

Workings of **T**OWNSHIP **R**ESIDENTIAL **P**ROPERTY **M**ARKETS

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## Phase One: General Research

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# Executive Summary

## *Introduction*

FinMark Trust, together with the Micro Finance Regulatory Council, Ford Foundation and the National Treasury of South Africa, has commissioned research into the workings of former African township residential property markets.

The purpose of the study is to **understand the current dynamics of the former African township residential property markets in South Africa**, with a particular emphasis on the components that contribute towards the functionality or dysfunctionality of the **secondary housing market**. This understanding will be framed in a conceptual model to be analysed in policy terms.

The research is being undertaken in four phases:

- Phase I: General research (including literature survey, scoping, legislative review and data analysis).
- Phase II: Detailed research (including household and entrepreneurship survey and contextual survey).
- Phase III: Formulation of conclusion and policy implications.
- Phase IV: Launch and dissemination of findings.

The report outlines the work undertaken in Phase I: General Research

## *Literature Review*

This section sets out the literature review, which was aimed at obtaining an understanding of residential property markets in general and the history and trends relating to South African Townships.

The review was undertaken through an Internet search, as well as the use of libraries and professionals in the development sector. The key areas covered in respect of the literature review are as follows:

- Residential property markets in general
- Residential property markets in South African Townships
- Review of legislation
- Scoping of the South African Township Market

The key findings in respect of the literature review are as follows:

**Key features of a functioning property market:** A functioning property market is associated with:

- A thick market of many buyers and sellers implying many transactions
- Good information for both households and developers, including transparency of contract awarding and legislative and regulatory certainty, which contributes to risk reduction.
- Reduction of transaction costs involved with registering of title, regulations and accessibility of finance.
- Freedom of suppliers to enter and exit market in response to risk and return.
- The ease with which consumers can switch their demand in response to quality and price considerations.

**Key factors affecting residential property markets** include the following:

- Housing Demand the demand for housing, based on demographic, economic and cultural/social factors.
- Housing Supply the supply of housing by private sector developers is dependent on the expected return of such investment.
- Loan finance loan criteria and extent of availability of such finance.
- Legal title legal title records ownership and consequent protection of private property rights.
- Land the extent to which land is made available affects the amount and price of housing stock supplied through the primary market and consequently the amount of stock available on the secondary market.
- Socio-cultural factors these factors are the complex way in which individuals' decisions on housing are made. Such decisions are often influenced by socio-cultural factors rather than an individual's rational choice to maximize self interest.

Housing ownership and growth in residential property values is perhaps the most significant way in which economic growth translates into asset accumulation and wealth creation for individuals.

**Residential Property Markets in South African Townships** Townships<sup>1</sup> in 'African areas' emerged in the early 1900's as South African towns began to be structured according to racial classification. Since they were first established African township property markets have been characterised by:

- Changing laws pertaining to land rights
- Poor social infrastructure and service delivery
- Poor and limited housing delivery
- Emergence of informal settlements amid legislative and regulatory resistance to such settlements
- Relocations of people

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<sup>1</sup> This section focuses on the Residential Property market for African areas as defined by the Group Areas Act only.

Township property markets can be divided into:

- *The formal market* The historical backlog - together with the lack of tenure rights and unresolved title deed claims, regulatory impediments to the transfer of properties (such as the linking of clearance certificates of municipal areas to the property rather than to the individual) and the restrictions to personal asset formation (such as inaccessibility of savings and mortgages) have all contributed to a thin formal property market.

The housing subsidy had stimulated the primary housing market in Townships, but has had the unintended consequence of distorting the development of the secondary housing market. Land for low income housing in Townships is supply driven and limited. There are significant legal impediments that prevent the formal resale of houses.

- *The informal market* In response to market and state failure, there is evidence that the informal property market in Townships is significant. The trade of property in this way does not necessarily empower vulnerable households and remains a second best option.

The Township Housing stock is far from uniform and embraces different historical origins and market dynamics. Townships have been divided into a number of sub-markets which have their own unique history and regulatory framework that makes it necessary to understand each as a separate case. Four distinct types of housing are identified; the first three of which comprise formal housing stock:

- *Old Township stock* Originally developed by the Apartheid government as rental housing, a significant proportion was transferred to households in the 1990's. This stock is old and in poor condition, but remains the best alternative for many households. For this reason, they are reluctant to sell. Demand for this stock is constrained by unemployment and poverty in the townships, with the more mobile household members buying elsewhere.
- *Private housing stock* Refers to freestanding housing units developed in the 1980's and sold as 99 year leasehold or freehold title. New supply of this stock has been constrained by the reluctance of banks to offer mortgages in townships.
- *RDP stock* As a consequence of the National Housing Subsidy Programme some 1.5 million RDP houses have been built since 1994. The quality and location of the housing relative to other amenities and economic opportunity is important to its resale value. In recent years, the amount of subsidy funding provided has declined.
- *Informal stock* These are dwellings erected by occupants on land demarcated for site and service schemes or on land without permission from the owner. In respect of the latter legislation and regulation has since 1920 been extremely negative and focused on removal rather than upgrading. In more recent years Government has recognised the need to upgrade such settlements although this is occurring on an adhoc basis and no policy is yet in place. The extent of trade in informal settlements is not known.

## ***Macro Trend analysis***

A macro trend analysis comparing the Labour force surveys of StatsSA for 1995 and 2002, reveals that the number of households in South Africa increased by some 28% during the period to 10,2 million. This is not only associated with population growth, but also with the splitting of households. It is possible that the splitting of the households is an unintended consequence of RDP housing, as families may split to maximize the likelihood of a subsidized house. When it is delivered, its location may not be as advantageous as existing informal housing, so the latter is retained.

The data points to the success of the RDP housing programme with an increase in the number of home owners.

The number of female headed households has increased in all accommodation categories, but particularly home ownership. This is likely to be an indicator of the success of the housing subsidy programmes.

There has been a decrease in the employment of household heads. This, together with low income levels of household members, and the impact of AIDS related deaths, suggests that households in the townships were under greater financial pressure in 2002 than in 1995. The splitting of households may hence be a consequence of harsh economic conditions.

## ***Conceptual Model and application to South African Townships***

Based on the literature review and macro trend analysis this section sets out a conceptual model of residential model, identifying the key dimensions necessary for these markets to be effective. The model and key dimensions are then applied to South African Townships, to determine the effectiveness of residential property markets in these areas.

The key components of the model of a working residential property market are as follows;

- ***Residential property markets*** are made up of two components, namely the primary and secondary markets, both of which require key inputs and processes.
  - *The primary market* comprises the development of new housing stock. The inputs to the primary market are land, finance, suppliers/sellers and buyers. The processes relating to the market are land identification and acquisition, land subdivision, servicing and release, dwelling construction and transfer of title.
  - *The secondary market* comprises the sale and transfer of already built housing stock by a willing seller to a willing buyer. The inputs to the secondary market are housing stock, finance, willing sellers and buyers. The processes relating to the secondary market are selling and buying of housing and transfer of title.

The Table below provides a summary of the dimensions of effective property markets and their application to South African Townships as defined in respect of this conceptual model.

## Dimensions of effective property markets and their application to Townships

Market	Dimension	Effective residential property markets	Township residential property markets
<b>Overall</b>	Primary market	Effective primary market that facilitates sufficient new stock to meet demand	Dysfunctional primary market
	Secondary market	Effective secondary market that stimulates demand within the primary market	Dysfunctional secondary market
<b>Primary</b>	Sufficient supply of land	Logical process that brings a sufficient supply of vacant, serviced sites to meet demand	Land in short supply and poorly located
	Sufficient supply of finance	Sufficient supply of finance to enable developers to acquire land and build housing stock and buyers to purchase the stock	Supply of finance severely limited
	Ease of performing transactions	Cost-effective and accessible/easy to understand processes that allow for the acquisition, servicing, development and transfer of land, undertaken in acceptable time frames	Extremely difficult, expensive and complex procedures
	Thickness	Many sellers able to realize an acceptable profit Many buyers who can afford and perceive value in the housing stock	Extremely thin market with few sellers and buyers who cannot access or afford the stock
	Good information	Good information on how the market works and which products are on offer	Limited and fragmented information
	Few barriers to entry and exit	Few barriers to entry and exit to allow suppliers to come and go and for buyers to choose the best suppliers	Significant legal, financial and social barriers to entry and exit.
<b>Secondary</b>	Sufficient supply of housing stock	Sufficient supply of stock to meet demand	Shortage of housing stock
	Sufficient supply of finance	Sufficient supply of end user finance to enable buyers to purchase housing stock	Supply of finance severely limited
	Land title	Land title critical to give property value and to ensure that it can be securely traded	Basics of land title absent in many places, land title is limited, tenure options are few and registration complex
	Ease of performing transactions	Cost effective and easy to undertake processes that easily allow for the selling process and transfer of title and occur within acceptable time frames	Processes complex, expensive and highly professionalised

Market	Dimension	Effective residential property markets	Township residential property markets
	Thickness	<p>Many willing sellers able to realize acceptable profits</p> <p>Many willing buyers who can afford and see value in the stock</p>	<p>Extremely thin market with few sellers and buyers. Sellers unwilling due to socio cultural factors, lack of title, inability to realize value and to purchase alternative stock.</p> <p>Buyers unwilling due to economic factors, inability to access finance and insecurity about title.</p>
	Good information	Good information on how the market works and products on offer	Information extremely limited

As detailed above, the Township property market exhibits a number of inhibiting factors, both in respect of primary and secondary markets the most significant of these being:

- Exclusion of the majority of South Africans from financial services This has translated into an inability to accumulate assets either through saving or mortgages. Financial exclusion has re-enforced the perceptions of the lack of creditworthiness of township households.
- High levels of unemployment of township residents, together with buying power being drawn to inner cities and suburbs. This has resulted in depressed demand.
- High levels of perceived risk This has long inhibited housing finance and mortgages and has more recently been seen to inhibit the activity of private housing developers.
- Absence of legal title in the townships Possession of legal title is a necessary, if not sufficient, condition for formal property transfer. Absence of title may be associated with township registers not having been opened or delays in the upgrading of the original form of tenure granted, to allow for transfer to take place.
- Regulatory and legal impediments These include the complexity of legal processes and the current linking of the transfer of assets to clearance certificates for municipal arrears.
- The shortage of land While the availability of land is a feature of the primary property market, the constraints that impact on land – such as identification and acquisition, development, land use regulations and titling and registration – all contribute to the shortage of low cost housing. This in turn, inhibits the secondary property market.
- The shortage of low cost housing This is related to the limited number of new housing starts relative to the backlog, poor accessibility of development finance and inflation erosion of the subsidy.
- The housing subsidy While the housing subsidy has stimulated the primary housing market, it has distorted the secondary housing market as possible recipients are reluctant to enter the housing market and pre-empt the government subsidy. The eight year resale restriction on subsidized housing has suppressed formal sales.
- Socio-cultural factors Housing is not perceived purely as an individual financial asset, but as a social and cultural asset. The house has use value for family members and is a

tangible mechanism by which socio-cultural ties can be retained, even when middle class families move to new suburbs. Domestic fluidity (retaining ownership of a number of homes) may be seen as a survival strategy for poorer households.

These factors have contributed to a thin formal housing market and the development of informal settlements and backyard shacks. The thinness of the secondary market ultimately undermines the potential of low-cost housing as an asset. To the extent that housing is not perceived to be an asset, the secondary market will languish and the ability for the housing stock to contribute to capital formation is undermined.

