Executive Summary

The residential property market is the largest component of the South African property market, accounting for the majority of property assets, and a crucial source of household wealth. In 2019, there were 6.6 million residential properties on South Africa’s deeds registry, valued at approximately R5.5 trillion. Of the total properties, more than half (55%) were valued under R600 000. Government-subsidised properties also made up a sizable portion (30% or 2 million) of all residential properties, particularly in the lower end, indicating the impact of the massive investment of the national government housing programme over the years.

South Africa’s resale market far exceeds the new-build market for houses — in 2019, three quarters of all residential transactions were in the resale market. The resale market often serves as a first step on the property ladder for first time home buyers/owners. In 2019, 94,157 households became homeowners for the first time. Of these, 20,223 (21%) were beneficiaries of the government’s subsidised housing programme.

While Absa accounted for the largest share (27%) of bonded transactions under R300 000 in 2019, banks continue to issue more bonds in the upper market segment. The drop in the prime rate from 8.75% in March 2020, to 7% (currently), significantly increases affordability and creates considerable opportunity to broaden access to mortgage finance, particularly for first time (working class) home buyers. Looking forward, the true impact of the COVID-19 pandemic is yet to be seen, but broader economic trends will dictate the long-term prospects of South Africa’s residential property market.

Contents

1. Market overview — Size and distribution of South Africa’s residential property market ........................................ 2
2. Market overview — Number of residential properties by market segment .......................................................... 3
3. Thinking about the impact of COVID-19 on South Africa’s residential property market .................................. 4
4. Government-subsidised properties .................................................................................................................. 5
5. Residential market activity — New build ............................................................................................................. 6
6. Residential market activity — Resale .................................................................................................................. 7
7. Residential market activity — Government-subsidised properties (Resale and new build) ............................... 8
8. First-time home buyers/owners ....................................................................................................................... 9
9. Housing finance — New vs resale transactions ................................................................................................. 10
10. Housing finance — Bonded transactions by lender ........................................................................................... 11
11. Freehold vs. sectional title properties ............................................................................................................ 12
12. Comparing South Africa's eight metros .......................................................................................................... 13
13. Comparing South Africa’s nine provinces ....................................................................................................... 14
14. Implications for affordable housing ............................................................................................................... 15
15. Report methodology ........................................................................................................................................ 16

About this report

There are approximately 16.9 million households in South Africa. The country’s residential property market includes rental properties, where more than one family might live in a property with a single title deed – for example, a high-rise building. Just over 3 million households are reported to be occupying rental units.

This report utilises 2019 deeds registry data obtained from Lightstone Pty Ltd. Because of this, the report only covers properties which appear on the deeds registry (the formal market) – it does not include properties that are not formally registered on the deeds registry, as might be found in backyards. Nor does this report include the estimated 1.25 million households living in informal settlements. Valuations are provided by Lightstone and are not based on municipal valuation rolls. See section 15 for further information.

The report was written by Maria Nksonjera, with data analysis by Alfred Namponya. To access individual reports on the eight metros, as well as online dashboards, visit: CAHF’s Citymark page: http://housingfinanceafrica.org/projects/citymark-analysis-of-residential-property-markets-in-south-africas-eight-metros/

1. Market overview – size and distribution of residential properties

The residential property market is the largest component of the South African property market, accounting for the majority of property assets in the country, and an important component of household wealth. The South African deeds registry comprises 7.4 million properties, worth almost R6 trillion. Of these, more than 6 million registered properties, or 89%, are considered residential. The properties range from sectional title and freehold properties, to residential dwellings in private estates; including government-subsidised homes, homes occupied by their owners or rented to others, and holiday homes; and span rural areas, mining towns, small towns, secondary or intermediary cities, and metro municipalities.

More than half (55%) of residential properties in South Africa were valued at R600 000 or less. Of this, one third of all properties are homes that are valued less than R300,000, of which the majority are estimated to be government-subsidised homes: clear evidence of the significance of government-subsidised housing programme and the sheer volume of property assets transferred to qualifying beneficiaries since 1994.

In 2019, there were 6.6 million residential properties on the deeds registry in South Africa, valued at approximately R5.5 trillion.

