Entry-level housing markets and Lessons from the Transaction Support Centre

April 2019

This presentation is incomplete without oral commentary

Agenda

1. South Africa's residential property market has transformed
2. An action-learning pilot in Khayelitsha: lessons from the Transaction Support Centre
3. Thoughts about a way forward
4. Discussion
The delivery of affordable housing over the past twenty-four years has had a profound effect on South Africa’s residential property market: the majority of properties in South Africa’s residential property market fall in the “affordable” category.

As at end 2017, there are about 6.3 million properties on the deeds registry. Almost 60% are valued at less than R600 000.

About 30% of all properties were financed by government (1,888,979 properties). If all RDP properties were on the deeds registry, they would comprise about 39% of the market.

- The entry market—properties worth R300 000 or less
- The affordable market—properties worth R300 000 - R600 000
- The conventional market—properties worth R600 000 - R1.2 million
- The high-end market—properties worth over R1.2 million

RDP houses are everywhere. They are diverse in size, shape, colour and value. There is clear investment interest, by households and lenders. They are the entry level rung to the formal property market.
South Africa’s housing sector today faces three main challenges

1. No growth in the mortgage market, with limited access for low-income earners
2. Limited delivery of affordable, entry market housing, both new and resale
3. Poor realisation of asset value for government subsidy beneficiaries
1. South Africa’s mortgage market has not grown in real terms

While origination grew in real terms between 2010 and 2015, the nominal book value of bank mortgages remains below pre-GFC levels in real terms.

At the height of the expansion in the mortgage market in 2005, when the market grew 43% year-on-year in loans paid out, new loans accounted for roughly 60% of the total book value. In 2017, this was at 20%. In 2007, 14.5% of households in South Africa had a mortgage. By 2016, this had declined to 9.7% of households.
1. South Africa’s mortgage market has not grown in real terms

New transactions financed with a mortgage: 2010-2017

Resale transactions financed with a mortgage: 2010-2017

<table>
<thead>
<tr>
<th>Properties valued under R300 000</th>
<th>Lender (group)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R300k – R600k</td>
<td>ABSA</td>
</tr>
<tr>
<td>R600k – R1,2m</td>
<td>FNB</td>
</tr>
<tr>
<td>R1,2m</td>
<td>Nedbank</td>
</tr>
<tr>
<td></td>
<td>Standard Bank</td>
</tr>
<tr>
<td></td>
<td>Other Lenders</td>
</tr>
</tbody>
</table>

1. Lenders have been experimenting in the RDP resale market.
   Tentatively...

While resale market activity has been growing in the conventional and high-end markets, it has declined in the entry and affordable markets. Only 20% of resale transactions of government subsidised housing in 2017 were financed with a bond. The asset performance of government subsidised stock is also limited, with less than about 15 000 formal resale transactions per year, of which less than 2500 are financed with a mortgage – still, this is beyond expectations... (NB: we use a proxy to identify RDP houses on the deeds registry – this is not fool proof)
1. Even so, FLISP has not kept up

South Africa’s housing sector today faces three main challenges

1. No growth in the mortgage market, with limited access for low-income earners
2. Limited delivery of affordable, entry market housing, both new and resale
3. Poor realisation of asset value for government subsidy beneficiaries
2. Limited delivery of affordable, entry market housing

A R399 000 house could be bought by a household earning about R19 000 per month, with a 100% loan at 13% over 20 years. With the FLISP, it could be bought by a household earning R16 000 – the FLISP value would be R56 000.

South Africa’s housing sector today faces three main challenges

1. No growth in the mortgage market, with limited access for low-income earners
2. Limited delivery of affordable, entry market housing, both new and resale
3. Poor realisation of asset value for government subsidy beneficiaries
3. Poor realisation of asset value for government subsidy beneficiaries: the inclination for cash sales undermines value & affordability

So, a vision: the resale market offers a real new lending opportunity, while creating new buyers for the new build market

Household 1 lives in a shack in Meway, Cape Town
Household 1 sells the rights to their shack for R10 000 and buys a home for R125 000 in Delft South. With that purchase, they are no longer part of the housing backlog, and they have helped Household 2 realise the financial asset value of their home.

