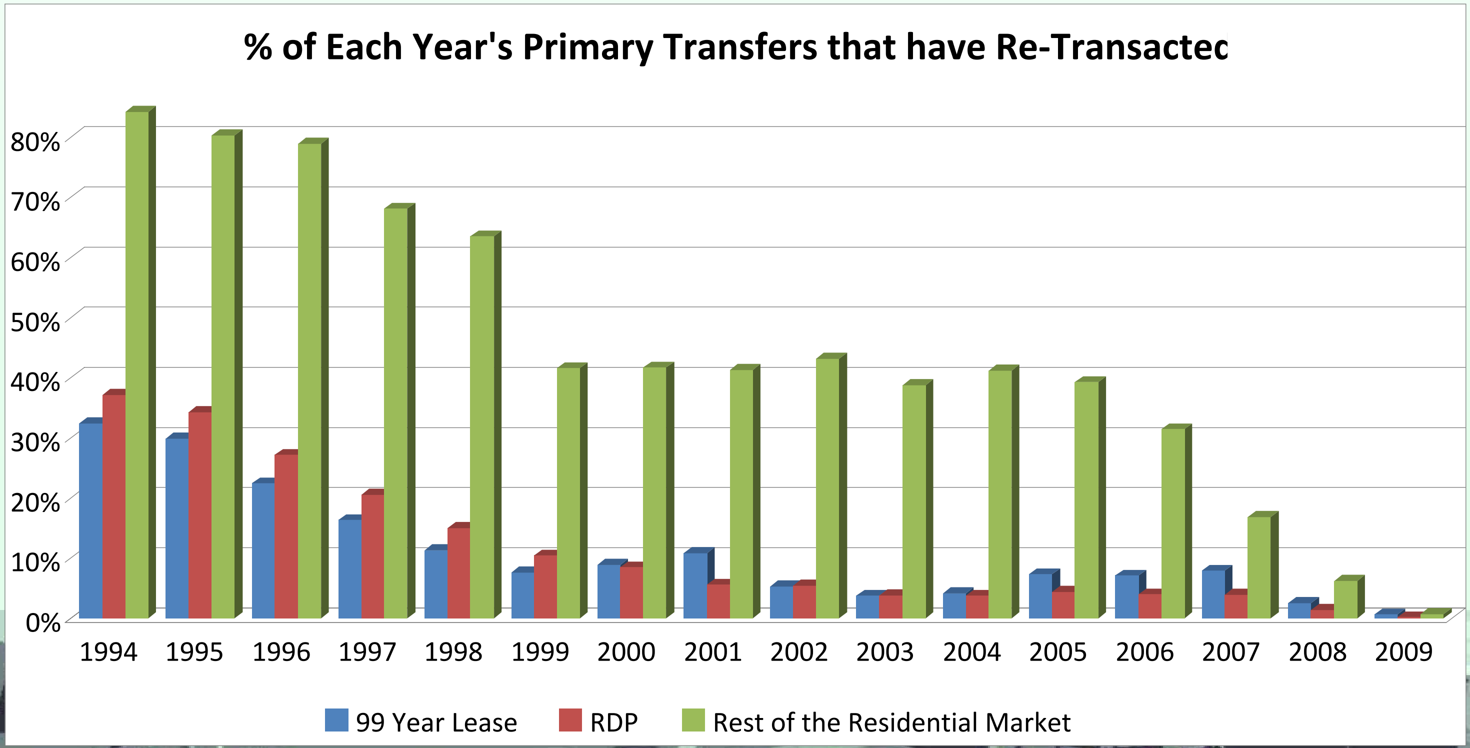
Resale transfer: subsequent transactions, from individual beneficiary to a new individual owner

- Substantially lower than rest of the market: to be expected
- Note: transfers also with units built since 2001 or 2004!
- Does not indicate informal transactions - expected to be substantial