## **Conclusions**

On the basis of the literature review and analysis it is concluded that residential property markets in South African Townships are currently dysfunctional. There is breakdown in both the primary and secondary markets, both in terms of the inputs and processes applying to these markets, as well as the dimensions necessary for the effective functioning of such markets.

One outcome of this is informal housing markets characterized by:

- Extensive informal settlements and informal backyard rental.
- Informal trade whereby properties are being bought and sold through informal mechanisms.

It is concluded that while informal markets offer some advantages to their occupants they contribute to the vulnerability of the poor. However it is noted that caution must be applied in attempting to formalise informal markets.

The original hypothesis stipulated in the terms of reference for the research is that:

*The secondary property market in South African townships is ineffective and inefficient. This is due to the legal, institutional and procedural constraints that frame it, rather than the financial factors regularly identified by policy makers. Not only does this constrain the economic growth potential of these townships, it also undermines the asset creation potential of the state's subsidised housing scheme.*

While the research findings confirm that legal, institutional and procedural constraints are key inhibiting factors, it also indicates that they alone are likely to be insufficient conditions to facilitate an effective secondary market in African Townships. All indicators are that other conditions like economic and social factors have a fundamental impact on the current nature of the secondary market.

**These findings and the original hypothesis will be assessed in greater detail in Phase 2, the detailed research phase.**

# 1. Introduction

FinMark Trust, together with the Micro Finance Regulatory Council, the Ford Foundation and South African National Treasury has commissioned research into the workings of township residential property markets. The purpose of this study is to:

Understand the current dynamics of township residential property markets in South Africa, including the components that contribute towards their functionality and or dysfunctionality, and to frame this understanding in a conceptual model that might be analyzed in policy terms.

Inform policy and strategy directions which would result in the better workings of housing markets in township areas, which have previously lacked appropriate and effective access.

Inform policy and strategy directions on how to maximize the asset creation potential of the state's housing subsidy.

The work is being undertaken in four phases (see Figure 1 below) as follows:

**Phase 1: *General Research*** This phase focuses on understanding secondary residential property markets and their interaction with primary markets, as well as the legal and economic dynamics that relate to them. The research will be undertaken both generally and specifically in respect of townships and comprises a:

- Literature review
- Scoping of the residential property market and sub-sectors
- Macro trend analysis
- Review of legislation.

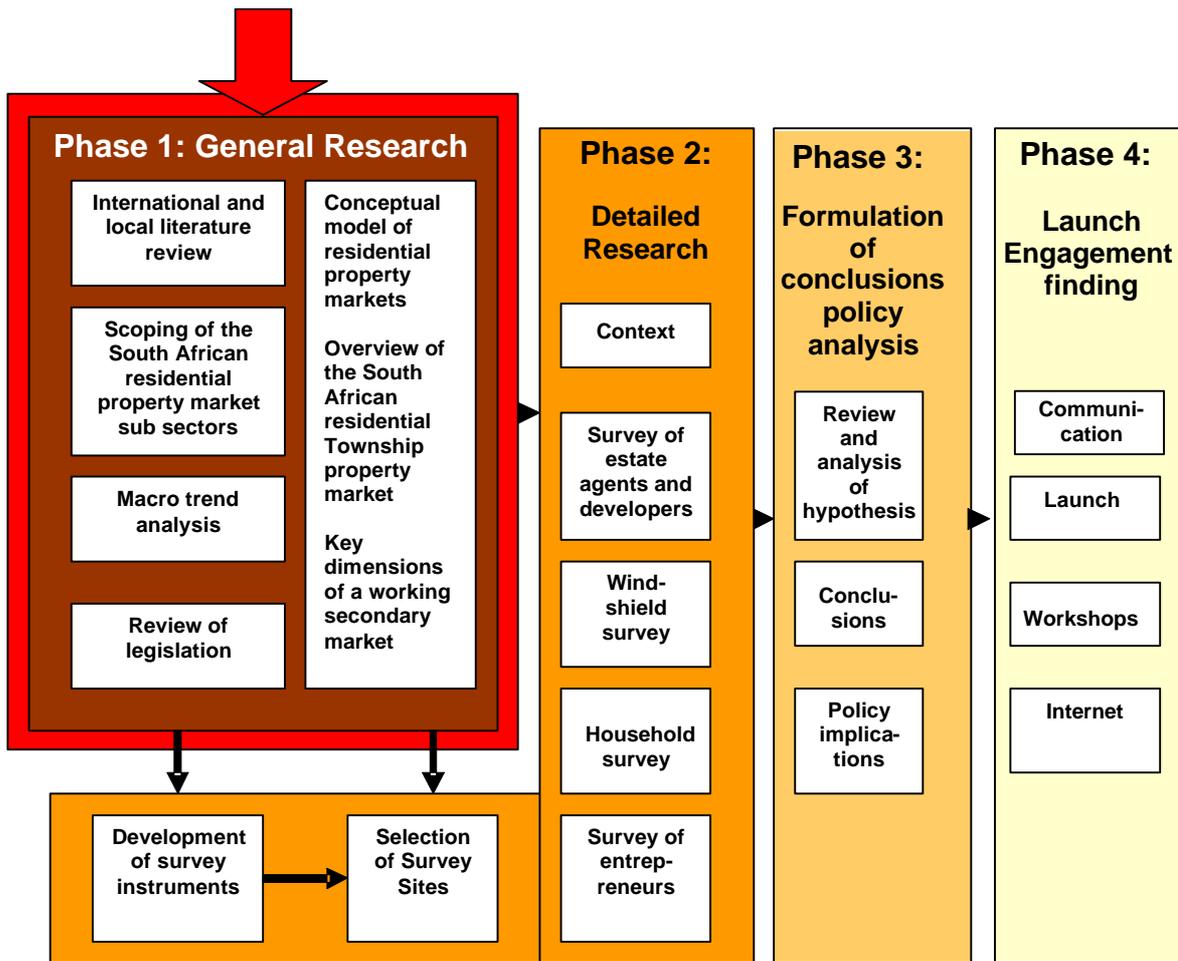
This research will be used to formulate a conceptual model of residential township property secondary markets, as well as the key dimensions of a working secondary market.

**Phase 2: *Detailed research*** This phase focuses on obtaining a detailed understanding of how Township residential property markets currently operate, with an emphasis on the secondary market. This research will comprise a field survey of 18 sites spread nationally and across selected sub-markets. This research will be used to obtain an understanding of key trends in respect of Township residential property markets.

**Phase 3: *Formulation of conclusions and policy implications*** This phase comprises summarizing the findings of the general and detailed research and formulating conclusions, as well as implications in respect of future policy.

**Phase 4: *Launch and engagement on findings*** This phase comprises the distribution of the research undertaken and the findings thereof to relevant stakeholders and decision makers through workshops, publications and general publicity.

**Figure 1: Methodology for the Research**



This report outlines the work undertaken in **Phase 1: General Research** and includes:

- Literature review
- Macro trend analysis
- Conceptual model of residential property markets and application to South African Townships
- Conclusions

The work undertaken in this Phase, as detailed in this report, will be used as the basis for designing the research instruments and methodologies to be used in the detailed research to be undertaken in Phase 2 and analyzing the findings of such research.

## 2. Literature Review

### 2.1 Overview

This section sets out the literature review, aimed at obtaining an understanding of residential property markets and the history and trends relating to South African Townships.

The review was undertaken through an internet search, as well as the use of libraries and professionals in the development sector. Previous research undertaken into residential property markets was also reviewed. The literature review was undertaken in respect of the following four perspectives:

- Economic dimensions
- Land markets
- Socio-cultural dimensions
- Legal aspects

In addition a scoping exercise was undertaken of the sub-markets comprising South African townships. The scoping included a short history of African Townships.

Separate papers were developed from each perspective and the scoping and these papers are attached in **Annexures A to E**. This section provides a summary of the findings in terms of:

- Residential property markets in general
- Residential property markets in South African Townships
- Legislation pertaining to residential property markets in South Africa
- Scoping of sub-markets in South African Townships

### 2.2 Residential property markets in general<sup>2</sup>

Housing represents both an economic asset and a service delivered by this asset (Jorgensson, 1997). It is both an investment - which has the potential to earn income through rental and business premises - and a consumption good. Home ownership is the most common form of household investment, primarily because housing is seen as an appreciating asset (Jorgensson, 1997).

In economic theory, a **functioning market** is generally associated with the following features:

Thickness – many buyers and sellers and many transactions, with the notion that as more transactions are made, the likelihood that the price reflects the economic value of the good increases.

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<sup>2</sup> This section is based on the Economic Dimensions unless otherwise specified. This analysis is set out in Annexure A.

Good information without this, both consumers and suppliers are unable to make rational choices. Increasingly, research is calling for targeted and transparent interventions by government, which would facilitate better information (World Bank, 2002b). Calls to allow for more transparent awarding of contracts and wresting control of financial access from developers, also fall into the category of improving information.

Freedom to exercise choice Unless the transaction costs which face consumers are outweighed by the benefits, choice may be constrained. Transaction costs which hamper the efficiency of the low-cost housing market and which undermine choice include costs (in time and money) of registering title, cumbersome development regulations, subdivision laws, and accessing finance (see for example, World Bank, 2002b). Provision of programmes that are affordable and enable effective demand are crucial to encouraging choice (World Bank, 2002b).

Few barriers to entry and exit to allow suppliers to come and go. The barriers which constrain entry may have varied origin. Government involvement in the housing market may grant monopoly rights to certain parties, or crowd-out other participants, such as in the case of subsidized mortgages to middle class Mexicans (World Bank, 2002a). Cumbersome regulations regarding who is permitted to develop property or offer finance may also provide protection for the incumbents and prevent entry of innovators. High, un-guaranteed, risk may also be seen as a barrier for private firms. Provision of guarantees to financiers has proved to be a successful mechanism to mobilize more players in several countries, including Chile (Almarza, 2001). Appropriate institutional arrangements can lower barriers to entry (World Bank, 2002b).

Low switching costs to enable consumers to take their business to firms that offer the highest quality for the lowest price. Where consumers feel they will be disadvantaged if they change their bank, or the area in which they live, they are likely to be constrained in their actions. While switching costs may involve transaction costs, they are broader in concept and may also involve loss of perceived privilege or position. An example of trying to reduce switching costs is the inclination of households in Karachi to move to ethnic enclaves as the major choice dominating migration (Ahmad, 1992).

**Key factors affecting residential property markets** include the following:

Supply of housing The supply of houses by a developer, is dependent on the expected return of such investment. There are a number of possible factors which may influence the decision to invest in housing, including legal and administrative constraints, the availability of institutional finance, the tax structure and other incentives and the availability of land and other infrastructure.

Loan finance Households cannot pay immediately or out of their savings for a house. For this reason, finance plays an important role in the provision of houses for either ownership or rental. Where individuals own an essentially illiquid housing asset, it may be made liquid by selling or borrowing against it. In many developing countries, the provision of finance to grant loans on existing housing or new housing is largely absent from certain low-cost

market segments, which means that there is no possibility for such capital formation (Jorgensson, 1999). The same may be said where public sector housing dominates and housing is never sold nor leveraged as security to raise funds (Almarza, 2001).