Household 2 lives in an RDP house in Delft South, that they received in the early 1990’s
Household 2 has R125 000 equity from the sale of their RDP house. This means they need a loan of R155 000. At 13.5% interest over 20 years, this would be affordable to a household earning about R9500 pm. Over 10 years, this would be affordable to a household earning about R15 000.

Household 3 lives in an RDP house in Delft, Roosendal that they received in the early 1990’s
Household 3 sells their home for R280 000 and buys a new home for R399 000.

A new unit is available in Belle Vue Estate, built by a private developer.
Household 2 buys this home with R280 000 in equity and a mortgage loan of R120 000. At 13.5% interest, this would be affordable to a household earning about R6 100 per month, with a monthly repayment of R9500 pm.

Household 3 buys their home for R280 000 and buys a new home for R399 000.

Sources:
FLISP Amendments: as of 28 July 2018
https://www.privateproperty.co.za/for-sale/western-cape/cape-town/bellville/delft/T1225789
https://www.privateproperty.co.za/for-sale/western-cape/cape-town/bellville/delft/T1297382
https://www.privateproperty.co.za/for-sale/western-cape/cape-town/khayelitsha/2-khayelitsha-sections-street/T1331209
A three pillar strategy

1. Stimulate mortgage lending, specifically targeted at resale market
2. Improve the efficiency of the capital subsidy, FLISP
3. Make transaction support more widely available

Agenda

1. South Africa’s residential property market has transformed
2. An action-learning pilot in Khayelitsha: lessons from the Transaction Support Centre
3. Thoughts about a way forward
4. Discussion
The Transaction Support Centre is a pilot, action-research initiative in Khayelitsha, located in the Desmond Tutu Sport & Recreation Centre.

The TSC provides free, hands-on assistance and advice for individuals looking to buy and sell residential properties through EFFICIENT, SAFE & LEGAL processes.

At the same time, the TSC documents the progress of transactions, to highlight potential policy, legislative and administrative issues for attention.

The team comprises ....

- **MAGIBISELA**
  - Community engagement manager
  - Client liaison
  - Identifying and meeting with buyers & sellers and hearing their cases
  - Meeting with street committees and promoting formal market transaction processes

- **LISA**
  - Legal support
  - Case administration
  - Stakeholder engagement
  - Meeting with clients and advising them on next steps
  - Preparing paperwork for the conveyancer
  - Preparing legal commentary for national policy consideration

- **JESSICA**
  - Marketing & consumer education
  - Administrative support
  - Reviewing market media and identifying transactions for attention
  - Preparing client case studies
  - Administering client cases

19 | Footnote
Khayelitsha is located 26kms from the CBD and comprises around 46 000 registered freehold properties. According to CityMark, there were 566 formal property market transactions in 2017.

Property transactions in Khayelitsha*:
- 46 972 formally registered properties
- 72% valued below R300 000
- In 2017 there were 566 formally registered transactions
- Churn rate of 1.2% per annum
- 330 of these transactions were RDP houses
- There were 197 bonded transactions (171 were repeat sales) in 2017 – the vast majority are cash sales

Why?
- Lots of complications with property titles
- Informal transactions are quicker, cheaper and more direct
- Lenders haven’t seen value
- Buyers & sellers have limited market information: mostly word of mouth

HOW THE TSC OPERATES

Macro
- Identify key insights for policy/financial sector
- Identify scalable elements of the solution

Micro
- Day to day operations
  - Stakeholder engagement
  - Consumer education and awareness
  - Assisting clients
Housing / property market education is critical. We have not yet explored above-the-line media or social media. That is a next step.

While the vision of the TSC is to support transactions, most of our cases deal with administrative failure and limited engagement with formal processes.