This report separates the total residential property market into five segments, according to value:

- **The entry market**—properties worth R300 000 or less
- **The affordable market**—properties worth R300 000 - R600 000
- **The conventional market**—properties worth R600 000 - R900 000
- **The high-end market**—properties worth R900 000 - R1.2 million
- **The luxury market**—properties worth over R1.2 million

This map shows the spatial distribution of residential properties by value across the country. Each pie graph represents a province: the size of the circle reflects the total number of registered properties in that province while the coloured slices of the pie represent the number of properties in each market segment.

One third of all properties are found in Gauteng. About 57% of the total formal residential property market is found in the eight metro municipalities, with the City of Johannesburg accounting for the majority of properties. South Africa is urbanising rapidly (at 66.8%), and this will increase demand for housing in cities.
2. Market overview – number of residential properties by market segment

In 2008, the majority of the residential property market—74%—were properties valued below R600 000. Of this, over half (52%) were in the entry market (valued below R300 000), and the majority were estimated to be government subsidised. This is clear evidence of the impact government’s subsidised housing programmes have had on asset ownership for qualifying beneficiaries since 1994. However, the share of entry market properties in the national market has decreased from 52% to 33% between 2009 and 2019. While the number of affordable market properties have grown by 15%, properties in the luxury market (over R1.2 million) increased by over 100% over the 2008-2019 period. Overall, high end properties are growing faster in number, compared to the lower end of the market, suggesting a need for the residential property sector to move down market, where there is a gap and significant demand.

On a provincial level, in 2019 most properties valued below R600 000 were in Gauteng (31% or 1 134 693). This means Gauteng has the largest share of the properties in the entry and affordable markets. The Eastern Cape had the second largest number of properties (467 699) or a 13% share under R600 000, followed closely by the Western Cape (13% or 466 088) and KwaZulu-Natal (12% or 441 204). In contrast, the Northern Cape (4% or 140 981) and Limpopo (4% or 141 729) had the smallest proportion of the properties in these segments.

At the high end of the market, in 2019 Gauteng also accounted for the majority of the properties in the luxury market (39% or 547 285). Western Cape expectedly accounted for the second largest (34% or 447 327), followed by KwaZulu-Natal (12% or 151 288). The Northern Cape only accounted for 11 445 (2%) properties over R1.2 million—the lowest across the provinces.

Data source: CAHF’s Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2018 (sourced February 2020).
3. Thinking about the impact of COVID-19 on South Africa’s residential property market

Overview

Heightened uncertainty and low confidence levels, as a result of the COVID-19 pandemic, slowed housing market activity during the early stages of South Africa’s lockdown period. Empirical evidence and international experience suggest that pandemics have a sharp but short-lived impact on property markets, largely affecting transaction volumes more than values. Broader economic trends will continue to dictate the longer-term prospects for the residential property market. The economy grew by 0.2% in 2019 and is estimated to have plummeted by 7.2% in 2020. Gross domestic product (GDP) is expected to grow at 3.3 percent in 2021 and 2.2 percent in 2022. 1 With the reopening of the economy, the property market benefited in the third quarter of 2020. While it is too early to definitively draw conclusions, a sluggish economy, coupled with low investment levels and constrained incomes will impact residential property trends into 2021.

Housing stock

Anecdotal evidence shows the increased uncertainty around the magnitude and endurance of the pandemic has, in some instances, led sellers to take their homes off the market (ultimately affecting stock of available properties on the resale market). FNB’s House Market Strength Index shows that the “higher end market remains in excess supply, while the bottom end is still in structural supply-deficit.” 2 With lower demand and some housing segments (high end) already in oversupply, coupled with weakening construction activity, there could be a decline in the supply of new residential units, or no significant increase in new stock as 2021 ensues.

Trends in transactions volumes

The residential property market was directly impacted by the lockdown, with a slowdown in housing activity. In Q3 of 2020, Deeds Office data show that the number of bonded and unbonded transfers declined by 18.7% when compared to Q4 of 2019. Furthermore only 5 941 transfers were recorded at the Deeds Office between April and June 2020, which is a 91% fall year on year, and an 88% decrease from the first quarter. These trends were in part due to the closure of the Deeds Office earlier in the year. 3 However, interest in the property market has been stimulated through interest rate cuts.

Market segment activity and house price growth

While earlier predictions indicated that house prices could decrease anywhere between 5% and 14.5%, trends show house price growth of 12% between July and November 2020, compared to the same period in 2019. 4 House price growth has particularly strengthened in the luxury segment of the residential property market.