Legal title Housing demand may be ineffective where there are no effective institutions for protecting private property rights or recording ownership (Mayo, 1994). Where there is an absence of property rights, an informal system of entitlements may develop. Without full ownership or control, households may still have a degree of entitlement, simply by virtue of them having been in one place for a long time (Gilbert, 2002).

While this form of extra-legal entitlement may allow for transactions to take place, it can be capricious – and least available when it is needed most. Berner (2000), for example, points to examples where longstanding informal settlements are destroyed as the land on which they are situated becomes more valuable.

Effective demand The demand for housing is determined by demographic, economic and cultural/social factors:

- Demographic: includes household formation and composition
- Economic: includes household income, capacity to mobilize savings, access to credit and the number of people willing to invest (which depends on the incentives government creates such as secure tenure and registration systems).

Where demand is ineffectual, it cannot elicit a supply response from the private sector (although public agencies may step in). However, supply may be unresponsive even where demand is expressed through the market mechanism. Some reasons for this include perceptions of risk, poor basic infrastructure and monopoly control of housing resources, such as land, building materials or construction rights (Mayo, 1994). The availability of institutional finance seems particularly important (Jorgensson, 1997). There may be a lack of such finance because of public sector involvement and crowding out of the private sector, or because access to finance remains under the control and influence of certain developers, or because the private sector banks have rules of thumb that keep them out of the low-cost housing market (World Bank, 2002a and 2002b).

Land Land is an important component as it affects the amount and price of housing stock supplied through the primary market and thereby the amount of stock available on the secondary market. The quantity and price of land is affected by infrastructure investment, location, topography, willingness of landowners to make land available on the market and Government restrictions on the use of the land (zoning, land use controls, registration).

Socio-cultural factors The Socio-Cultural analysis - see Annexure B - indicates that there is a growing amount of anthropological literature that questions the mainstream economic and legal models of formal market dynamics. These dynamics include assumptions such as:

- Individuals make decisions based on rational choice principles and maximizing values of self interest.

- Legal title allows the poor to use property as collateral to access loans from formal financial institutions and can stimulate the emergence of secondary housing markets and vibrant entrepreneurial activity. [This is the view put forward by Hernando De Soto].
- It is in the interests of the poor to engage with formal systems including legal procedures and formal housing markets and financial institutions

The literature draws attention to the socio-cultural dimensions of housing markets, and the complex way in which individuals and social groups make decisions in relation to housing.

Critics of the de Soto thesis - Alan Gilbert (2002) and Peer Smets (2003) - make the point that legal title alone will not provide poor households living in degraded areas - such as South African Township - with access to loans from formal financial institutions. Neither is legal title on its own likely to result in the creation of a secondary housing market. Efficient land markets are determined by the availability of land, a competitive environment and an ample supply of finance capital to fund construction.

In addition a number of studies draw attention to socio cultural obstacles to the creation of formal residential property markets and thereby question de Soto's assertions and the assumptions detailed above. These studies indicate that housing is often not perceived as simply an individually owned financial asset, but is also understood as a social and cultural asset. In this regard the following is noted:

- Properties are often seen as a family asset rather than an individual asset which can be readily sold on the market. The house has use value for many members of the family and not just the individual. In addition it may provide shelter for many family members who contribute to the household income.
- The decision by an individual to sell a 'family house' could be interpreted as anti-social and selfish behaviour and could create tensions in the family
- Anecdotal evidence suggests that many middle class Africans retain ownership of a township house as a way of retaining socio cultural ties to family and community. In addition retaining such a house can also be a sign of respect for the memory of parents and grandparents who struggled to acquire the house. Some middle class Africans have handed over their township house to the community for social uses as an expression of community solidarity.
- Anthropological studies use the term domestic fluidity to describe the practice of low income households who retain ownership of a number of homes in rural and urban areas, so as to be mobile in accessing employment and also to fall back on, should things go wrong.

## **2.3 Residential Property Markets in South African Townships**

### **2.3.1 Background**

Townships<sup>3</sup> in 'African areas' emerged in the early 1900's as South African towns began to be structured according to racial classification. An overview of the history of housing for the African population in South Africa is detailed as part of the scoping analysis in Annexure C, Appendix 1.

The separation of residential areas for Africans from the rest of the town is noted as early as 1914 and was formally legislated in 1923 with the promulgation of the Native [Urban Areas] Act. In the urban areas this was further reinforced through the Group Areas Act of 1950 which provided stricter implementation of the policy of segregated residential areas and the Black Communities Development Act, Proclamation R293 of 1962 in Trust Areas, National Home Lands and Independent Statues.

From the early 1900's African Townships property markets have been characterized by:

- Changing laws pertaining to rights to land, with rights being given and taken away at different times over the last 100 years
- Poor social infrastructure and service delivery as a result of the fact that up until 1980 townships for Africans were seen as temporary areas
- Poor and limited housing delivery, often at inappropriately high standards which resulted in housing shortages and overcrowding
- The emergence of informal settlements and legislative and regulatory resistance to their consolidation and upgrading
- Relocations whereby people were moved from one area to another often without any compensation

All of these factors have resulted in creating a particular housing market with unique characteristics.

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<sup>3</sup> This section focuses on the Residential Property market for African areas as defined by the Group Areas Act only.

### 2.3.2 The Formal Market<sup>4</sup>

The Formal residential property market in the Townships is very thin. There is very little statistical information as to the reasons for this. Nonetheless there are a number of themes that emerge which contribute to both weakness in demand and supply as follows:

**Lack of effective demand** Would be owners of township houses are unable or unwilling to pay for housing due to:

- High levels of unemployment in the townships
- Those with higher incomes would prefer to live outside the townships such as in the city centre
- Low disposable income – lower income households have constrained resources to spend on housing

**Financial exclusion** There are currently three forms of end user finance provided by financial institutions in South Africa namely mortgage loans, micro loans and pension backed loans.

Generally households living in Townships experience financial exclusion which can take two forms:

- Involuntary financial exclusion The vast majority of South Africa's population does not have access to formal financial services including savings and mortgages. The number of housing finance options available to consumers increases with income. Banks have progressively moved out of the low income market and the number of banks servicing the low end of the market has decreased. The literature indicates that the reason for this is that it is not profitable for banks to offer mortgage loans to low income households and most banks perceive this market to be risky and uneconomical.

Furthermore banks believe they cannot realize their security as sales in execution cannot take place. As a result of this, the opportunity and ability to leverage housing as a mechanism for other financial needs is small.

- Voluntary financial exclusion There is a suggestion in the literature that there is a weak demand for mortgage debt. Rather than over extending themselves with such long term debt, poor debt-adverse households may prefer shorter commitments [Gilbert 2002].

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<sup>4</sup> This section comprises a summary of the Economic Analysis unless otherwise specified. This analysis is set out in Annexure A.

**The housing subsidy** The housing subsidy has stimulated the primary housing market in Townships, but has had the unintended consequence of distorting the development of the secondary housing market. A number of factors may be identified in this regard:

- Poor households may be reluctant to enter into the housing market and assume the financial responsibilities of paying for a house when there is a possibility that a fully subsidized house may still come their way.
- Given that the house has come for 'free' in some circumstances this undermines the perceived value of the house.
- The eight year resale restriction for subsidized housing [see 2.4 below] suppresses formal sales.

**Land<sup>5</sup>** Land for low income housing in Townships is supply driven. The Townships were established in specific locations through government policies. The main activities that government influences in relation to land are:

- Land identification and acquisition: There are significant constraints and requirements in respect of land identification and acquisition in the Townships resulting in delays and high costs. In South Africa land for African Townships has always been in short supply.
- Land development and release: There are also significant constraints with respect to land development and release. The constraints generally relate to the high capital costs of obtaining development approval and servicing. In addition long time frames apply, especially in Townships where township registers have not been opened (see 2.4 below).
- Land use regulations: The application of land use regulations in Townships is poor, which leads to the physical degradation of these areas and an undermining of property values.
- Land titling and registration: The process of bringing land into the formal market through a publicly known and justifiable process that is the backbone of the land market. There is strong debate in the literature on whether security of title is necessary to stimulate a secondary market and assist the poor in generating wealth from their asset. It is noted that in the context of low income households in developing countries, formal land title is not necessarily attractive and formalisation of land rights may initiate a process whereby the poor lose the only land rights they already have. Even de Soto cautions on making informal systems formal and talks of understanding how informal processes work and then finding a way to 'build a bridge' between the two.

**Shortage of low cost houses** The shortage of secondary houses on the market has much to do with the shortage of primary housing and new starts. There appears to be a shortage of the supply of new township houses across the board due to the fact that numbers of old Township stock have remained unchanged, private sector housing has stagnated and there is a reduction in the numbers of RDP housing projects being undertaken [see 2.5 below]. Other problems relate to difficulties in accessing development finance from banks and subsidy erosion through inflation. This suggests a stagnating primary market. In addition owners of stock are reluctant to sell for the following reasons:

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<sup>5</sup> This section is based on the Land analysis Annexure E.

- Poor economic mobility of owners
- The subsidy mechanism has provided disincentives
- Over capitalization where owners would not realize the investment in their houses in decayed areas
- Houses may supply owners with their only form of income
- The houses represent social capital and value in use which is not captured in the potential sale price

**Legal impediments** The absence of legal entitlement prevents the formal re-sale of houses. Where informal sales take place, they are likely to reap lower benefits for the seller than if the process is carried out formally, with legal tenure part of the exchange. The complexity of the legal processes and the high transaction costs are also likely to discourage potential purchasers. There are obstacles to purchasing like the linking of property transfer to obtaining clearance certificates.

**Household mobility** Generally in the townships it would appear that the wealthier members of households are mobile and will move out of the townships. Poorer households are less mobile and therefore remain behind in deteriorating housing. Others may not want to exercise the exit option because of personal history and loyalty.

**Housing as an asset** The thinness of the market ultimately undermines the potential of low income housing as an asset. To the extent that housing is not perceived to be an asset, the secondary market will languish and the ability for the housing stock to contribute to capital formation is undermined.

### 2.3.3 The Informal Market

The informal market in Townships is significant. This takes the form of informal settlements, backyard shacks and informal sale of land and dwellings. The informal housing market in Townships is primarily an outcome of market and state failure.

While formally acceptable legal entitlement to a property, such as freehold title, is a problem in many Townships, the literature indicates that trade of properties still takes place, as *de facto* ownership is tradable (Rutsch Howard, 2003). In the absence of legal formality, recourse to traditional observances may be made, such as the performance of the sale or transfer in the presence of an 'official' witness. The experience in Folweni suggests however that trade of property in this way remains a second-best outcome, as only a weak record of rights remains, which is not without dispute.

There is no real suggestion that informal activity arises from a reluctance to act within the formal market (Rutch Howard, for example, suggests that the informal market is not hostile to the formal market, and Morange (2003) suggests that the backyard residents want to be compliant). Indeed, whichever way one looks at it, informal does not mean cost-less and is the default option, rather than the option of choice.

The Social Cultural Analysis detailed in Annexure B notes that there are advantages to living in informal housing circumstances particularly for ease of access for very low income households. These advantages include:

- Building standards and regulations, by laws and transfer procedures do not have to be complied with
- Service and rates levies do not have to be paid
- Informal settlements provide a more affordable form of accommodation and lifestyle
- Formal housing comes with costs of proper living. Lifestyle expectations in terms of furniture and household appliances increase

It is for these reasons that the literature suggests that in some cases households provided with formal tenure lapse back into informality.