Resale analysis: number

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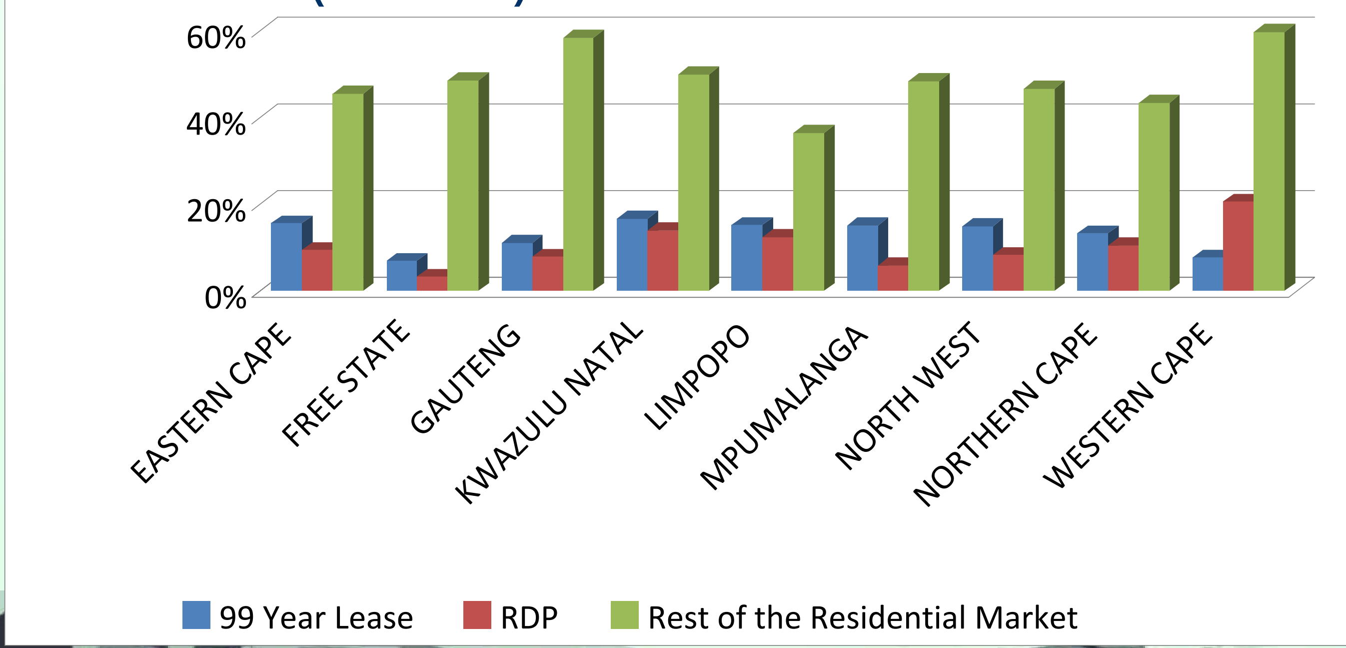
Resale transfer: subsequent transactions, from individual beneficiary to a new individual owner

- Resales of RDP/BNG units most prevalent in Western Cape
- Else, resales of 99-year lease more common

% of each Province's freehold units that have been sold more than once (I.e. resales)