According to Lightstone, there was notable activity in the market for properties priced between R700 000 and R1.5 million in 2020 - stimulated by first time home buyers. Most first-time home buyers purchased properties in Gauteng. While most of this demand is attributed to the interest rate cuts (see below), some of this activity is also due to the zero transfer duty requirement for new developments and for properties below R2 million. A notable number of purchases by first-time home buyers were recorded in Orange Farm, Gauteng (345), and 177 in Eersterivier, Western Cape.

In the resale market for government-subsidised properties (GSP), a number of RDP houses were listed on Gumtree’s website for sale across a number of metros, between March (the start of the pandemic) and October 2020. These properties are all listed as cash-only sales, suggesting that these may well be informal transactions of RDP houses which are less than eight years old and therefore not legally eligible to be sold formally. This trend may also be an indication of sellers wanting to get access to cash during the pandemic. Other shifts in the market, during the pandemic, include buyers moving out of RDP properties to locations closer to work. 5

Housing finance

Mortgage advances have also been progressive in recent months, with an increased appetite for higher loan-to-purchase price by the big banks. These benefits have mainly accrued in the higher-priced segments, with lending in the lower end remaining broadly conservative. Given concerns over muted disposable income growth and employment instability, aggravated by COVID-19, this support may be limited in 2021. The banking sector responded to the crisis by offering various forms of relief to affected customers. The prime interest rate was cut to 7%, a near 50-year low, increasing affordability and creating opportunities for broader access to mortgage finance, particularly for first-time home buyers. Trends show that interest rate cuts assisted customers to keep up with debt repayments on their home loans, but significant opportunities for home ownership remain.

2 FNB Property Barometer (April 2020).
3 IOL (2020). Signs of hope for housing market in third quarter.
5 Business Tech (2021). The most popular suburbs for buying your first home in South Africa.
4. Number of government-subsidised properties
As share of each market segment

Government-provided housing accounts for a significant portion of affordable housing stock in South Africa: 31% (2,042,041) of properties in South Africa were government-subsidised in 2019, compared to 29% in 2009.

Across the provinces, the Northern Cape accounts for the largest (47%) share of government-subsidised properties, compared to Gauteng at the lower end (27%).

The average value of GSP properties 0-8 years old was R219,197, while the average value of GSP properties over 8 years old is R230,274: this suggests that GSP houses are generally appreciating, providing a substantial asset base for beneficiaries.

In terms of the share of GSP in the total number of properties in South Africa, 67% of houses valued under R300 000 (entry market), and 33% of all houses valued between R300 000 to R600 000 (affordable market), were government-subsidised. The number of GSP appearing on the deeds registry has increased from 1,741,549 in 2009 to 2,042,041 in 2019 (a 17% increase).

Overall, in 2019, 73% of all GSP’s were in the entry market, 23% in the affordable market and 4% in the conventional market.

88% of government-subsidised properties under R300 000 are over 8 years old, highlighting the potential of the resale market.
5. Residential market activity in South Africa

New build market

Due to a number of factors, including the significant impact of government housing programmes, the new and resale markets behave quite differently, and therefore are considered separately in this report. New residential transactions on the deeds registry serve as a proxy for new construction and include houses that were built by a private developer, as well as units that were built through government programmes and transferred to beneficiaries. Because this report draws on deeds registry data, only houses where the beneficiary has received their title deed can be included in this report.

Nationally, the new build market is relatively small: in 2019, there were 56,610 new transactions, or 25% of total 223,497 transactions. Gauteng Province recorded the highest (a total of 26,800) number of new transactions, while the Northern Cape recorded the lowest (only 639) new transactions, amongst the provinces.

Between 2008 and 2019, there has been a 60% reduction in the number of new transactions in properties between R300,000 and R600,000 and a 33% increase in new build properties valued over R1.2 million, over the same period. This shift in new delivery means constrained affordability for new home buyers in the working class. While the rate of new transactions in the sub-R300,000 market has declined in recent years (about 18,400 properties were registered in this segment in 2019, compared with 25,972 in 2008), delivery in this segment is still the most notable, nationally, primarily driven by the construction of government housing projects. Of the 18,424 new entry transactions in 2019, 94% (17,255) were GSP, while 37% (3,510) of the 9,649 new transactions in the affordable market were GSP.