In South Africa, for historical reasons, the former white suburbs characterise all the elements of a formal market. However, this market is increasingly shrinking in the face of increasing informal development, raising concerns that such developments pose a threat to the formal system. Attempts to bring informal areas into the formal market are therefore important, not just for the secondary markets in Townships but for the viability of the entire market.

## **2.4 Review of Legislation<sup>6</sup>**

There are a number of legislative issues which impact negatively on and constrain the functioning of the secondary market in African Townships. These issues are detailed in Table 1 below.

**Table 1: Legislation impacting on the secondary residential property market**

<b>Legislation</b>	<b>Legal constraints to the secondary market</b>
The Housing Act, 1997 [Act No. 107 of 1997]	In section 10A the Act contains a provision prohibiting for a period of 8 years the sale of a property having had the benefit of a government housing subsidy unless the property is first offered to the relevant Province. The person is entitled to another subsidy, but is not entitled to any compensation for the house. This clause takes away a very important component of ownership – the right to sell the property and realize a profit.  The housing subsidy scheme is a programme in terms of the Act.
The Municipal Systems Act 2000 [Act No 32 of 2000]	Section 118 of this Act imposes a restraint on the transfer of a property without a clearance certificate. The effect is that in many cases property transfers are substantially delayed.

<sup>6</sup> This section is based on the Legal Analysis (see Annexure D)

Legislation	Legal constraints to the secondary market
The Deeds Registries Act, 1937 [Act No. 47 of 1937]	<p>The Act determines the whole deeds system in South Africa specifying the way in which transfers and bonding of properties are affected.</p> <p>This Act prescribes:</p> <ul style="list-style-type: none"> <li>- the fees payable to the deeds office for certain transactions, including registrations of transfers and bonds.</li> <li>- Recommended fees to be charged by conveyancers in attending to these functions, and which impact on the cost to the consumer for the acquisition and bonding of a property.</li> </ul> <p>The current registration system requires the opening of township registers and this is a serious delaying factor in getting first generation transfers done. In many RDP projects people have taken occupation of their homes but still do not have title. The reasons for the delays are varied and include deeds office staff requiring bribes, incompetent conveyances, problems in getting mineral and minting rights cancelled etc.</p>
Upgrading of Tenure Rights Act, 1991 [Act No 112 of 1991]	This Act upgrades various old apartheid related forms of title to ownership. This however does not apply to all forms of tenure and implementation of this has been slow.
Stamp Duties Act, 1968 [Act No 77 of 1968]	This Act provides that stamp duty is payable on certain items including mortgage bonds with no exemptions.
Transfer Duty Act, 1949 [Act No 40 of 1949]	This Act in section 2 imposes a duty on the transfer of properties. The rate applicable to properties whose value is below R140 000 is 0% hence it is effectively exempting properties in the low income housing market. VAT is payable in respect of first generation transfers of property from a developer to a buyer buying a new property.
Alienation of Land Act, 1981 [Act No 68 of 1981]	Chapter 2 of this Act deals with the sale of a property on instalments. It allows the parties to a sale to negotiate their own agreement in terms of repayment. It is a mechanism that could assist the secondary low income market in the absence of bond finance.
The Estate Agency Affairs Act, 1976 [Act No 112 of 1976]	This Act imposes certain obligations on estate agents such as to apply for fidelity fund certificates, to keep account records and similar provisions relating to their conduct.
The Constitution of the Republic of South Africa, 1996 [Act No 108 of 1996]	The Constitution acknowledges the right of access to adequate housing and it places an obligation on the state to take reasonable legislative and other measures within available resources to achieve the progressive realization of this right.

Legislation	Legal constraints to the secondary market
Intestate Succession Act 81 of 1987	In terms of the law on intestate succession, which dictates that only a male who is related to a black person who dies without a will can inherit property in respect of the deceased's estate. This has a significant impact in respect of black females and Aids orphans who in respect of this law are unable to inherit property. The South African Law Commission is currently looking into this and a draft Bill has been prepared.

## **2.5 Scoping of the South African Township Market**

In order to scope the South African residential property market it has been divided into a number of sub-markets which can be classified in terms of the type of housing that occurs within that sub-market. While these sub-markets all occur within the broad framework of South African townships and were subjected to the broad political and legislative framework that framed these areas, they each have their own unique history and regulatory framework that makes it necessary to understand and analyze each as a separate case.

Four categories of sub-markets have been classified as follows:

- Old Township stock
- Private sector stock
- RDP stock
- Informal stock

Table 2 outlines key characteristic in respect of each of these sub-markets. The research in Phase 2 will seek to clarify the way in which these apparently different markets operate, as well as the degree to which households move from one to the other.

**Table 2 : Overview of sub markets in South African Townships**

Sub-Market	Definition	Extent and history	Key legislation and regulation issue	Aspects of the secondary market
<b>Old township stock</b>	A formal housing unit including freestanding houses, row and semi-detached houses and flats. The stock was provided by Government [national, provincial or local] so as to provide rental housing to Africans. The most common form of house provided in respect of African Townships was a four-roomed house typically known as a 51/6 or 51/9 [provided with an internal toilet]. The stock is provided as rental tenure.	This stock was developed between 1948 and 1960. During the period 1991 to 2003 the Government undertook a programme to transfer this stock to private ownership. Between 1991 to 1995 this stock was the focus of mortgage finance which was used for upgrading purposes. It is estimated that 878 000 houses were developed of which 378 000 have been transferred into private ownership and 500 000 remain in government ownership.	The stock is usually managed by a dedicated dept of the relevant sphere of govt. In most cases the following applies: <ul style="list-style-type: none"> <li>• It is old and in poor condition</li> <li>• Costs to administer and maintain the stock are high and this is generally not undertaken</li> <li>• Credit control is poor and there are high arrears</li> </ul> Relevant legislation is the Rental Housing Act, 50 of 1999. A programme to transfer the stock to qualifying occupants commenced in the late 1980's and is still ongoing.	There are few buyers and sellers due to factors including: <ul style="list-style-type: none"> <li>• Unemployment and poverty</li> <li>• Absence of alternative housing opportunities</li> <li>• Occupants/owners are older</li> <li>• Housing remains in the ownership of the family, being passed from one member to the other rather than being sold</li> <li>• Stock may have backyard shacks and therefore may generate rental income</li> <li>• Lack of title deeds</li> </ul>
<b>Private housing stock</b>	Unsubsidized formal housing developed by the private sector. This category can be further subdivided into middle income and upper income housing sub-sectors on the hypothesis that the dynamics in respect of the secondary market in these two sub-sectors differs significantly. The type of housing typically comprises a formal freestanding housing unit developed by a private sector developer who sells the unit to a buyer on some form of long term leasehold [99 years] or freehold title.	Development commenced in the first half of the 1980's after the promulgation of 99 year leaseholds. Initially this form of housing was funded by the Banks through mortgage loans but towards the mid 1980's lack of affordability and the defiance campaign resulted in non payment and default. Banks withdrew from the market and a number of initiatives were undertaken to entice them back into the market [Home Loan Guarantee Company, the Record of Understanding, the New Deal, the National Housing Finance Corporation and Nurcha]. Despite these initiatives the market has not normalized resulting in the continued reluctance of the Banks to participate.	Key legislation includes : <ul style="list-style-type: none"> <li>• Provincial Township Establishment Ordinances</li> <li>• Less Formal Township Establishment Act.</li> <li>• The Development Facilitation Act</li> <li>• Other regulations and Acts relating to engineering standards and the structural quality of the house.</li> </ul> The extent of delivery is not known.	Activity in this market is constrained by unemployment and low household income and the absence of suitable financial products.

Sub-Market	Definition	Extent and history	Key legislation and regulation issue	Aspects of the secondary market
<b>RDP housing stock</b>	RDP stock comprises housing stock built as part of the national housing subsidy programme since 1994. The stock comprises either a formal freestanding housing unit provided on an ownership basis, a flat, cluster or free standing house provided for rental or a site with funding for the development of a dwelling.	These are houses provided through the Government national subsidy programme since 1994. It is estimated that some 1,48 million houses have been build or are under construction. While initially undertaken by the private sector, due to a change in government policy, this stock is now being developed predominantly by the public sector. Due to low returns the large private sector developers have withdrawn from the market. The number of houses built peaked in the 1998 and 1999 financial years but since that date has decreased and this trend is expected to continue.	The Housing Subsidy Scheme it administered by Provincial Government. The Housing Act, 1997 [Act No 107 of 1997] has particular relevance as the subsidy scheme is a programme of the Act. More importantly is the requirement that a subsidized house cannot be sold for an 8 year period after occupation without it being offered first to the relevant Provincial Government.	The quality and location of this stock influence the use value and re-sale value of the stock. Well located RDP stock is likely to have a higher perceived value. Anecdotal information is than these properties are being sold informally for low cash values [R4 000 to R5000] often as last resort survival attempts by households who may return to informal settlements. The extent to which this stock is being upgraded is not known.
<b>Informal stock</b>	Informal stock comprises informal dwellings erected by the occupants using non conventional building materials. This sub-market can be further sub-divided into informal settlements where the structures have been erected on the land without permission of the owner and site and service schemes where the structures have been erected on the land with permission of the owner (normally Government) and may include a transfer of title to the occupant of the shack either initially or over time.	Informal settlements first emerged between 1929 and 1948 when there was a large influx of people into the urban areas due to poverty and the labour needs of an expanding industrial and commercial sector. Legislation and regulation of this form of settlement was extremely negative and focused on removal rather than upgrading. Key legislation was the Prevention of Illegal Squatting Act of 1951. Since 1994 there has been a continued expansion of informal settlements. Government is now recognizing the need for upgrading these settlements although this is occurring on an adhoc basis and no policy is yet in place.	Key legislation includes : <ul style="list-style-type: none"> <li>• Trespass Act</li> <li>• Prevention of Illegal Eviction from Unlawful Occupation of Land Act.</li> </ul>	The extent of trade of informal settlements is not known. There is debate as to whether the provision of legal title stimulates upgrading and trade. The development of an area depends on it's location to economic opportunities and services.

### 3 Macro Trend Analysis

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A review was undertaken of macro trend data including the population Census, October Household Survey [and its successor the Labour Force Survey] and Reserve Bank data. On the basis of this review the October Household Survey for 1995 and the Labour Force Survey for 2002, were selected as they offered the best and most comparable data in terms of the research. These surveys are undertaken by Statistics South Africa and are annual surveys which gather information on approximately 140 000 people living in 30 000 households throughout South Africa.

Data pertinent to this study was extracted and is detailed in Annexure F. While an effort has been made to compare the changes in the two datasets, the 2002 data set is slightly more expanded and there are not always comparable data for 1995. The data specifies information in respect of the following categories of housing:

- Ownership which comprises households who have registered title over the properties in which they live.
- Formal rental which comprises households who live in a property with consent from the owner/landlord or their agent. The type of housing includes a house or brick structure on a separate stand, flat or apartment, townhouse, cluster or semi-detached house or a unit in a retirement village.
- Informal rental which comprises households who live in a property with consent from the owner/landlord or their agent. The type of housing includes a dwelling, house, flat, shack or informal dwelling or room in a backyard and a room or flatlet.
- Informal settlement which comprises households living in an informal dwelling on a piece of land without the consent of the owner.

The data compares:

- All South African households
- Households living in the metropolitan areas
- Township households living in metropolitan areas.