<table>
<thead>
<tr>
<th>TYPES OF CASES</th>
<th>REASONS FOR TITLE DEED PROBLEMS*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total: 156 cases, 112 in progress, 29 instructed or waiting instruction, 11 closed and 4 finalised</td>
<td>Informal cash sale</td>
</tr>
<tr>
<td>Title deed issue</td>
<td>119</td>
</tr>
<tr>
<td>Potential buyer</td>
<td>23</td>
</tr>
<tr>
<td>Potential seller</td>
<td>6</td>
</tr>
<tr>
<td>Consolidation subsidy</td>
<td>4</td>
</tr>
<tr>
<td>Drafting a will</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
</tr>
</tbody>
</table>

CREDIT ELIGIBILITY
- No. of credit checks conducted: 20
- No. of credit checks passed: 10

SUBSIDY ELIGIBILITY
- No. of HSS checks: 25
- No. of clear HSS checks: 22

Updated as of 10 April 2019
Note: *Total exceeds number of cases with title deed issues as one case may have multiple problems e.g. primary transfer and intestate
Title deed problems: Informal cash sales

Informal solutions are compelling. If we want to encourage formal transactions we need to be at least as good as informal mechanisms

<table>
<thead>
<tr>
<th>WHY SELL FORMALLY?</th>
<th>HOUSE FOR SALE: R140 000</th>
<th>FORMAL</th>
<th>INFORMAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slow turn around times</td>
<td><strong>DIRECT COST: BUYER</strong></td>
<td>Conveyancing fee: R7 382.40*</td>
<td>None</td>
</tr>
<tr>
<td>High transaction costs</td>
<td><strong>DIRECT COST: SELLER</strong></td>
<td>Rates arrears: ??</td>
<td>None</td>
</tr>
<tr>
<td>Limited trust</td>
<td><strong>ACCESS CONSTRAINTS</strong></td>
<td>Clean title deed</td>
<td>None</td>
</tr>
<tr>
<td>Limited awareness</td>
<td><strong>TIME</strong></td>
<td>Uncertain: up to ten months, maybe more than a year</td>
<td>Immediate</td>
</tr>
<tr>
<td></td>
<td><strong>RE COURSE AND PROTECTION</strong></td>
<td>Complaints process: submit a written complaint to the Cape Law Society</td>
<td>Social sanction</td>
</tr>
</tbody>
</table>

* Note: on this transaction there was a mortgage of R84 000. Bond attorney costs were R7 123.60
Local street committees and police stations often endorse informal transactions

**EXAMPLES OF STREET COMMITTEE LETTER CONFIRMING PROPERTY TRANSACTION**

Some informal transactions can be regularised. We have met with local street committees and proactively identified cases. In addition, clients have approached us directly

**INFORMAL CASH SALE REGULARISATION PROCESS**

- **Collate documentation** proving sale (street committee letters, police affidavits, title deed, IDs)
- **Locate & contact seller** (street committee records, put out a tracer)
- **Negotiate signing** of formal deed of sale with seller
- **Draw up deed of sale & arrange signature**

» Facilitated formal deed of sale signature for four clients
» In the process of trying to negotiate the signature of a further five sale agreements
Some informal transactions can be regularised. We have met with local street committees and proactively identified cases. In addition, clients have approached us directly

**INFORMAL CASH SALE REGULARISATION PROCESS**

- **Collate documentation** proving sale (street committee letters, police affidavits, title deed, IDs)
- **Negotiate signing** of formal deed of sale with seller
- **Locate & contact seller** (street committee records, put out a tracer)
- **Draw up deed of sale & arrange signature**
- **How do we resolve this?**

» Facilitated formal deed of sale signature for four clients
» In the process of trying to negotiate the signature of a further five sale agreements

» Facilitated formal deed of sale signature for four clients
» In the process of trying to negotiate the signature of a further five sale agreements

**PROPERTY REGULARISED**

Where we cannot regularise the sale, the Land Titles Adjustment Act may be a solution. We have met with the DRDLR who promised a task team. That was on the 21st of January 2019. Despite numerous emails, we have had no update