Resale analysis: prices realised

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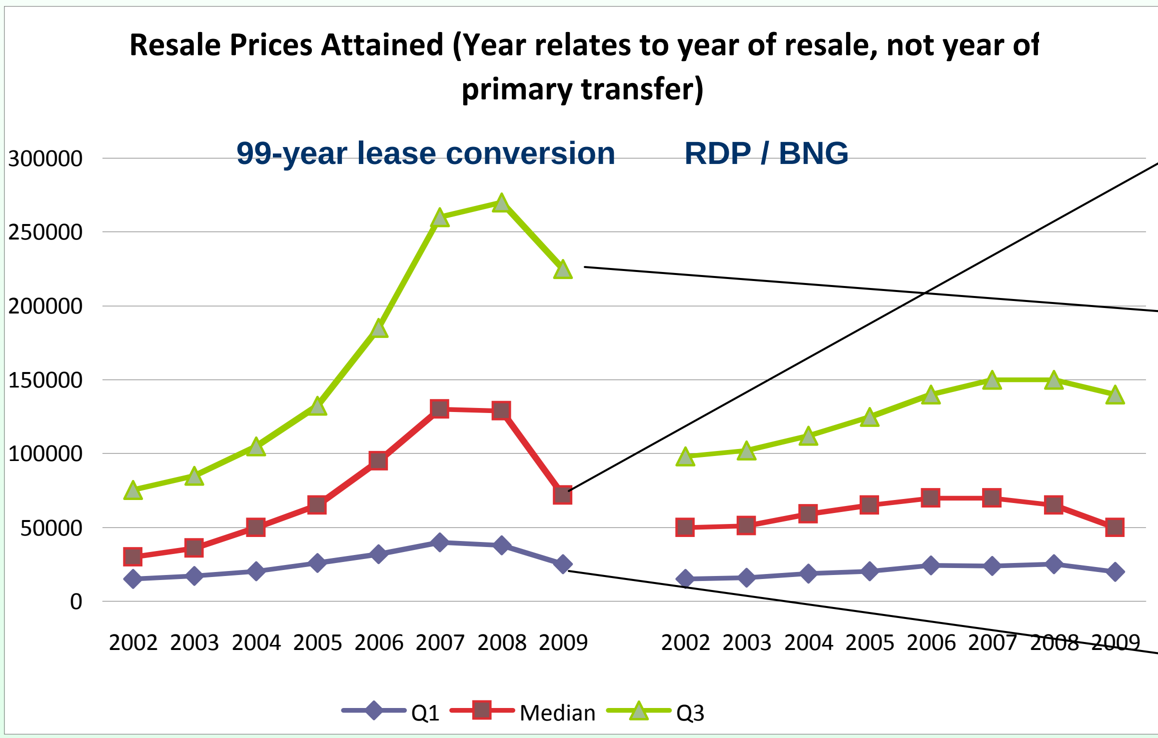
Resale transfer: subsequent transactions, from individual beneficiary to a new individual owner

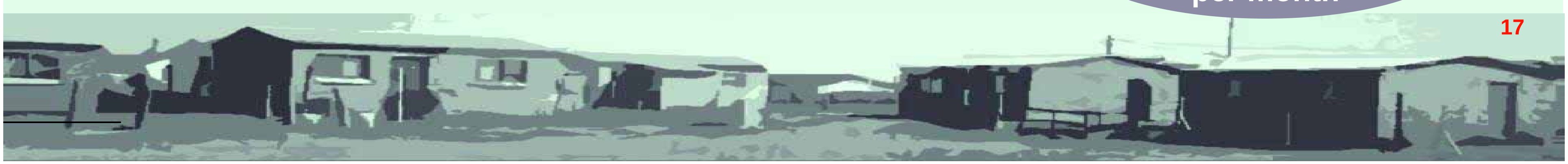
- 99 year leasehold realise higher prices: older properties, more refurb?



Affordable to a hh earning R3000 per month

Affordable to a hh earning R5500 per month

Affordable to a hh earning R2000 per month



Resale analysis: prices realised

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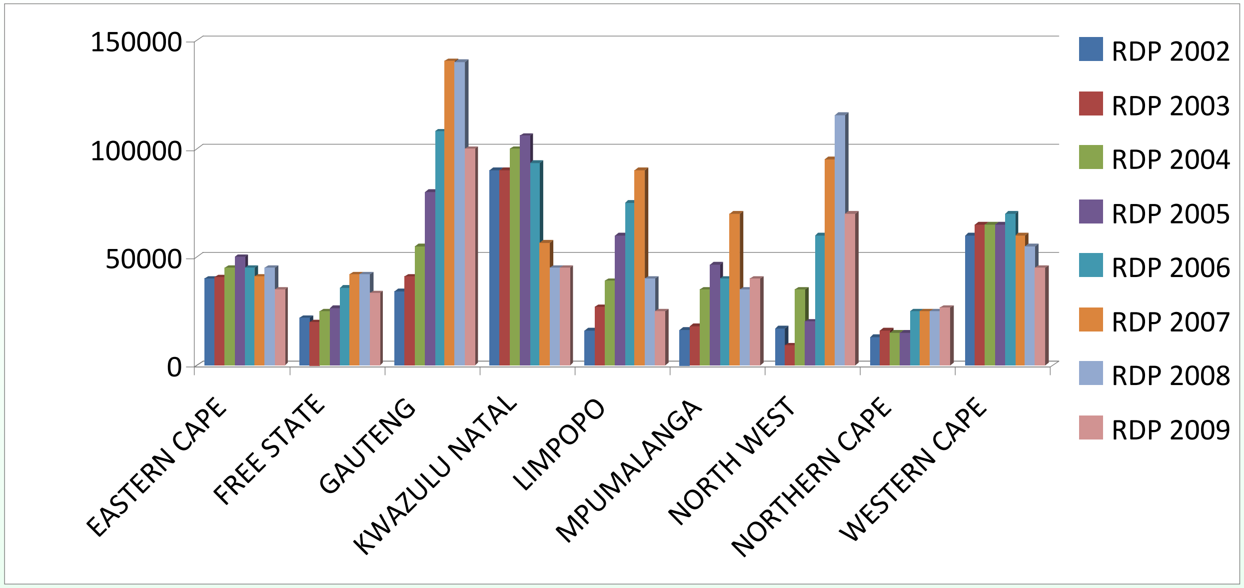

