

# Analysis of South Africa's Housing Sector Performance

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

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

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

## Outline

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

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## Background: 1994 housing challenge

- Low levels of income (1994 Housing White paper estimates)

| Income category | Percentage | Number households |
|-----------------|------------|-------------------|
| >R3501          | 13,9%      | 1,15m             |
| R2500-R3500     | 5,6%       | 0,46m             |
| R1500-R2500     | 11,8%      | 0,98m             |
| R800-R1500      | 29,0%      | 2,42m             |
| R0-R800         | 39,7%      | 3,30m             |
| Total           | 100%       | 8,3m              |

- Duplicated and poorly targeted subsidies
- Lack of end-user finance
  - Lack of appropriate retail lending capacity
  - Reluctance of formal financial institutions to lend in certain areas and to certain groups

- Socio-political and environmental issues

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

**\$US1.00 = R7.00**

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## Background: 1994 Housing White Paper solutions

### Stabilising the housing environment

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

### Mobilising credit

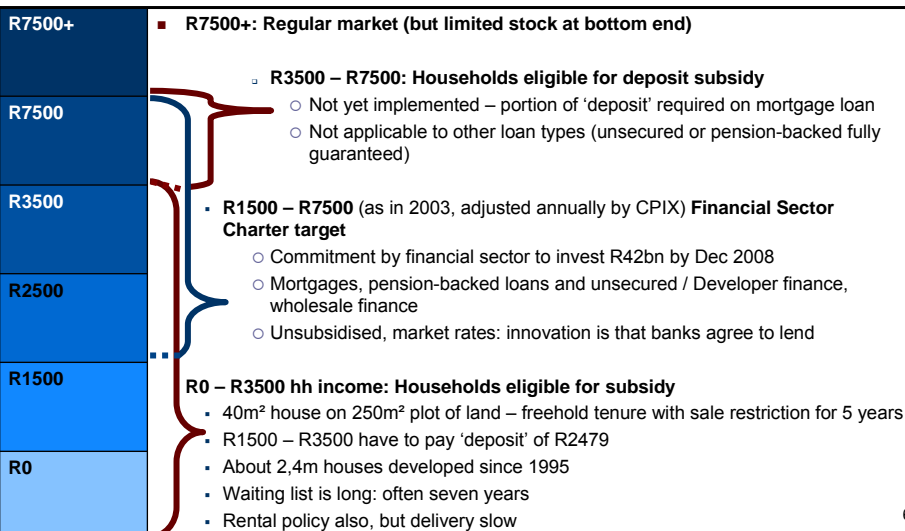
- Focused on commercial risk
- Involves various risk sharing initiatives
- Established:
  - NHFC and later RHLF
  - Nurcha
  - SHF
- Goals:
  - Increased number of financial intermediaries to provide credit to low income households
  - Formal banks to come back 'down market'

### Housing subsidies

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

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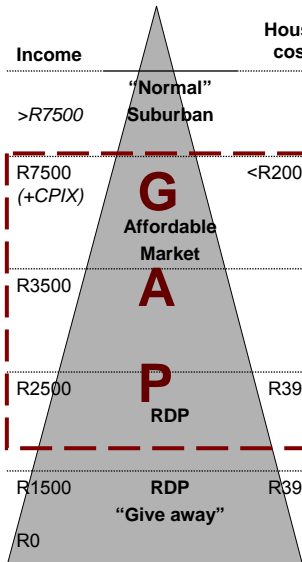
## Background: current policy (circa 2007)