In 2019, 38% of all new transactions were for government-subsidised properties (a decrease from 46% in 2018). Again, this data only includes RDP houses where beneficiaries received their title deed. Actual delivery would be higher, with the difference due to the title deed backlog.
6. Residential market activity in South Africa

Resale market

Similar to the trend seen in the new build market, a peak in resale transactions was recorded in 2015 (175,745). Resale transactions have been declining overall since 2015, averaging about 166,000 transactions per year. Most resale transactions since 2013 have occurred in the luxury market with an average of 34% (80,091) of total resale transactions per annum. While 41% (65,062) of resale transactions occurred in the over R1.2 million value band in 2019, only 21% were recorded in the under R600,000 market segment.

Number of resale residential transactions

Between 2009 and 2019, the majority of resale transactions consistently occurred in Gauteng province. Gauteng accounted for the most resale transactions in 2019 (41% or 64,961), followed by the Western Cape (23% or 37,025) and KwaZulu-Natal (14% or 21,727). The lowest resale transactions were recorded in the Northern Cape (1% or 2,371), Limpopo (2% or 3,169) and Mpumalanga (4% or 6,166). Overall, the shares of resale transactions, by province, have remained stable over the 2009-2019 period.
7. Residential market activity in South Africa

Government-subsidised properties (GSP) play a critical role in the entry and affordable markets, particularly for resale transactions. Both segments serve an important ‘gap market’, including for the working class.

South Africa’s residential property market sees far more resale transactions (orange bars) than new transactions (blue bars). The exception, however, is in the sub-R300 000 entry market where—due to the government housing programmes—there are more properties being added to the deeds registry (blue bars) than there are properties changing hands (orange bars). The GSP resale transactions (light orange) are declining in the entry market, but fairly steady in the affordable market. In 2019, there were 7 171 GSP resale transactions in the entry market, and 3 891 in the affordable market.

Of the 12 631 resale transactions in 2019, only 11% or 3 899 were financed with a mortgage. These properties fetched an average transaction price of R445 467. In contrast, the average price for a transaction without a mortgage was R102 968.

Standard Bank accounted for the largest share of (30%) bonded resale transactions of GSP in 2019. This is followed by ABSA (20%) and FNB (18%).

Note: The numbers above each bar refer to the number of transactions and not the average price of the transaction.
8. First-time home buyers/owners
Accessing the property market via new and resale markets

An analysis of first-time home buyers shows both how the housing market is growing, and how households are joining the property ladder. By the very nature of the subsidy scheme, all new transactions of GSP housing are to first-time home buyers. That notwithstanding, the majority of first-time home buyers/owners in South Africa accessed their housing on the resale market.

In 2019, 94,157 households became homeowners for the first time. Of these, 20,223 (21%) were beneficiaries of the government-subsidised housing programme. Another 7,599 (8%) formally purchased a GSP on the resale market. The remaining 71% of first-time home owners bought 17,258 new and 48,807 resale (non-GSP) properties. Overall, the majority of transactions by first-time home buyers/owners are on the resale market (60%)—indicating that the resale market is the main means for first-time home owners to step onto the property ladder.

In 2019, most first-time home buyers’ acquired houses in the entry market (25%), while 20% bought houses in the affordable market. Another 55% purchased housed over R600,000. These were split into the conventional market (24%), high-end market (13%) and luxury market (18%).

First-time home buyers were prominent in the government-subsidised resale market—in 2019, they accounted for 82% of GSP bonded resale transactions in the entry market. This shows how important the GSP resale market is to enabling lower-income households to own a house for the first time.

When considering the overall bonded resale market, the highest share of first-time home buyer activity was in the entry (68%) and affordable (67%) market.

A return to normality in the post-COVID 19 period, coupled with low interest rates may create favourable conditions for first-time home buyers in the long term. There has already been significant demand from first-time home buyers, following the interest rate cuts in 2020 (see page 4).
In 2019, 54% (or 121,479) of all transactions in South Africa were bonded:

- Most bonded transactions (77%) were for resale, with the remainder being new transactions.
- Just under half (45%) of all new transactions were bonded, and 59% of all resale transactions were bonded.

In the resale market, banks are issuing more bonds at the upper end of the property ladder—both in percentage and absolute terms. This is also observed in the new build market.