### 3.1 Change in accommodation arrangements

**Table 3 : Change in Accommodation arrangements 1995-2002**

TOTAL ACCOMMODATION	Owned	Formal rental	Informal rental	Informal	Total
<b>1995</b>					
Number of households [h/h]	3,900,000	3,200,000	773,000	424,000	8,297,000
% of female heads of households [hh/h]	29	24	29	31	
No of h/h members [mean]	4.4	3.8	4.1	4.2	
<b>2002</b>					
Number of households	5,626,000	3,194,000	874,000	945,000	10,639,000
% of female heads of households	39	30	33	34	
No of h/h members [mean]	4.3	2.6	2.5	3.3	
Change in number of h/h	44.3%	-0.2%	13.1%	122.9%	28.2%
Change in % of female hh/h	34.5%	25.0%	13.8%	9.7%	
Change in no of h/h members	-2.3%	-31.6%	-39.0%	-21.4%	

The number of households measured has increased across the board. In 2002, there were some 10.6 million households, up from 8.2 in 1995, representing an increase of some 28%. This indicates growth of the population during this seven year period, although at the same time, the size of households has decreased. The increase in the number of households who own their own homes has increased by some 44% in the seven year period and must be seen to be largely a consequence of the roll-out of RDP houses.

At the same time, the increase in the number of households living in informal settlements has increased dramatically, by close to 123%. This is likely to be because the pace of urbanization has outstripped formal housing delivery. It is believed that the increase in the number of households living in informal settlements may also partly be the consequence of the RDP roll-out. Given that those in informal settlements are most likely to be the recipients of RDP houses, likelihood of access to a subsidized house increases if the household employs a multiple queuing strategy, by being in more than one informal settlement.

The increase in the number of female headed households, together with the shrinking of household numbers may indicate that more women have been able, required or compelled, to set up households. Economic strategies and the effect of AIDS related deaths may play a role here. It has been suggested that the roll-out of RDP houses in areas that may not be appropriate to the social and economic needs

of the population have actually split households, so that while part of the household moves to the new state subsidized house, the rest continue to live where they were. This is also consistent with the notion of the survival strategy of the poor discussed elsewhere in the report.

### 3.2 Household profile

**Table 4 : Total Household profile 1995-2002**

HOUSEHOLD PROFILE	Owned	Formal rental	Informal rental	Informal
<b>1995</b>				
% of hh/h who are African	56	66	91	95
Mean no. of employed h/h members	1.2	1.2	1.1	1
% of total hh/h who did paid work in last 7 days	62	76	70	61
<b>2002</b>				
% of hh/h who are African	68	72	75	95
Mean no. of employed h/h members	1	1.1	0.9	0.9
% of total hh/h who did paid work in last 7 days	36	61	50	42
Change in number of African hh/h	21.4%	9.1%	-17.6%	0.0%
Change in mean no. of employed h/h members	-16.7%	-8.3%	-18.2%	-10.0%
Change in no of hh/h who did paid work in last 7 days	-41.9%	-19.7%	-28.6%	-31.1%

An increasing number of households with African household heads have ownership, which is consistent with the suggestion that the increase in ownership is associated with the RDP housing roll-out. While the number of Africans headed households living in informal rental has declined, the proportion living informally has not changed.

The employment picture is grim, however, with a decline across the board in the number of employed household members (this may also reflect the splitting of the household mentioned above). The percent of household heads that did paid work in the last seven days has decreased for all categories of accommodation, and nearly halved for those who own their own homes. This again seems to reflect the subsidy – which has allowed even those without regular employment access to home ownership.

### **3.3 African Townships**

In Table 5, data from African townships situated in the metropolitan areas of South Africa for 1995 and 2002 is compared. The data reflects the trends of the overall changes seen in Table 3 above. Most markedly, is the dramatic increase in households in all types of accommodation. While the number of households in owned or formal rental have increased sharply by around 75%, it is the increase in informal rental and informal settlements that is most marked, with a rise of close to 100% and 160% respectively. This confirms anecdotal evidence of a substantial influx into informal settlements and an increase in the number of backyard shacks. While the size of the average household has shrunk, it cannot alone account for the increase in the number of households.

In Table 5, the trend towards an increasing number of female headed households, apparent in the aggregated data is confirmed. In particular, the increase in the number of female headed households who own homes and who rent informally is apparent. In her study of backyard shacks, Morange (2003) reports that backyard shacks in formal townships which may be informally rented are seen as more secure environment than informal settlements. This may account for the increase in the number of female headed households renting informally, rather than living in informal settlements. In both 1995 and 2002, the highest incidence of unemployment occurs in households living in informal conditions. However, the data shows that these levels have declined even further in 2002. Some of this may be accounted for by the splitting of the household.

**Table 5 : African Townships 1995 and 2002**

African townships in metros	Owned	Formal rental	Informal rental	Informal
<b>1995</b>				
Number of households	422,000	449,000	185,000	153,000
% of female heads of households	25	22	16	28
No of h/h members	4.6	3.9	3.2	4.2
Mean education level all hh/h	9.3	7.9	8.1	6.6
Mean age of hh/h	45	45	43	39
% of hh/h who are African	99	99	100	100
Mean no of employed h/h members	1.5	1.4	1.3	1.1
<b>2002</b>				
Number of households	752,000	773,000	357,000	397,000
% of female heads of households	40	26	23	30
No of h/h members	4.5	2.5	2.5	3.2
Mean education level all hh/h	9	9	9	8
Mean age of hh/h	48	42	37	45
% of hh/h who are African	97	97	99	99
Mean no of employed h/h members	1.1	0.9	0.9	0.9
Change in number of households	78.2%	72.2%	93.0%	159.5%
Change in female hh/h	60.0%	18.2%	43.8%	7.1%
Change in no of h/h members	-2.2%	-35.9%	-21.9%	-23.8%
Change in no h/h members employed	-26.7%	-35.7%	-30.8%	-18.2%

### 3.4 Metropolitan areas

Table 6 confines the comparison to metropolitan areas and African Townships for 2002, showing that the number of households who owned their accommodation in African townships made up 39% of all metropolitan households in 2002. This represents an increase, as in 1995, this share was 35%. African households who have formal rental make up half of those in formal rental and over three quarters of those in informal rental and informal settlements. The proportions of the latter two categories have changed very little, in spite of an increase in ownership of formal homes, which points to ongoing urbanisation of the population. In absolute terms, the number of African households in informal accommodation in metropolitan areas has increased by close to 160%.

The data in Table 6 suggests that where households own their accommodation, households in the African Townships are more likely to be female-headed and have a slightly younger household head, have more household members and a lower average level of education than for the broader metropolitan population.

**Table 6 : Profile of Metropolitan Households 2002**

Metro Households	Owned	Formal rental	Informal rental	Informal
<b>Metro Total 2002</b>				
Number of households	1,917,000	1,390,000	474,000	482,000
% of female heads of households	29	33	29	30
No of h/h members	3.9	2.6	2.4	3.2
Mean education level all hh/h	10.4	9.5	8.6	7.5
Mean age hh/h	51	46	41	46
% of hh/h who are African	45	66	88	97
<b>African Townships in Metros 2002</b>				
Number of households	752,000	773,000	357,000	397,000
% of female heads of households	40	26	23	30
No of h/h members [mean]	4.5	2.5	2.5	3.2
Mean education level all hh/h	9	9	9	8
Mean age of hh/h	48	42	37	45
% of hh/h who are African	97	97	99	99
Share of African hh/h in Metros 1995	35.2%	51.0%	73.4%	82.7%
Share of African hh/h in Metros 2002	39.2%	55.6%	75.3%	82.4%

Table 7 focuses on employment and income data for 2002, comparing households in the African townships with all metropolitan households. The data on employment show that on average, households who own their homes in the townships earn less than half that of the average metropolitan household, and two thirds of those renting accommodation formally. This goes some way in explaining the apparent lack of effective demand in the African townships for non-subsidised housing. The households in informal settlements earn much the same regardless of whether they live in the African townships or not. The data suggests that those who occupy informal accommodation and who rent informally would qualify for fully subsidized housing.

**Table 7 : Employment and Income in Metropolitan Households 2002**

Metro Households	Owned	Formal rental	Informal rental	Informal
<b>Metro Total</b>				
Mean no. of employed h/h members	1.3	1	0.9	0.9
Total households earning p/m [mean]	6,500	3,000	1,800	1,300
No of h/h members [mean]	3.9	2.6	2.4	3.2
<b>African</b>				
Mean no of employed hh members	1.1	0.9	0.9	0.9
Total households earning p/m [mean]	3,000	2,000	1,700	1,400
No of h/h members [mean]	4.5	2.5	2.5	3.2

### **3.5 Female headed households in African Townships**

In Table 8, the average employment profile of households living in African townships is compared to that of the average female headed household in the townships for 2002. The data here are for the households head in each case. It is apparent that the female headed households are less likely to have earned income over the past week, and there is a substantial difference in employment, with only 29% of female heads of households who own their accommodation employed, compared to 40% of those for all African township households. Thirty-six percent of the female headed households renting accommodation had regular employment. While this is slightly higher than the number who own their own homes, which may be indicative of the role of the subsidy in enabling female home ownership, the data suggests that with around two-thirds of the female headed households without employment, there is unlikely to be much demand in the secondary housing market from this source.

The increase in the number of metropolitan households whose head is a female rises from 20% to 29% between 1995 and 2002, which may be indicative of a social

survival strategy on the part of the family. Such female headed households may be receiving remittances from elsewhere.

While there is no data on the income of female headed households, the indications are that these households earn less than their male counterparts. Household heads are more likely to be self employed where there are lower levels of formal income, although the income from this may be low – with only 17 per cent of all households in township informal accommodation indicating that they received income over the past week.

**Table 8 : Female headed Households in African Townships 2002**

African Households In Metros	Owned	Formal rental	Informal rental	Informal
<b>African</b>				
% of total hh/h who did pd work in last 7 days	43	53	54	43
% of total hh/h who have permanent work	40	43	40	34
% of hh/h employed in govt sector [total]	21	10	6	4
% of hh/h employed in private sector [total]	53	72	74	75
% of hh/h self employed [total]	16	13	15	17
<b>Female hh/h in African townships</b>				
% of total female hh/h who did paid work in last 7 days	27	33	33	17
% of total hh/h who have permanent work	29	36	34	21
% of female hh/h employed in govt sector [total]	26	9	5	3
% of female hh/h employed in private sector [total ]	51	73	68	75
% of female hh/h self employed [total]	19	16	23	21

### **3.6 Access to services**

The data in Table 9 details access to services of all households. The data shows improved access to water sources for those in formal and informal rental. Households in all categories of accommodation show improved access to electricity and the use of electricity as the main source of lighting, but particularly marked is the improved access for households in informal settlements, with roughly a fifth more households using electricity as their main source of lighting. This points to the increase of site and service schemes and the change in Government policy towards

the upgrading of informal settlements. Most households indicate improved service in terms of collection of refuse.