» The purpose of the Act is "to regulate the allocation....of certain land in respect of which one or more persons claim ownership, but do not have registered title deeds in respect thereof."
» The Act allows for the allocation of title to a person claiming ownership of a property without having a registered title deed
» A claimant would not need to follow a sequence of formal and simultaneous transfers in order to obtain title, avoiding significant legal costs which are likely to be excessive relative to the value of the property
» In line with the provisions of the Act, the Minister of Rural Development and Land Reform (DRDLR) must
  » (i) designate land to be dealt with under the Act and
  » (ii) appoint a Commissioner to deal with each case
» The Commissioner has wide powers to allocate property to a claimant and transfer property directly, with the Commissioner acting as transferor
» Minister can order that costs of transfer be paid by Parliament according to financial circumstances of claimant
Case study: Christine's housing journey

Christine gets an RDP house in Nyanga (house 1) in 2003.

Christine sells house 2 and buys a new house in Delft (house 3) for R50 000 in 2010.

Christine swaps her house in Nyanga for a house in Delft (house 2) in 2004/5.

Present day:

Seller of house 3 asks Christine for R150 000 more money.

A plot twist. On investigation we discovered that the property Christine purchased has never actually been transferred to the seller. She therefore does not have a title deed.
WHAT CAN WE LEARN FROM CHRISTINE’S STORY?

- She is participating in the market in the same way that other households do – she is trading houses to improve her living situation.
- She understands the importance of the title deed and always has.
- The principle of “voets toets” doesn't seem to apply.
- The stakes rise when property values appreciate.

Title deed problems: Informal cash sales

**Title deed problems: Intestate**

Title deed problems: Primary transfers

Buyers & sellers: Sale ready properties

Buyers & sellers: Sale ready buyers

Buyers & sellers: The need for speed
We have an established process to deal with intestate cases and, to date, have facilitated the transfer of property to two heirs of deceased estates and a further three cases have been instructed on. Delays in finalising the remaining cases include slow turnaround times from the Masters office, collating all the necessary documents from clients, as well as additional hurdles such as clients needing to register customary marriages at Home Affairs.

**DECEASED ESTATE PROCESS**

- **TSC advises client of required documents**
- **Client reports estate to the Master**
- **Collect Masters letters & request certified copy of Next-of-Kin affidavit**
- **Instruct attorneys to conduct transfer in the Deeds Office**

**Document requirement for estate <R250 000**
- Death notice
- Certified copy of Death Certificate
- Certified copy of Marriage Certificate (if applicable) or proof of registration of customary marriage
- Declaration of Marriage by surviving spouse (if applicable)
- Original will (if any)
- Next of Kin Affidavit (J192)
- Inventory of deceased assets
- Letter of appointment of Master's representative
- Certified copy of ID of Master's representative

**Cost:** R50  
**Payment process:** Pay at a ABSA branch, take proof of payment to Masters court  
**Time:** 14 days to get certified copy of J192

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**WHAT HAVE WE LEARNED DURING THE PROCESS OF DEALING WITH DECEASED ESTATES?**

- The Magistrate Court processes can be slow and inefficient
- It is also not clear who is monitoring the performance and due diligence of the Magistrate court
- There is extensive opportunity for fraud if deceased estate cases are not dealt with properly
- Despite extensive national awareness initiatives on the importance of wills (e.g. National Wills Week), few households appear to make use of one. How can we change this?
Title deed problems: Informal cash sales

Title deed problems: Intestate

**Title deed problems: Primary transfers**

Buyers & sellers: Sale ready properties

Buyers & sellers: Sale ready buyers

Buyers & sellers: The need for speed

We have found four distinct categories of primary transfer issues, each with varying degrees of complexity

**CATEGORIES OF PRIMARY TRANSFER ISSUES**

- Administrative delays / inattention
  - Sitting in a City office somewhere
  - Waiting to be transferred by appointed attorney