Only 11% of resale transactions below R300,000 were bonded, compared to 63% (41,169) of resale transactions of homes valued R1.2m or more. Nevertheless banks extended 1,210 mortgages for resale transactions in the entry market demonstrating that this market can be supported with formal credit. However, more needs to be done to get banks to see the entry level market as a real opportunity and increase down-market lending.

Most of the bonded transactions in the new build market are for properties valued over R300,000. We do not expect any new transactions of properties under R300,000 to be financed with a mortgage because these are likely to be GSP properties that are given to qualifying beneficiaries for free.

### New and resale bonded transactions by market segment

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>New transaction</th>
<th>Resale transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td>residential</td>
<td>bonded</td>
</tr>
<tr>
<td>Under R300,000</td>
<td>18,474</td>
<td>324</td>
</tr>
<tr>
<td>R300,000 to R600,000</td>
<td>9,469</td>
<td>4,706</td>
</tr>
<tr>
<td>R600,000 to R900,000</td>
<td>10,932</td>
<td>8,346</td>
</tr>
<tr>
<td>R900,000 to R1.2m</td>
<td>5,469</td>
<td>4,071</td>
</tr>
<tr>
<td>Over R1.2m</td>
<td>11,316</td>
<td>7,769</td>
</tr>
<tr>
<td>Grand Total</td>
<td>56,610</td>
<td>25,236</td>
</tr>
</tbody>
</table>

Data source: CAHF’s Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2019 (sourced June 2020).
In terms of the overall size of the mortgage market in South Africa, mortgage lending increased (3.51%) in 2019 with respect to the number of outstanding mortgages. The size of the loan book decreased by 0.22% in 2019. This is compared to a 0.4% decrease in the value of loans in 2018.

Overall, Standard Bank had the largest market share of residential bonded transactions in South Africa in 2019 at 28%. This is followed by FNB at 23%, Absa at 22%, Nedbank at 13%, SA Home Loans at 7% and the remaining 7% of bonded transactions being provided by other lenders. All lenders issued more bonds for resale transactions than for newly-built homes.

All five major banks were active in each market segment in 2019, although the affordable segment (R300 000 – R600 000) is dominated by Standard Bank (4,327 bonded transactions), followed by Absa (3,929) and FNB (3,866) in 2019. Standard Bank also had the largest slices in the conventional market, high-end and luxury market.

For properties in the entry market (those valued under R300 000), the largest provider of bonds was Absa - responsible for 27% of bonded transactions in this market segment in 2019. This is followed by FNB and Standard Bank at 20% each, and SA Home Loans (which includes Capitec), at 14%.

Bonded transactions in the entry market are expected to remain low due to unequal economic impacts of the pandemic. During 2020, banks resorted to providing existing bond holders with some relief on payments (see page 4).

The drop in the prime rate from 8.75% in March, to 7% significantly increases affordability and creates considerable opportunity to broaden access to mortgage finance, particularly for first-time (working-class) home buyers in the affordable market. For example, a monthly income of approximately R12 200 is needed to acquire a R400 000 house (without a FLISP) when prime was 8.75%. With prime dropping to 7%, the same house becomes affordable to a household with a monthly income of R10 500.
11. Freehold vs. sectional title properties

**Freehold** properties are owned in their entirety, most commonly a single home on a single stand. A **sectional title** property is typically a single unit in a shared context, such as a block of flats or complex of townhouses. In this analysis, properties which fall within a private estate—both freehold or sectional title—are categorised as estate properties.

A significant number of the new properties being built in South Africa at the upper end of the property ladder are sectional title, while most of the new registrations at the lower end of the property ladder are freehold properties, delivered through government housing programmes. Preliminary deeds data for the first quarter of 2020 indicates that transaction prices of sectional titles appear to be more affected by current (COVID-19) market conditions, while transactions in the freehold property segment have already shown signs of decline.

Estate properties mainly exist at the upper end of the market—in 2019 there were 17 357 new estate property transactions valued over R1.2 million (luxury), compared to only 2 745 and 2 914 in the high-end and conventional markets, respectively.

A large majority of properties under R600 000 were freehold, while the R600 000 - R900 000 band contained the largest share of sectional title properties.

Overall, most properties were freehold — in 2019, 98% of all properties in the entry market were freehold, 86% in the affordable market, 72% in the conventional market, 70% in the high-end and 61% in the luxury markets. In the total property market, sectional titles accounted for the largest share (22%) in the luxury segment.