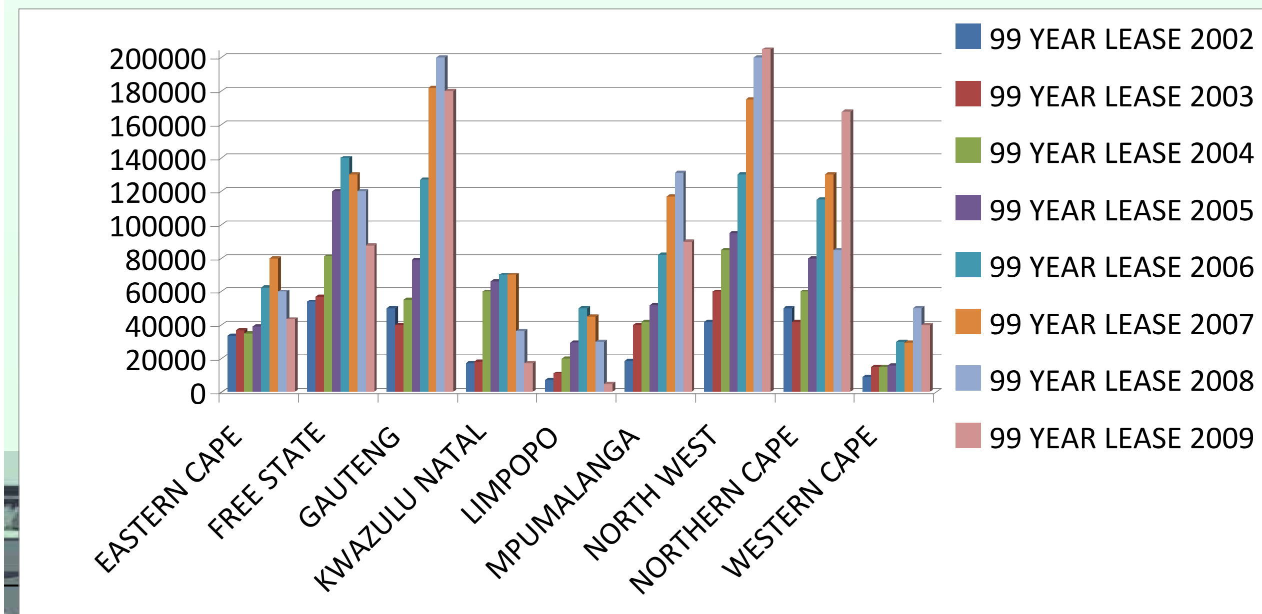

- Year relates to year of resale, not year of primary transfer
- Highest prices in Gauteng
  - RDP: Gauteng, KZN, NW
  - 99-yr: Gauteng, NW, N Cape, FS