- Historical backlog: General Plan exists

- Historical backlog: Outdated General Plan

- New Developments: No General Plan
## IN SOME CASES PRIMARY TRANSFER PROBLEMS ARISE BECAUSE OF ADMINISTRATIVE INATTENTION

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2017</td>
<td>Client receives letter from City informing him that conveyancers (VGV) have been appointed to attend to the transfer</td>
</tr>
<tr>
<td>Nov 2018</td>
<td>We contact VGV to enquire about the progress of the transfer and find out if we can help speed up the process (get any necessary documents, get client to their office to arrange signature etc.)</td>
</tr>
<tr>
<td>VGV respond (telephonic conversation): “We have 800 of these City erven to transfer. The files are sitting in a filing cabinet, we only look at them when a client phones in...” But, they agree to take our clients case ‘out of the queue’ and attend to it</td>
<td></td>
</tr>
<tr>
<td>Dec 2018</td>
<td>No response. We ask escalate to the City, who email VGV asking for their response on the matter</td>
</tr>
<tr>
<td>Feb 2019</td>
<td>No response. The City escalates the matter and requests urgent response from VGV. We are told that they are requesting rates clearance and drawing up title deed</td>
</tr>
<tr>
<td>March 2019</td>
<td>Nothing yet from VGV. We follow up. Their response: “We relocated to Cape Town and are in the process of unpacking. I will report to you hereon in due course...”</td>
</tr>
<tr>
<td>Present day</td>
<td>No update. Client still does not have his title deed</td>
</tr>
</tbody>
</table>

### In some cases primary transfer problems arise because of administrative inattention

- Merile was looking to sell her house to go back to the Eastern Cape
- But she had a problem – she had never received her original title deed from the City
- However, she did have a letter confirming that the property was registered in her name
- We contacted the applicable City area office to investigate the whereabouts of her title deed
- First we were told that they did not have it
- So, we requested that they pay for a VA copy of the title deed
- They responded saying that they found it! It was sitting in a box in the office along with many other title deeds
- Merile now has her title deed and has sold her house to a bond buyer
Other cases require a change in legislation and the timelines of this are unclear. What do we do in the interim?

**CATEGORIES OF PRIMARY TRANSFER ISSUES**

- Administrative delays / inattention
  - Sitting in a City office somewhere
  - Waiting to be transferred by appointed attorney
- Historical backlog: General Plan exists
  - Erven fall under City's occupancy regularisation project
  - There are no land impediments to transfer
  - However, in some cases there are some legal challenges (“X” cases)
- Historical backlog: Outdated General Plan
- New Developments: No General Plan

Treasury has allocated a budget of over R1.6 billion to eradicate the historic title deed backlog. According to the NDHS, as at end 2018, the remaining historic backlog was 529 520 units

**TITLE DEED REGISTRATIONS: PRE 2014 BACKLOG**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Title Deeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/15</td>
<td>61,545</td>
</tr>
<tr>
<td>2015/16</td>
<td>60,944</td>
</tr>
<tr>
<td>2016/17</td>
<td>67,458</td>
</tr>
<tr>
<td>2017/18</td>
<td>38,614</td>
</tr>
<tr>
<td>2018/19</td>
<td>247,500</td>
</tr>
</tbody>
</table>

Source: National Treasury based on NDHS
While the restoration programme focuses on the historic (pre 2014) backlog, the new backlog grows

**CATEGORIES OF PRIMARY TRANSFER ISSUES**

- **Administrative delays / inattention**
  - Sitting in a City office somewhere
  - Waiting to be transferred by appointed attorney

- **Historical backlog: General Plan exists**
  - Erven fall under City’s occupancy regularisation project
  - There are no land impediments to transfer
  - However, in some cases there are some legal challenges (“X” cases)

- **Historical backlog: Outdated General Plan**
  - Erven fall under City’s occupancy regularisation project
  - General plan (GP) may need to be drawn in some cases

- **New Developments: No General Plan**
  - Erven where the GP has not yet been registered and we don’t yet know what the impediments to the transfer are
Treasury has recently started to publish data on the number of title deeds registered for new developments.