**Table 9 : Access to services: Total 1995 and 2002**

ALL HOUSEHOLDS	Owned	Formal rental	Informal rental	Informal
<b>1995</b>				
% of h/h with main water source piped to stand	80	84	76	55
% of h/h who use elec as main source of lighting	79	76	64	39
% of h/h who have toilet on site	82	84	79	66
% of h/h with weekly refuse collection	69	57	52	58
<b>2002</b>				
% of h/h with main water source piped to stand	75	86	90	44
% of h/h who use elec as main source of lighting	87	83	75	47
% of h/h with weekly refuse collection	62	67	81	70
Change in % of h/h with main water source piped to stand	-6.3%	2.4%	18.4%	-20.0%
Change in % of h/h who use elec as main source of lighting	10.1%	9.2%	17.2%	20.5%
Change in % of h/h with weekly refuse collection	-10.1%	17.5%	55.8%	20.7%

### **3.7 Findings of the macro trend analysis**

The data shows a substantial shift in accommodation patterns between 1995 and 2002, with the following apparent trends:

- An increase in home ownership in all areas
- An increase in home ownership in the African townships
- An increase in households living in informal rental and informal accommodation, particularly in African townships in the Metropolitan areas.

There has been an increase in the number of households. This is associated with population growth, but also with an apparent splitting of households as the size of households has decreased. The reason for this is thought to be the RDP housing

programme where households may split so as to maximize the likelihood of access to housing [queuing].

The data points to the success of the RDP housing programme in terms of number of home owners.

At the same time the number of female headed households has increased in all accommodation categories, but particularly in home ownership. This is again an indicator of the success of the housing subsidy.

There has generally been improved access to electricity and refuse services, particularly in the informal settlements, which point to increased site and service programmes and a change in Government policy towards such settlements.

The data shows a decrease in the number of household heads in employment and low levels of income in the townships. Together with the impact of AIDS related deaths of family members, the possible socio-economic pressures of smaller households and an increase in the number of female headed households, there is much to suggest that the households in the townships are under greater financial pressure than in 1995. This, in turn is likely to increase households' reliance on baseline survival strategies, such as multiple, or fluid, household structures. For this reason it is difficult to determine if the splitting of households is a cause or consequence of harsh socio-economic conditions. Nonetheless, the outcome is likely to impact negatively on the housing market, with lower effective demand undermining the development of conditions conducive to a thick and functioning housing market.

## 4 Conceptual Model and Application to South African Townships

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### 4.1 Overview

Based on the literature review and macro trend analysis this section sets out a conceptual model of residential property markets, identifying the key dimensions necessary for these markets to be effective. The model and key dimensions are then applied to South African Townships, to determine the effectiveness of residential property markets in these areas. Based on this analysis conclusions are reached as to the key dimensions for effective residential property markets generally and in respect of their application to Townships.

In undertaking the analysis the focus has been on:

- African South African Townships, originally designed for occupation by black South Africans only, as designated or established under the Black Communities Development Act [Section 33] and Proclamation R293 of 1962, Proclamation R154 of 1983 and GN R1886 of 1990 in Trust Areas, National Home lands and Independent States.
- Low income markets defined loosely as being households earning below R6 500 per month.
- A market oriented approach to residential property markets

### 4.2 Conceptual Model of a working residential property market

A working residential property market is made up of **two key components** namely the **primary** and **secondary** markets. These markets are interrelated and dependent on each other. The primary market provides a supply of housing stock for the secondary market. The secondary market in turn stimulates demand in the primary market. The more responsive the primary market is to demand, the more competitive the secondary market. In addition the more effective the secondary market the more investment into the primary market.

The primary and secondary markets both require key **inputs** and **processes**. A definition of the primary and secondary markets and its related inputs and processes are detailed below. In addition the **key dimensions** necessary for the effective operations of each market is specified.

## 4.2.1 The Primary Market

### ***Definition***

The primary market comprises the development of **new housing stock** including:

- The purchasing and servicing of land,
- construction of dwellings, and
- sale or rental of the land and dwelling.

### ***Inputs and Processes***

The **inputs** to the primary market are:

- Land This comprises a good supply of land that is well located and affordable.
- Finance This comprises access to credit both in respect of development finance [finance for suppliers to acquire and develop the land] and end user finance [finance for buyers to purchase the end product].
- Suppliers/sellers This comprises developers and builders who purchase the land, service it and develop and sell the housing stock.
- Buyers This comprises individuals who purchase the housing stock.

The **processes** relating to the primary market are:

- Land identification and acquisition This comprises the process whereby land is identified and purchased for the purpose of residential development. Generally Government regulation determines the amount and location of land supplied, the size of stands and the process and time frame by which land can be accessed for development purposes.
- Land subdivision, servicing and release This comprises the process whereby land is parcelled, serviced and either sold or rights are provided for its development for residential purposes.
- Dwelling construction This comprises the development of dwellings on the land and the sale of such properties to a buyer.
- Transfer of title This comprises the transfer of ownership to a buyer through a process of identifying the land parcel, attaching a legal form of holding to it and recording this publicly through a known process that is justiciable. This is seen as the backbone of the land market, as it enables the land to be owned by an individual, as well as provide security for loans.

## ***Key dimensions for the effective operations of the primary residential property market***

The key dimensions for the effective operations of this market are:

**A sufficient supply of land** The primary market is dependent on a logical process that brings a sufficient supply of vacant, serviced, identifiable, registerable sites onto the property market for sale that are affordable and meet demand. To do this the formal development of land is a highly regulated process.

Land is fixed and the supply of land in one location cannot be increased. The quantity and price of land is affected by factors such as infrastructure investment, location, topography, willingness of landowners to make land available to the market, government restrictions on the use of the land [for example zoning, land use controls, registration] and political factors [for example elites or neighbors blocking development of land (the NIMBY syndrome)].

**Sufficient supply of finance** The primary market is dependent on a sufficient supply of finance that will enable developers or builders to acquire land and build the housing stock, as well as buyers to purchase the stock. In providing such finance financial institutions offer a range of products that require different forms of security and which have different costs. The supply of finance is dependent on the financial institutions' ability to realize profits in providing the finance and their perception of risk in this regard. This is directly linked to the way in which borrowers behave in terms of fulfilling their roles and responsibilities, particularly in meeting bond repayments and the lenders' ability to enforce sanction in the case of non-payment.

**Ease of performing transactions** The primary market is dependent on processes which easily allow for the acquisition, servicing, development and transfer of land. Such processes should be:

- Easy to understand
- Undertaken within acceptable time frames [1 to 3 months]
- Cost effective in respect of all transactions.

Such processes are usually regulated and recorded by governments which should have the institutional capacity to ensure the smooth and effective operations of such processes.

**Thickness** The primary market is dependent on many sellers and buyers and many transactions, with the notion that the more transactions that are made, the more chance there will be that the price will reflect the economic value of the good.

The number of sellers is dependent on such sellers being able to realize an acceptable profit in acquiring, servicing and/or developing the housing stock, in terms of the risks incurred.

The number of buyers is dependent on:

- Demographic factors like household formation and composition
- Economic factors like household income, capacity to mobilize savings, access to credit and the extent to which buyers are prepared to take on debt.

- Perception whereby the buyer is willing to invest in the housing stock as they see value in the product both in terms of location and utility of the housing stock and believe that the tenure they are purchasing is secure.

**Good information** The primary market is dependent on sellers and buyers having good information about the market and how it works and the products on offer, so that they are able to make rational choices. In addition they should have the freedom to exercise choice in this regard.

**Few barriers to entry and exit** The primary market is dependent on few barriers to entry and exit into the market, to allow suppliers to come and go to enable buyers to take their business to firms that offer the highest quality for the lowest prices.

## 4.2.2 The Secondary Market

### *Definition*

The secondary market comprises the sale and transfer of **already built housing stock** by a willing seller to a willing buyer.

### *Inputs and processes*

The **inputs** to the secondary market are:

- Housing Stock: This comprises a good supply of already built housing stock that is well located and affordable.
- Finance: This comprises access to end user finance.
- Willing sellers: This comprises willing sellers that have clear rights [tenure] to the housing stock and the ability to transact.
- Willing buyers: This comprises willing buyers who perceive value in the property both in terms of utility and location and perceive the tenure that they are receiving to be secure.

The **processes** relating to the secondary market are:

- Selling and buying process: This comprises a process whereby buyers are informed of what is for sale, make a choice and negotiate with the seller to determine and agree on a price. Buyers then raise finance if required. This process is often regulated by legislation and assisted by estate agents etc.
- Transfer of title: This comprises the transfer of ownership from the seller to the buyer through a process of recording this transfer publicly through a known process that is justiciable.

## ***Key dimensions for the effective operations of the secondary residential property market***

The **key dimensions** for the effective operations of this market are:

*A sufficient supply of housing stock* The secondary market is dependent on a sufficient supply of already existing housing stock provided through the primary market. In certain instances stock will be recycled within the secondary market whereby it is acquired, upgraded and put back into the market.

*Sufficient supply of finance* The secondary market is dependent on a supply of end user finance that enables buyers to purchase the stock. As in the primary market financial institutions offer a range of products that require different forms of security and which have different costs. The supply of finance is dependent on the financial institutions' ability to realize profits in providing the finance and their perception of risk in this regard. This is directly linked to the way in which borrowers behave in terms of fulfilling their roles and responsibilities particularly in meeting bond repayments and the lenders' ability to enforce sanction in the case of non-payment.

*Land title* Land title is critical in respect of the secondary market as it gives the property a unique identity and ensures that it can be securely traded.

*Ease of performing transactions* The secondary market is dependent on processes which easily allow for the selling process and transfer of title to be undertaken. Such processes should be:

- Easy to understand
- Undertaken within acceptable time frames [1 to 3 months]
- Cost effective in respect of all transactions

*Thickness* As in the case of the primary market, the secondary market is dependent on many willing sellers and buyers and many transactions, with the notion that the more transactions that are made, the more chance there will be that the price will reflect the economic value of the property.

The number of willing sellers is dependent on such sellers being able to realize an acceptable profit in respect of their property and the ability to use this profit to acquire property elsewhere that will meet the sellers needs better. In addition the selling of the property is acceptable in terms of socio-cultural requirements in regard to commitments to family and community.

The number of willing buyers is dependent on:

- Demographic factors like household formation and composition
- Economic factors like household income, capacity to mobilize savings, access to credit, the extent to which buyers are prepared to take on debt and their ability to expose of their existing dwelling.
- Perception whereby the buyer is willing to invest as they see value in the product both in terms of location and utility of the housing stock and believe that the tenure they are purchasing is secure.