Resale analysis: mortgaging

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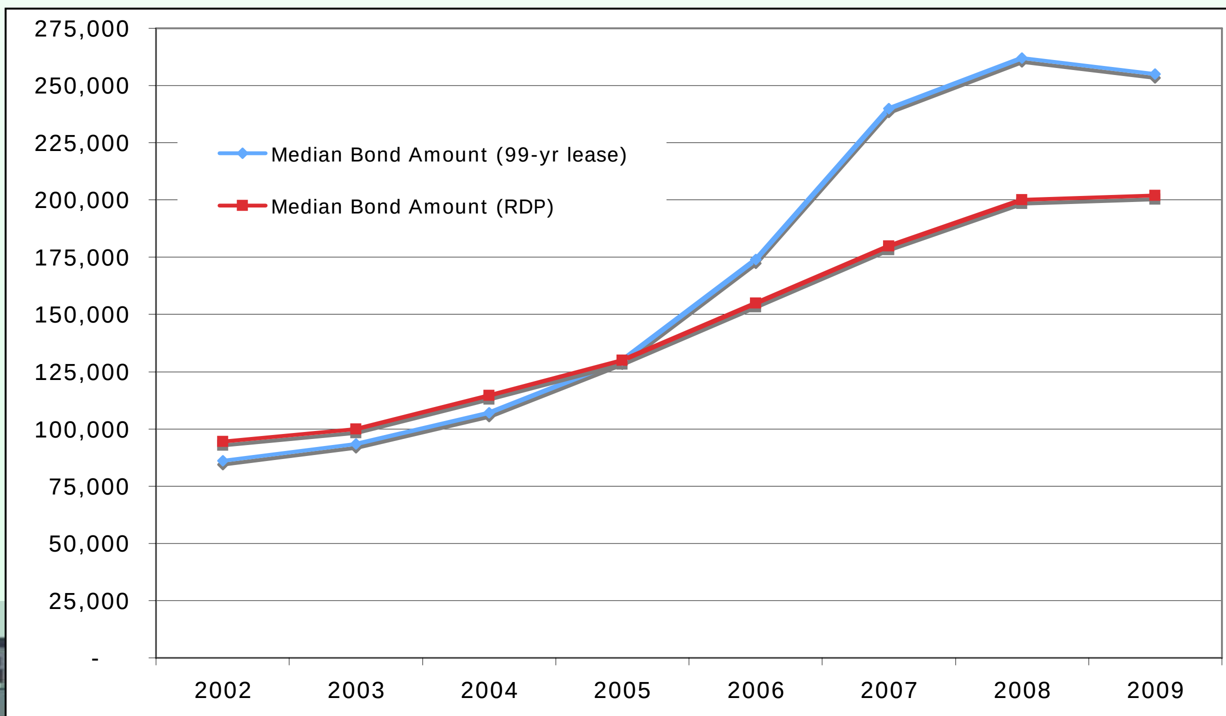
- 50% of resales from 2002 onwards have been bonded
  - 52% of RDP / BNG: 27 553 bonds
  - 57% of 99-yr lease: 35 829 bonds

63 382 total: still less than without bonds

- Loan-to-value at 100% until 2005
  - Max median LTV at 101% 99-yr lease
  - Max median LTV at 108% RDP / BNG



Affordable to a hh earning R10,000 per month

Affordable to a hh earning R8,000 per month

Sale prices on transactions with finance higher than on those without finance

Resale analysis: sales in execution

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- Nationally, since Jan 2007:
  - 2.4m residential properties had a mortgage: of these, 45 176 received one or more notice (1.9%)
  - 204,822 government 99-yr lease or RDP/BNG properties had a mortgage: of these, 6229 received one or more notice (3%)
  - 300 of government subsidies properties that never received a mortgage received a notice
- Considering all notices known to ever be issued against government subsidised units
  - 83% were issued by financial institutions (I.e. regarding non-payment of mortgage finance)
  - 5% were issued by local councils (I.e. regarding non-payment of rates)
  - 12% were issued by 'other'