Number of title deeds registered for new (post-2014) projects vs subsidy units completed.

Source: National Treasury based on NDHS.

Data on more recent subsidy developments highlights a persistent problem with title deed registrations. It is not clear what the underlying cause of the problem is.

Source: National Treasury based on NDHS.
Case study: Building approval in Khayelitsha

» The owner approached us asking for help to sell his property and we had a buyer lined up
» However, the current occupants (who rent) started expanding the property without the permission from the owner. There were no formal building plans
» We engaged the City's office in Khayelitsha to assist the owner submit building plans for approval
» They promised to watch the case closely
» The deal has subsequently fallen through because the occupants refuse to leave
Property for sale

- Evicting sitting tenants is not this property owners only concern
- There is a 76 697m piece of vacant land next to his property
- What is the plan for this vacant land?
- What risks does it pose for the neighbouring houses?
- How could this land be used to increase the value of the neighbouring areas?

Case study: Building approval in Delft

“Big house with 3 flats. Icon Property have just listed this spacious one bedroom home with three flats at the back. This is a perfect investment opportunity, the main house offer a spacious open plan kitchen and lounge, a bathroom and one big spacious bedroom. The yard is fully enclosed and paved with a security gate upfront. This is a free standing house....There are 3 flats at the back each one with a security gate and a separate toilet from the main house”
When we enquired about the property the estate agent claimed that the owner had approved building plans for the backyard structure.

On investigation we discovered this couldn't be the case.

The backyard structure is built over the property boundary.

How will this property built on a road reserve be regularised?

What is the agent's role and responsibility in this scenario?

Who is protecting the interests of the prospective buyer of this property?
Title deed problems: Informal cash sales
Title deed problems: Intestate
Title deed problems: Primary transfers
Buyers & sellers: Sale ready properties

**Buyers & sellers: Sale ready buyers**

Buyers & sellers: The need for speed

Residential property is the single biggest asset on the balance sheet of most households. The value of that asset is a function of how well the property market functions which is a direct function of availability of finance.

### HOUSEHOLD ASSETS AND LIABILITIES: 2018 (R billions)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>RESIDENTIAL PROPERTY</td>
<td>MORTGAGES</td>
</tr>
<tr>
<td>R 2 848 bn</td>
<td>R 928 bn</td>
</tr>
<tr>
<td>R 5 098 bn</td>
<td></td>
</tr>
<tr>
<td>6.4 million registered properties</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>OTHER NON-FINANCIAL ASSETS</td>
<td>SECURED CREDIT</td>
</tr>
<tr>
<td>R 1 655 bn</td>
<td>R 421 bn</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>PENSION FUNDS &amp; LIFE INSURERS</td>
<td>UNSECURED CREDIT</td>
</tr>
<tr>
<td>R 4 418 bn</td>
<td>R 468 bn</td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>MONETARY INSTITUTIONS</td>
<td></td>
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<tr>
<td>R 1 265 bn</td>
<td></td>
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<tr>
<td></td>
<td></td>
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<tr>
<td>OTHER FINANCIAL ASSETS</td>
<td></td>
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<tr>
<td>R 2 637 bn</td>
<td></td>
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<tr>
<td></td>
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</tbody>
</table>

Source: SARB, CityMark
What is the FLISP? In 2018, eligibility was extended to households earning less than R22 000, and the maximum value was increased to R121 626

FLISP REQUIREMENTS

- Monthly household income between R3 501 – R22 000
- South African citizen or have a permanent residence permit
- Over 18 years old
- Married or co-habiting; or single with financial dependant
- Have never received a government housing subsidy before
- Have never owned residential property before
- Approved mortgage loan

FLISP SUBSIDY AMOUNT

MONTHLY HOUSEHOLD INCOME

Assumptions for income group R5 101: Instalment to income ratio of 20%, interest rate of 13% (3% over prime), 20 year loan term
Assumptions for income group R7 501: Instalment to income ratio of 20%, interest rate of 13% (3% over prime), 20 year loan term.