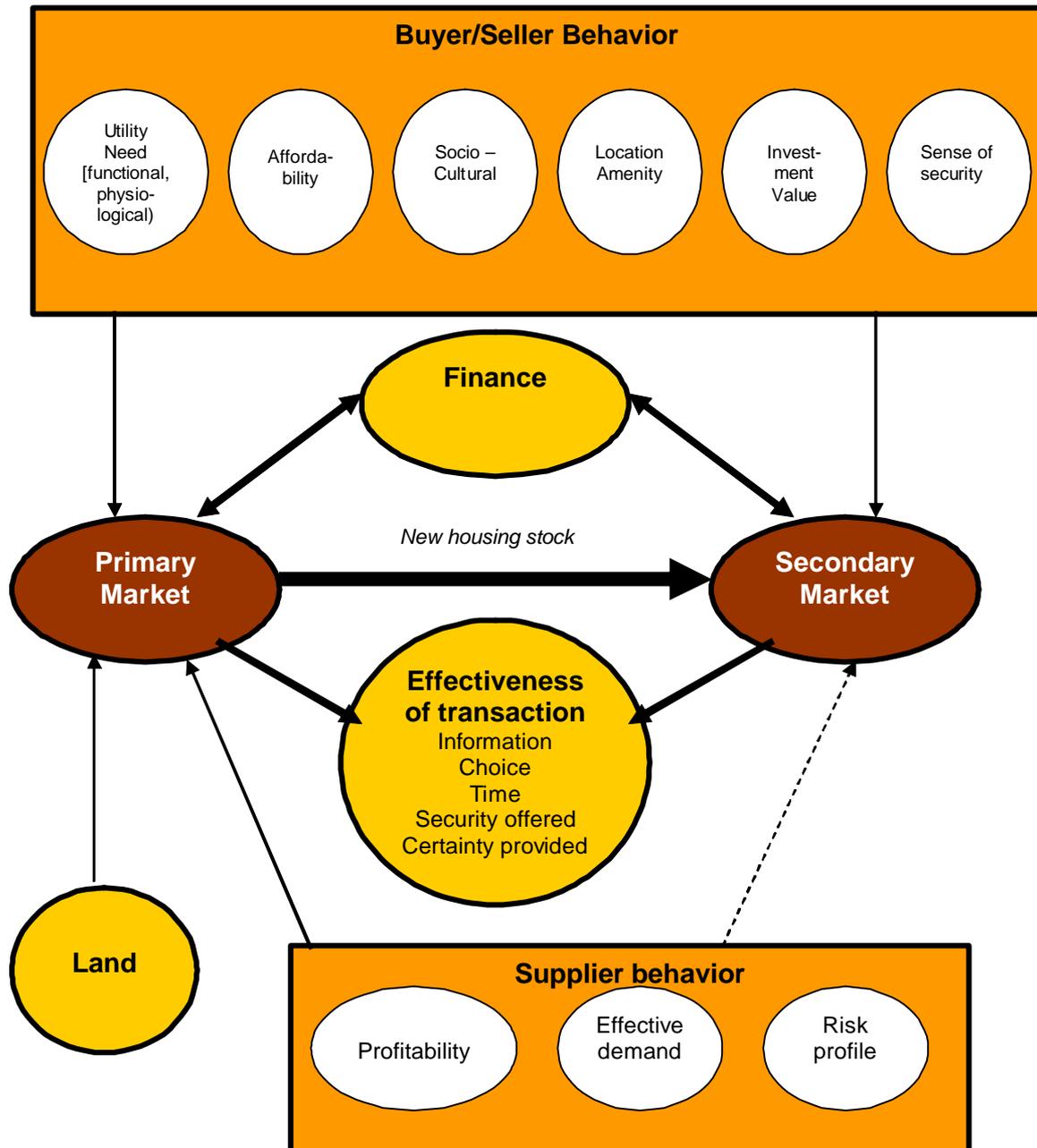
**Good information:** The secondary market like the primary market is dependent on sellers and buyers having good information about the market and how it works and

the products on offer so that they are able to make rational choices. In addition, they should have the freedom to exercise choice in this regard.

### 4.2.3 Overview of a Working Residential Property Market

Based on the analysis outlined in Sections 4.2.1 and 4.2.2 above, Figure 2 below provides an overview of a working residential property market.

**Figure 2: Overview of a Working Residential Property Market**



If any of the components of the primary and secondary markets do not work you get breakdown, failure and distortion. This will manifest in:

- High transaction costs
- Overcrowding
- Limited supply of stock
- Land invasions
- Informal settlements
- Informal backyard rental
- Informal and extra legal arrangements for selling and buying property etc.

### **4.3 Application to South African Township property markets**

This section applies the conceptual model outlined in 4.2 above to the residential property markets in South African townships. In this regard both the primary and secondary market are analyzed, looking at the dimensions necessary for the effective operations of these markets.

#### **4.3.1 The Primary Market**

In respect of South African Township property markets, there is dysfunctionality in relation to all of the dimensions necessary to facilitate an effective primary market as follows:

**A sufficient supply of land** In South Africa land for urban African townships has always been in short supply. Initially land availability was restricted as a result of apartheid policies, which only acknowledged the permanence of urban Africans in the mid 1980's and therefore restricted the amount of land available for residential development.

More recently with the introduction of the housing subsidy scheme in 1994, the supply of land for low income housing became linked to projects that obtained housing subsidies. Land within or adjacent to existing African townships was used as it was readily available. Despite a range of interventions including a procurement policy for land, a GIS system, Integrated Development Planning, Spatial Development Frameworks etc, land supply for low income residential development in South Africa continues to be limited and directly linked to the delivery of subsidized housing. Due to the high cost of land in cities and strong local opposition to the location of low income housing, this land is usually provided in or adjacent to existing townships.

The delivery of subsidized housing peaked in the 1997/1998 and 1998/1999 financial years. Since then, there has been a steady decrease reaching a low in the 2001/2002 financial years. This trend is expected to continue as a result of a change in government policy, where there is a clear move away from the delivery of the traditional detached 'RDP' housing for ownership, towards urban regeneration, social housing and incremental housing.

In addition to being in short supply what is significant about the land in the Townships is its **poor location**. This is usually on the peripheries of cities and separated from

the city and other residential areas by a buffer. In many cases the land is characterized by poor geo-technical and topographical features.

**Sufficient supply of finance** Finance for the primary market in South African townships is severely limited as follows:

Subsidies A major form of finance since 1994 in respect of the primary market in South African townships has been the national subsidy programme. The significant factors in respect of this programme are firstly as indicated above a steady decrease in the amount of funds available for housing provided on an ownership basis, a trend which is expected to continue.

Secondly, despite the subsidy amount being increased over time, the amount of the subsidy has been eroded by inflation making it increasingly difficult to deliver a completed house to minimum standards. Thirdly, a recent requirement that beneficiaries make a contribution of R2479 prior to accessing the subsidy is expected to further result in reducing the number of subsidies delivered.

End user finance The cheapest and most common form of end user finance for the residential property market is the mortgage loan. Financial institutions are extremely reluctant to provide this form of finance to households in the townships for the following reasons:

- High levels of default occurred during the late 1980's and early 1990's as a result of a nationally driven defiance campaign against the Nationalist Government. This has resulted in a culture of non-payment among households living in Township areas, which has never been reversed, despite a number of campaigns and programmes undertaken by Government including Masakhane and Servcon.
- Financial institutions are unable to apply sanction to non paying households in township areas for a number of reasons including community defiance, inability to apply the rule of law, inappropriate legal processes etc.
- Should financial institutions be able to evict non paying households it is extremely difficult to resell the vacant property.
- The provision of mortgage loans on properties with a low value is generally not profitable in comparative terms and the administrative processes [in terms of interacting with borrowers etc] higher. Financial institutions would prefer to focus on the upper end of the property market.

Other forms of end user finance have emerged, including for example secured and unsecured micro loans and pension-backed loans. However these forms of finance generally do not provide sufficient funds to purchase a new house (unless paired with a subsidy) and are more appropriate for incremental building, renovations and upgrading.

Development finance Financial institutions are reluctant to provide development finance for residential development in township areas as a result of the high risk attributed by them to such developments, as detailed in respect of end user finance above.

**Ease of performing transactions** South Africa has a history of differentiated laws and procedures governing the processes related to the primary residential property

market. This has resulted in cumbersome and complex procedures relating to performing transactions in respect of the primary market as follows:

Township development Currently township development procedures require detailed applications to be made, incorporating many requirements that push up costs including for example environmental assessments, traffic impact, geological reports etc, all of which require additional professional inputs.

Decision-making in municipalities can take from three months to two years depending on which process is used (LEFTEA, DFA or Ordinances). Associated requirements like General Plans being prepared and approved, as well as township registers being opened at the Deeds office take additional time.

In Townships the most significant delay is occurring as a result of the opening of township registers, which are proving to be extremely difficult and time consuming to prepare, due to the lack of historical data.

Land title The mainstream process in South Africa in terms of granting of titles is through:

- the land being registered in the Deeds Office, requiring the opening of a township register in order for the erven/sites to become registerable, and
- the individual title being conferred through a deeds registration procedure in the Deeds Registry Office, after a General Plan has been approved by the Surveyor-General.

This involves numerous steps and costs. In addition the difficulty in opening township registers [see above] is impeding the ability of providing registered title in Townships. The Deeds registration process itself is complex and the preserve of conveyancers.

**Thickness** The primary market in Townships is extremely thin with very few sellers and buyers and few sales transactions.

Sellers The cost of developing low income housing in South Africa has risen faster than remuneration, so that housing has become less affordable both in respect of subsidized and private sector housing. This has resulted in the profit margin for developers of such housing becoming unattractive. The lack of end user finance and reduction in the amount of subsidized finance has exacerbated this problem. This has resulted in a declining amount of housing stock being provided, both in respect of the private sector and RDP housing stock.

Buyers While a significant number of households are living in informal housing circumstances both in South Africa in general and in the Townships, which would appear to indicate a high need for formal housing supplied through the primary market, there are a number of factors that inhibit such households accessing such housing.

Housing in the primary market for low-income households is supply driven. Households access housing through the national subsidy programme and there is a limit as to how much of this housing is being provided and as indicated above the amount is decreasing.

The subsidy programme has distorted the market and households are extremely reluctant to access housing provided through private formal means, due to the high cost of such housing and the hope that they will eventually get a 'free' house through the subsidy programme. Households would therefore appear to rather wait in informal circumstances than enter the formal primary market.

**Good information:** Information on the primary market in Townships and elsewhere in South Africa is limited and fragmented. There is no single source of information on suppliers and housing projects being undertaken. The only source of information is for specific local areas via the Local or Provincial Government or adhoc advertising in that area. Generally housing projects are being undertaken for specific communities and are ring-fenced for those communities. Buyers have limited or no choice in respect of the housing product or the supplier. Housing in Townships is generally accessed through a political process of canvassing for a housing project to be undertaken for a particular area or community. Similarly, the ability to access a subsidy or government rental unit may depend on a person's position on a housing waiting list.

**Few barriers to entry and exit** The barriers to entry and exit in the primary market are significant. In order to access developer finance from a financial institution suppliers need to have substantial capital on their balance sheets. The new procurement policy of Government in respect of the national subsidy programme allows access predominantly to those companies owned by previously disadvantaged individuals. The supply driven method of delivery does not allow buyers the ability to switch from one supplier to another. Social barriers, such as family expectations, may also prevent residents from putting their property on the market. Some residents may wish to place their properties on the market but legal constraints relating to tenure [no township registers etc] may prevent them.

### 4.3.2 The Secondary Market

As in the case of the primary market there is dysfunctionality in respect of all of the dimensions necessary to facilitate an effective secondary market in Townships as follows:

**A sufficient supply of housing stock** There is extremely limited availability of stock available for sale for the following reasons:

- A shortage of new stock being provided through the primary market as detailed in 4.3.1 above
- The requirement that subsidized RDP houses may not be sold for the first 8 years unless the property is first offered to the relevant Provincial Government
- A reluctance by sellers to offer their stock for sale (see below)

**Sufficient supply of finance** As in the case of the primary market as detailed above, end user finance necessary for the purchasing of property in respect of the secondary market, is severely limited. Given the lack of such finance, households have to rely on savings to purchase housing. Given the low incomes of most households in Township areas and high levels of unemployment such savings are unlikely to be sufficient.

**Land title** Individual land title in Townships is limited, thereby restricting an individual's ability to sell his/her property.

Land title in South Africa is complex as a result of changes in Government policy which gave and took away rights to land arbitrarily. This problem is particularly significant in Townships which over the past 50 years saw the provision of a range of tenure rights and the removal of such rights, often resulting in the relocation of households.