Higher proportion but less in number (and value): not considered a huge threat

Impact on surrounding markets

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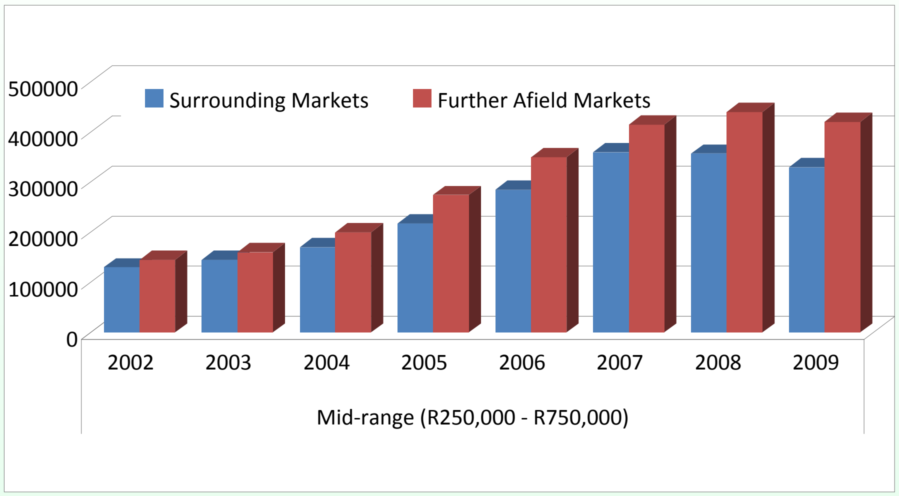
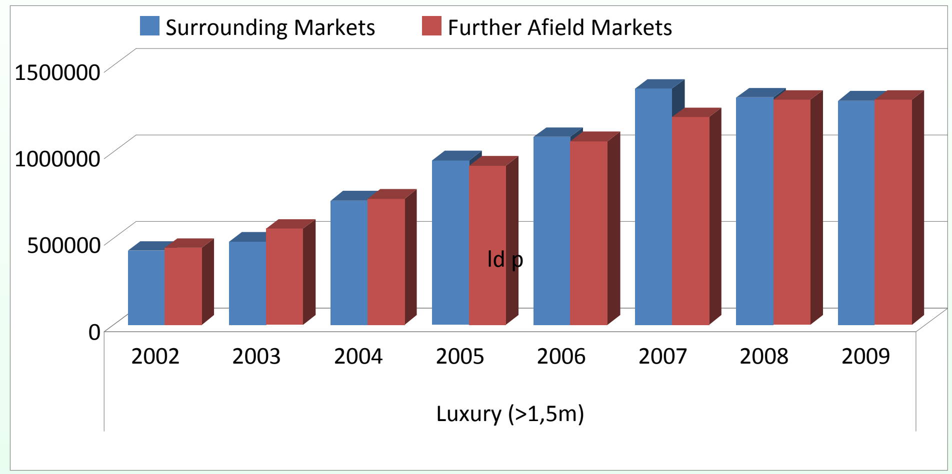
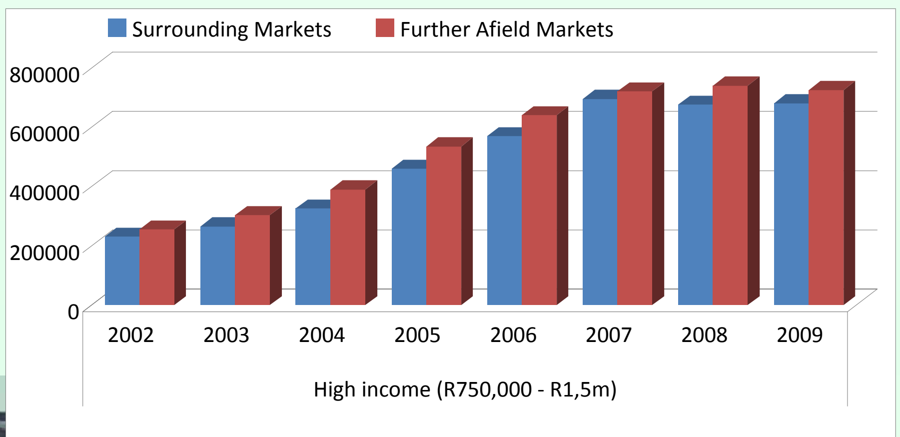
Surrounding market = any enumerator area within 750m of an enumerator area containing 50 or more 99-yr or RDP/BNG properties







Higher income and Luxury markets appear more resilient to the presence of 99-yr or RDP/BNG properties within 750m

BUT impact of other factors??

Conclusions

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- Government subsidised housing is beginning to function as an asset: over 200,000 mortgage loans in this market
  - 155,583 loans without a sale: house is gearing finance
  - 63,382 loans with a sale
  - 30% of properties from 1994 have since transacted
  - Resale values improving over time: financed transactions have higher values

- Backlog in title deeds being registered a real problem
  - Undermining success of government asset programme
  - Contributing to informal sales and undermining integrity of entire deeds registry

- Substantial opportunity for growth, if:
  - Affordability challenges addressed
  - Resale market further stimulated

Promote home improvements to create greater diversity of stock

Title deeds

Market information

Consumer protection

An answer for the GAP market???