Assumptions for income group R10 101: Instalment to income ratio of 25%, interest rate of 12% (2% over prime), 20 year loan term.
FLISP subsidy: Enabling affordability

MONTHLY HOUSEHOLD INCOME

- FLISP subsidy
- Max. mortgage

Assumptions for income group R15 001: Installment to income ratio of 25%, interest rate of 12% (2% over prime), 20 year loan term

FLISP subsidy: Enabling affordability by creating new buyers with equity

MONTHLY HOUSEHOLD INCOME

- FLISP subsidy
- Max. mortgage

Beautiful and neat property in Sandton Park Khayelitsha, 2 bedrooms, bathrooms, lounge and kitchen. Please note that garage is not included in the selling price since it is on the plot of the house. Owners are not going to destroy it. Cash buyers only please.
Many potential buyers are over-indebted

Client’s personal income: R6 000 pm

UNSECURED DEBT: OPEN ACCOUNTS

Opening balance (current balance) of account / loans as at October 2018

Instalments of R2 952 per month could have supported an instalment on a mortgage of roughly R250 000, assuming an interest rate of 13% over 20 years. The client qualifies for a FLISP of R109 137 – but her credit score is 578, below the threshold of 600

MONTHLY INSTALMENTS

As at October 2018

Note: *Amount includes the R348 instalment due to Rage which the client has not paid since March 2018.

Source: Client’s credit report
**FLISP subsidy: Enabling affordability**

MONTHLY HOUSEHOLD INCOME

<table>
<thead>
<tr>
<th>MAX HOUSE PRICE</th>
<th>FLISP subsidy</th>
<th>Max. mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td>R0</td>
<td>R101</td>
<td>R7 501</td>
</tr>
<tr>
<td>R100</td>
<td>R7 300</td>
<td>R127 792</td>
</tr>
<tr>
<td>R200</td>
<td>R87 282</td>
<td>R212 356</td>
</tr>
<tr>
<td>R300</td>
<td>R449 485</td>
<td>R649 805</td>
</tr>
<tr>
<td>R400</td>
<td>R113 310</td>
<td>R10 101</td>
</tr>
<tr>
<td>R500</td>
<td>R100 110</td>
<td>R10 101</td>
</tr>
<tr>
<td>R600</td>
<td>R87 282</td>
<td>R212 356</td>
</tr>
<tr>
<td>R700</td>
<td>R449 485</td>
<td>R649 805</td>
</tr>
<tr>
<td>R800</td>
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<tr>
<td>R1000</td>
<td>R87 282</td>
<td>R212 356</td>
</tr>
</tbody>
</table>

Assumptions for income group R7 501: Instalment to income ratio of 20%, interest rate of 13% (3% over prime), 20 year loan term.

**Poor credit histories also inhibit access to mortgages**

**Client's personal income:** R11 000 pm

**UNSECURED DEBT: OPEN ACCOUNTS**

Opening balance (current balance) of account / loans as at Feb 2019

- **FOSCHINI**
  - **15 October 2013**
  - R2 834
  - **Account status:** Account closed

- **NEDBANK**
  - **5 October 2016**
  - R8 986
  - **Account status:** Account closed

- **CAPITEC**
  - **6 December 2017**
  - Loan: R7 114
  - Credit facility: R814
  - **Account status:** Account closed

- **CAPFIN**
  - **27 February 2018**
  - Loan: R2 000
  - **Account status:** Account closed

- **71point4**

**Credit facility:** R814 (R892)

**FLISP subsidy:** Enabling affordability

2 Bed House in Khayelitsha
R 240 000
**Oct 1-16**
**Dec 17**
**Feb 18**
Poor credit histories also inhibit access to mortgages. This client went back to the lender and was referred to debt counselling.