A range of tenure options were provided in Townships over the past 50 years including for example 99 year leasehold, deed of grant, permission to occupy etc. Since 1994 freehold title has been provided, but due to the work required to undertake surveys and open township registers in many cases such rights while promised have not yet been provided.

For the past 10 years Government has undertaken a land restitution and transfer programme aimed at resolving title in Townships and transferring all publicly owned stock to qualifying households [discount benefit programme]. However in many Townships this process has been delayed by the need to:

- open township registers which as detailed above is proving to be an extremely difficult process, and
- extremely difficult and time consuming processes which need to be undertaken to resolve the different claims that households have to properties.

**Ease of performing transactions** The process of selling and buying a house through the secondary market is complex and expensive, requiring the services of estate agents and conveyancers, all of whom require fees. A particular inhibiting factor is the requirement that clearance certificates, showing that municipal service fees and rates are fully paid, prior to transfer, need to be presented. This linkage of use of municipal services to the property rather than the individual, inhibits transfer in the Townships, where arrears can be significant.

**Thickness** As in the case of the primary market, the secondary market in Townships is extremely thin with very few sellers and buyers and few sales transactions.

Willing sellers It appears as if there is an extremely limited number of sellers in Townships who are selling their houses through the formal market for the following reasons:

- As detailed above many sellers do not have title and with a history of forced removals, insecure property rights, shortages of land and lack of housing options, owners are likely to retain any property acquired through a Government grant or other means.
- Owners of existing housing stock are reluctant to sell as there are few alternatives to move to.
- Due to the high levels of unemployment and low household income, owners in Townships cannot afford to move.
- Where owners have capitalized their houses (increased utility value), it is unlikely that they would realize the investment in their houses.
- The properties may supply owners with their only form of income through rental, or providing business premises etc.
- The house represents social capital and value in use, which is not captured in the potential sale price. Housing, particularly in Townships, is often not perceived as simply an individually owned financial asset, but is also understood as a social and cultural asset. In this regard the housing is seen as :
  - ▷ A family asset and selling it is seen as anti-social and selfish. The house has a whole lot of uses to the family thereby meaning it cannot be sold.
  - ▷ The house keeps a connection to the area and community and shows respect to parents and grandparents who struggled to acquire the house.
  - ▷ Due to their precarious economic circumstances, low income households prefer to have domestic fluidity, whereby they retain ownership of a number of residencies as a fall back, should things go wrong.
  - ▷ Anecdotal evidence suggests that in Townships females play a dominant role in leading households and see the house as a family asset to be retained.
  - ▷ HIV/Aids is resulting in changing the structure and economic status of households and increasing their inability and unwillingness to sell.

Research also indicates that in cases where an owner wants to sell a house they are often unable to do so due to the lack of end user finance and willing buyers (see below).

Willing buyers It appears as if there are a limited number of willing buyers wanting to purchase housing in Townships through formal mechanisms for the following reasons:

Township housing stock generally offers a poorer fulfilment of utility need than stock in other areas, due to factors like:

- Townships are usually poorly located on the periphery of cities.
- Townships received inferior social and engineering services than other residential areas, particularly those for whites.
- Building regulations may or may not apply, land use entitlements and conditions of title vary depending on the township establishment law in terms of which the Township was established.
- Safety and security in Townships is a major issue with high levels of crime.
- The type of accommodation offered is generally poor in terms of size and quality. The design of houses was driven by the imperative of control (security and poor road integration and access) and cost-savings resulting in monotonous housing environments and similar houses.
- Township houses are perceived to provide a low investment return.
- There is often a lack of understanding by Township households of the potential value of investing in housing.

Accordingly, there is a very significant push factor **out** of the Townships. If a household is economically able to invest in housing it is likely that it would prefer to do so outside of the Townships.

- Most households in Townships fall into the low income category with high levels of unemployment. Such households have constrained resources to spend on housing, are debt adverse, have limited savings and as detailed above are not able to access end user finance [see above]. HIV/Aids is further undermining the economic viability of such households.

**Good information:** Information on the secondary market in Townships in South Africa is extremely limited. There is no single source of information on houses for sale (e.g. the Saturday Star). Sales seem to be undertaken on the basis of word of mouth. Estate Agent activity appears to be very limited.



While many households may be satisfied with de facto security and may trade with this form of security, there is limited legal entitlement to underpin the perception of security. This contributes to the vulnerability of poor households, particularly vulnerable groups such as women.

In attempting to formalise informal markets both international and national research notes that there are advantages to living informally for example;

- The financial costs of living in a formal township can be prohibitive for extremely poor people.
- Entering the formal market brings with it the necessity to fulfil certain responsibilities of citizenship that result in having a formal address like paying for rates and local government services.
- Formal housing comes with notions of 'proper' modern living that can become costly. Household feel that they need costly modern furniture and household appliances.

Accordingly, attempts to address the distortions of the property market in Townships must necessarily be cautious. As de Soto reminds us, we need to learn from the informal methods and look for ways to create the 'bridge' between the informal and formal systems so the poor can gain a foothold into the formal property market.

## 5 Conclusions

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This report sets out a literature review into residential property markets both generally and in former African South African Townships.

Based on the findings of this review South African Townships have been divided into a number of sub-markets which have their own unique history and regulatory framework that makes it necessary to understand each as a separate case. In addition a conceptual model of effective residential property markets has been formulated and applied to South African Townships.

Table 10 below provides a summary of the four sub-markets within South African Townships. Table 11 provides a summary of the dimensions of effective property markets and their application to South African Townships as defined in respect of this conceptual model.

**Table 10: Summary of sub-markets within South African Townships**

Sub-Market	Definition	Aspects of the secondary market
<b>Old township stock</b>	A formal housing unit including freestanding houses, row and semi-detached houses and flats. The stock was provided by Government [national, provincial or local] so as to provide rental housing to Africans. The most common form of house provided in respect of African Townships was a four-roomed house typically known as a 51/6 or 51/9 [provided with an internal toilet]. The stock is provided as rental tenure.	There are few buyers and sellers due to factors including: <ul style="list-style-type: none"> <li>• Unemployment and poverty</li> <li>• Absence of alternative housing opportunities</li> <li>• Occupants/owners are older</li> <li>• Housing remains in the ownership of the family being passed to from one member to the other rather than being sold</li> <li>• Stock may have backyard shacks and therefore may generate rental income.</li> <li>• Lack of title deeds</li> </ul>
<b>Private housing stock</b>	Unsubsidized formal housing developed by the private sector. This category can be further subdivided into middle income and upper income housing. The type of housing typically comprises a formal freestanding housing unit developed by a private sector developer who sells the unit to a buyer on some form of long term leasehold [99 years] or freehold title.	Activity in this market is constrained by unemployment and low household income and the absence of suitable financial products.

Sub-Market	Definition	Aspects of the secondary market
<b>RDP housing stock</b>	RDP stock comprises housing stock built as part of the national housing subsidy programme since 1994. The stock comprises either a formal freestanding housing unit provided on an ownership basis, a flat, cluster or free standing house provided for rental or a site with funding for the development of a dwelling.	<p>The quality and location of this stock influences the use value and re sale value of the stock. Well located RDP stock is likely to have a higher perceived value.</p> <p>Anecdotal information is that these properties are being sold informally for low cash values [R4 000 to R5000] often as last resort survival attempts by households who may return to informal settlements.</p> <p>The extent to which this stock is being upgraded is not known.</p>
<b>Informal stock</b>	Informal stock comprises informal dwellings erected by the occupants using non conventional building materials. This sub-market can be further sub-divided into informal settlements where the structures have been erected on the land without permission of the owner and site and service schemes where the structures have been erected on the land with permission of the owner (normally Government) and may include a transfer of title to the occupant of the shack either initially or over time.	The extent of trade of informal settlements is not known. There is debate as to whether the provision of legal title stimulates upgrading and trade. The development of an area depends on its location to economic opportunity and services.

**Table 11: Dimensions of effective property markets and their application to Townships**

Market	Dimension	Effective residential property markets	Township residential property markets
<b>Overall</b>	Primary market	Effective primary market that facilitates sufficient new stock to meet demand	Dysfunctional primary market
	Secondary market	Effective secondary market that stimulates demand within the primary market	Dysfunctional secondary market
<b>Primary</b>	Sufficient supply of land	Logical process that brings a sufficient supply of vacant, serviced sites to meet demand	Land in short supply and poorly located
	Sufficient supply of finance	Sufficient supply of finance to enable developers to acquire land and build housing stock and buyers to purchase the stock	Supply of finance severely limited

Market	Dimension	Effective residential property markets	Township residential property markets
	Ease of performing transactions	Cost-effective and accessible/easy to understand processes that allow for the acquisition, servicing, development and transfer of land, undertaken in acceptable time frames	Extremely difficult, expensive and complex procedures
	Thickness	Many sellers able to realize an acceptable profit Many buyers who can afford and perceive value in the housing stock	Extremely thin market with few sellers and buyers who cannot access or afford the stock
	Good information	Good information on how the market works and products on offer	Limited and fragmented information
	Few barriers to entry and exit	Few barriers to entry and exist to allow suppliers to come and go and for buyers to choose the best suppliers	Significant legal, financial and social barriers to entry and exit.
<b>Secondary</b>	Sufficient supply of housing stock	Sufficient supply of stock to meet demand	Shortage of housing stock
	Sufficient supply of finance	Sufficient supply of end user finance to enable buyers to purchase housing stock	Supply of finance severely limited
	Land title	Land title critical to give property value and ensure that it can be securely traded	Basics of land title absent in many places, land title is limited, tenure options are few and registration complex
	Ease of performing transactions	Cost effective and easy to undertake processes that easily allow for the selling process and transfer of title and occur within acceptable time frames	Processes complex, expensive and highly professionalised
	Thickness	Many willing sellers able to realize acceptable profits Many willing buyers who can afford and see value in the stock	Extremely thin market with few sellers and buyers. Sellers unwilling due to socio cultural factors, lack of title, inability to realize value and to purchase alternative stock. Buyers unwilling due to economic factors, inability to access finance and insecurity about title.
	Good information	Good information on how the market works and products on offer	Information extremely limited

On the basis of the literature review it is concluded that residential property markets in South African Townships are currently dysfunctional. There is breakdown in both the primary and secondary markets, both in terms of the inputs and processes applying to these markets, as well as the dimensions necessary for the effective functioning of such markets.

One outcome of this is informal housing markets characterized by:

- Extensive informal settlements and informal backyard rental.
- Informal trade whereby properties are being bought and sold through informal mechanisms.

It is concluded that while informal markets offer some advantages to their occupants they contribute to the vulnerability of the poor. However it is noted that caution must be applied in attempting to formalise informal markets.

The original hypothesis stipulated in the terms of reference for the research is that:

*The secondary property market in South African townships is ineffective and inefficient. This is due to the legal, institutional and procedural constraints that frame it, rather than the financial factors regularly identified by policy makers. Not only does this constrain the economic growth potential of these townships, it also undermines the asset-creation potential of the state's subsidised housing scheme.*

While the research findings confirm that legal, institutional and procedural constraints are key inhibiting factors, it also indicates that they are likely to be insufficient conditions alone to facilitate an effective secondary market in African Townships. All indicators are that other conditions like economic and social factors have a fundamental impact on the current nature of the secondary market.

**These findings and the original hypothesis will be assessed in greater detail in Phase 2, the detailed research phase.**

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