Sectional title properties typically offer an affordable alternative for households wanting to own a home. However there are often distinct spatial patterns by property type across cities. Municipalities can therefore encourage mixed uses/ mixed income and property types, to improve integration and affordability by applying the levers of land use planning and approvals.

---

The category 'Freehold' refers only to stand-alone freehold properties outside an estate, and the category 'Sectional title' refers only to sectional title properties outside an estate.

12. Comparing South Africa’s eight metros

With respect to market size, Johannesburg had the largest residential property market, across the eight metros — with a total number of 805,668 properties in 2019. Buffalo City had 129,900 properties on the deeds registry.

In 2019, Mangaung had the biggest share (57%) of properties in the entry market, while Ekurhuleni accounted for the most (35%) number of properties in the affordable market. Cape Town, on the other hand, had 40% of its properties in the luxury market.

In terms of total value of the residential property market, Cape Town had the highest value (R 1 161.1 billion), followed by Johannesburg (R 944.8 billion). In contrast, Buffalo City had the smallest residential market in terms of value (R82.6 billion).

Nelson Mandela had the largest share of government-subsidised properties (42%), compared to eThekwini at the low end (21%). Mangaung (35%) had the second largest portion of GSP, relative to the eight metros.

Johannesburg had the highest proportion of sectional title properties compared to other metros (25%), followed by eThekwini (22%) and Tshwane (21%). Tshwane, in contrast had the largest share (13%) of estate properties, while City of Cape Town and Johannesburg each had a share of 8%.

Residential market size
Properties by market segment, government-subsidised housing and property type
Eight metro municipalities, 2019

Data source: CAMPS Citymark, using deeds registry data supplied by Lightstone Pty. at the end of December 2018 (sourced June 2020).
Across the country, the average value of residential properties in all provinces has increased steadily between 2009 and 2019. **When comparing the average property values of inland provinces, Gauteng had the highest value (R929 879) in 2019.** The Free State recorded the highest (73%) change in average property value – from R244 218 (2009) to R388 367 (2019). Over the same period, the average value for properties in both Gauteng and Limpopo, increased by 67%, the smallest percentage change across the inland provinces.

**For coastal provinces, Western Cape had the highest average value of properties in 2019 (R1 366 837), compared to the lowest (R401 460) in the Northern Cape. However, the average value of Northern Cape properties increased by 75%– from R229 190 in 2009, to R401 460 in 2019. Over the same period, property values in the Western Cape increased by 57%.**

In 2019, the Free State had the highest proportion (69%) of properties in the **entry** market, while Gauteng had the most **affordable** market properties (26%). In the **luxury** market, the Western Cape had the largest number of properties (30%) relative to other provinces.

**37% of properties in the Eastern Cape were government subsidised – the largest share of the provinces, while in terms of property type, the largest share (91%) of freehold properties were in Mpumalanga.**
14. Implications for affordable housing

Conclusions

Limited availability of affordable & entry market housing

• Apart from government-subsidised housing programmes, there is limited delivery of entry level properties financed by the private sector. The availability of affordable housing, whether in the new-build or resale market, has been declining steadily since 2015. This poses a serious challenge to working class South Africans, and creates an important, still untapped, opportunity.

• Deeds registry figures do not show the significant number of affordable housing units that have been delivered but not yet allocated title deeds. Without formal registration, however, these property assets constitute "dead capital" both for the beneficiary and for the State.

Little mortgage market growth

• The limited growth observed in the mortgage market still favours the higher end. Despite stated bank interest in the affordable market, there is little evidence of this in the numbers of affordable property transactions financed with a mortgage bond.

• While some banks are active in the low end, there is great potential for them to expand their role down market.

Poor functioning of the resale market

• At nearly three times the size of the new-build market, the resale market is a critical component of a functioning and equitable residential property market.

• With average prices lower than the cost of the cheapest newly-built house by a private developer, the resale of government-subsidised properties can offer critical access to the formal property market for the working class.

• A large proportion of government-subsidised properties have passed the 8-year period determined by the pre-emptive clause and can be legally sold. Although these properties could become a potential source of supply on the resale market, various constraints to households' ability to transact formally contribute to what appears to be a significant number of informal resale transactions.

Limited spatial transformation highlights opportunities to leverage the property market

• The uneven distribution of residential property market segments confirms how segregated and disconnected South Africa's cities continue to be. These spatial patterns have implications for housing affordability, as well as economic activity.