Client’s personal income: R11 000 pm

UNSECURED DEBT: OPEN ACCOUNTS

Client approaches TSC for help buying a house – fails credit check

7 Dec 2017

26 February 2018

27 December 2017

27 February 2018

Client loses her job

Client lands up in debt counselling

Client gets new job

NEDBANK LOAN WRITTEN OFF

Debt: R22 800

title deed problems: informal cash sales

Title deed problems: Intestate

Title deed problems: Primary transfers

Buyers & sellers: Sale ready properties

Buyers & sellers: Sale ready buyers

Buyers & sellers: The need for speed
Nosi is a registered estate agent operating in Delft, Mfuleni, and Parow. The majority of her sales are cash purchases

Telephonic discussions with agent

Q: Would you be willing to accept bond applicants?
A: No, only cash sales
Q: Why is that?
A: I used to accept bond applicants but I had lots of troubles with the banks. When the bank comes to see the properties they say “no they cannot give the loan”....for many reasons, maybe there are too many shacks in the area or the ceiling is not good....so now I just say “cash only”

Q: In the past 6 months, how many properties have you sold in Mfuleni?
A: Since August I can say around 10 properties
Q: And how many of these have been in cash?
A: I can safely say all of them have been cash....a lot of them get help from their employers, like domestic workers, that's how they get the money. Others take from their pension.
Q: What about personal loans?
A: No, not so much. Remember personal loans have very high repayments

Why we like mortgages – they leverage the interests of lenders to drive ‘investability’ and shape property markets

Investable area (municipality)
Investable property (municipality / household)
Investable borrower (households / lenders)
Why we like mortgages – they leverage the interests of lenders to drive ‘investability’ and shape property markets

**Investable area** (municipality)
- Governance
- Service delivery

**Investable property** (municipality / household)
- Title deed
- Compliance
- Rates payment

**Investable borrower** (households / lenders)
- Headroom
- Credit histories
- Payment performance

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**Agenda**

1. South Africa's residential property market has transformed
2. An action-learning pilot in Khayelitsha: lessons from the Transaction Support Centre
3. **Thoughts about a way forward**
4. Discussion
A three pillar strategy

1. Stimulate mortgage lending, specifically targeted at resale market
2. Improve the efficiency of the capital subsidy, FLISP
3. Make transaction support more widely available

There are 1,88 million RDP houses on the deeds registry. About 950 000 of these are in the 8 metros, and of these, about 850 000 are older than eight years, so eligible for sale. If we applied the average national churn rate of 2.58%, this could mean another 26 000 transactions annually: new mortgages for new buyers, new sellers with equity, new demand for the next rung on the housing ladder.
### Some thoughts about a way forward

<table>
<thead>
<tr>
<th><strong>There are significant challenges. BUT we are working with, not against, the market</strong></th>
<th><strong>Incentives are aligned and all parties are willing. Our job is to help everyone do their jobs</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transaction support is not (yet) a KPI</strong></td>
<td><strong>We need top cover and active assistance from various officials and departments</strong></td>
</tr>
<tr>
<td><strong>Transaction support is critical. The process of transferring property is not simple and trust is low</strong></td>
<td><strong>Scaling up requires a strategic prioritisation process. How do we identify ‘investable areas’?</strong></td>
</tr>
<tr>
<td><strong>There are various players who have an interest in transaction support</strong></td>
<td><strong>Various delivery models can be tested, including co-locating in bank branches, offices of NGOs and other service providers, the City, etc..</strong></td>
</tr>
<tr>
<td><strong>Success requires an end-to-end solution for clients</strong></td>
<td><strong>Missing pieces: financial advice, job loss insurance….. What else?</strong></td>
</tr>
<tr>
<td><strong>Technology can be leveraged to streamline and track processes</strong></td>
<td><strong>Document management, asset registers, assessing properties. What else?</strong></td>
</tr>
</tbody>
</table>

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**For more information:**

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**Illana Melzer**
illana@71point4.com

For more cases studies from the TSC see: [http://housingfinanceafrica.org/projects/transaction-support-centre/](http://housingfinanceafrica.org/projects/transaction-support-centre/)