• At the same time, there is evidence that in some areas, the distribution of value is changing and spatial integration is starting to take place. This highlights an opportunity for cities to use the progress of the property market to support their integration objectives.

Recommendations

Various interventions can help leverage the property market to allow households to get a first step on the property ladder, access mortgage finance, and realise the value of their housing.

• A key goal must be to replace the practice of informal residential property transactions with formal transactions. This will require transaction support, including assistance with regularising title for properties already informally traded, or which never received title in the first place.

• CAHF and 71point4 have established a Transaction Support Centre (TSC) that has piloted the approach in Khayelitsha, Cape Town. Replicating and supporting the roll-out of this model in other areas could enable the development of working residential property markets for low income South Africans.

• Strategic transport planning can improve integration and housing affordability. Zoning and land use planning tools can be applied more strategically to boost integration and spatial transformation.

• Area-based green lining can support mortgage and non-mortgage finance in low value areas. This would require banks and lenders to collaborate with municipalities to boost investment in identified areas. Municipalities can play their part in terms of creating investable areas—through expedited plan approvals and rates clearances, design of municipal rates policies, or the implementation of area-based improvement initiatives.

• Municipalities can broaden their rates bases by resolving title backlogs and informal title situations. Quick wins can be found in some areas, while the TSC offers lessons for how to address more sticky challenges.

---


2 For more information on the TSC visit CAHF's project page: http://housingfinanceafrica.org/projects/transaction-support-centre/
15. Report methodology

What is the source of the data?

To produce our Citymark research, CAHF uses South African deeds registry data as cleaned and prepared to our specifications by our partners at Lightstone, one of the leading property data firms in South Africa. We add to this 2011 Census data provided by StatsSA. This report only reflects the formal property market that is registered on the Deeds Registry. Informal or untitled properties, such as those in informal settlements, or which comprise part of the national titling backlog, are therefore not reflected in the analysis.

How are the indicators derived?

About one-third of the indicators are simply counts of conditions within suburbs, such as numbers of properties, sales or average values. CAHF uses these building blocks to create the remaining indicators, based on our experience in housing finance and real estate development. All of the indicators can be shown at the suburb, municipality or metro levels, up to the national level, allowing for comparisons and benchmarking.

How are the images and analyses created?

Record-level deeds data is aggregated at the suburb level into specifically defined indicators, which are then merged at the suburb level with Census data. Citymark uses 2011 StatsSA subplace boundaries, ensuring that all data sources aggregate to the same boundaries.

Why use market segments?

Market segmentation allows for analysis of how categories of properties have performed differently over time. Most properties under R300 000 were developed through government intervention with resale restrictions. Properties between R300 000 and R1.2 million are of current interest to investors and developers keen on providing more affordable housing within those segments. Properties over R1.2 million trade in more conventional and organic ways.

However it must be noted that the market segments used in this analysis are static, and are not adjusted for inflation across the years. Thus a house valued at R300 000 in 2012 was relatively more expensive than a R300 000 house today. Furthermore, a particular property may move into a different market segment as it depreciates or appreciates.

How is the value determined?

The property values in this report are not taken from municipal valuation roles. Instead the value is provided by Lightstone using its own proprietary methodology which takes into consideration a range of indicators, including transaction price, the level of sales activity in an area, and the extent of mortgage lending.

How is transaction price determined?

The prices or transaction amounts listed are those listed on the deeds registry, with no adjustment for inflation (the nominal price). In the case of government-subsidised properties, the original transaction price recorded in the deeds registry when a beneficiary receives their title deed is typically based on the subsidy quantum although different methodologies are used depending on the municipality or implementing agent for the housing project.

How are government-subsidised properties identified?

Government-subsidised houses are not explicitly recognised or marked on the title deed. Therefore its necessary to use a proxy to identify government-subsidised properties on the deeds registry. The proxy we use is based on common programme characteristics of BNG/RDP houses, including the year, first registration price and buyer type, maximum prices, and proximity to other similar housing types.

The Centre for Affordable Housing Finance in Africa (CAHF) is a research NGO whose mission is to expand Africa’s housing markets for all of its residents, through disseminating research and market intelligence, and supporting cross-sector collaborations and a market-based approach.

www.housingfinanceafrica.org

CAHF’s work in South Africa is undertaken with the support of the Cities Support Programme of National Treasury.