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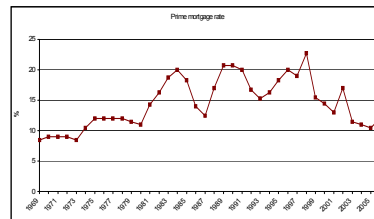
## Background: outcomes of finance interventions

| Income        | House cost | % pop (LFS 2004) | Estimated backlog                               | Ownership  | Rental   |
|---------------|------------|------------------|---|--|--|
| >R7500        |            | 10%              | None specified                                  | Regular mortgage and sectional title                 | Luxury rental  |
| R7500 (+CPIX) | <R200 000  | 11%              | ± 650 000 units <R200 000, growing @ 132 000 pa | FSC mortgage but no stock: avg 20 000 units annually | Social housing stock: 35 000 units total nationally      |
| R3500         |            | 6%               |   | No new delivery is affordable here                   | FSC pension-backed: no stock<br>No subsidy-linked credit |
| R2500         | R39 000    | 10%              | ± 2,2m subsidised units (±200 000 annually)     | Micro finance  | Backyard rental; inf settl; overcrowding                 |
| R1500         | R39 000    | 63%              |   | Subsidy  | NGO, family etc. loans<br>Subsidy: 2,4m total to date    |
| R0            |            |                  |   |  |  |



## Background: factors leading to current context

- Interest rate rises (up to 22.75% prime in 1998)
  - Significant default and repossessions
  - Borrower reticence to access mortgage bonds
  - Lender reticence to lend without guarantees (loss limit insurance)
- Interest rate falls (down to 10.5% in 2005, now rising)
  - Increased affordability increases demand for housing
  - Property prices increase dramatically
- BEE Act prompts Financial Sector Charter
  - Significant response by the financial sector to enhance access to finance generally, including housing finance, for low income earners (R1500-R7500 adjusted annually for CPIX)
  - Supply of finance without supply of housing increases house prices
  - Fears of consumer over-indebtedness
- Municipal transformation undermines capacity to process new developments
  - Serious delays in new delivery
  - Township property markets also slower
- Infrastructure investment demands promoted by government (Gautrain, 2010 Soccer world cup, etc.)
  - Building material prices rise in advance of inflation
  - Construction capacity otherwise focused



*"cement prices have more than doubled in the past seven years and, with production capacity currently 'under pressure', could rise even higher, placing the government's infrastructure rollout in jeopardy." (M&G, November 2005)*

*The Bureau for Economic Research showed that prices had increased by 143% between February 1998 and February 2005 (during which time the subsidy itself increased by just under 50%).*

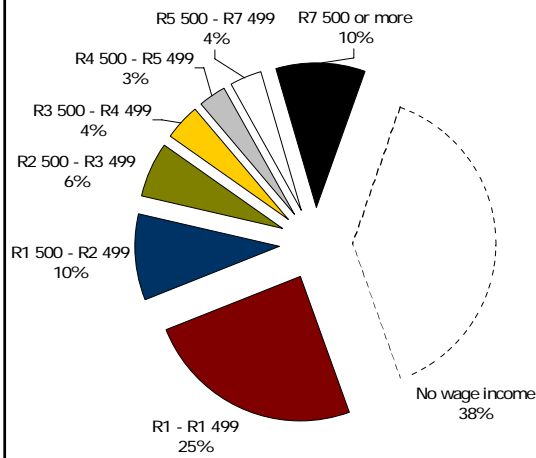
# Housing pressures

## Analysis of demand

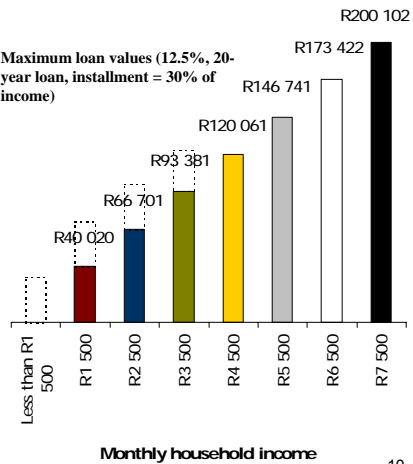
### Housing pressures: housing affordability is limited

(Melzer, 2006)

**Distribution of households by monthly household wage income\***



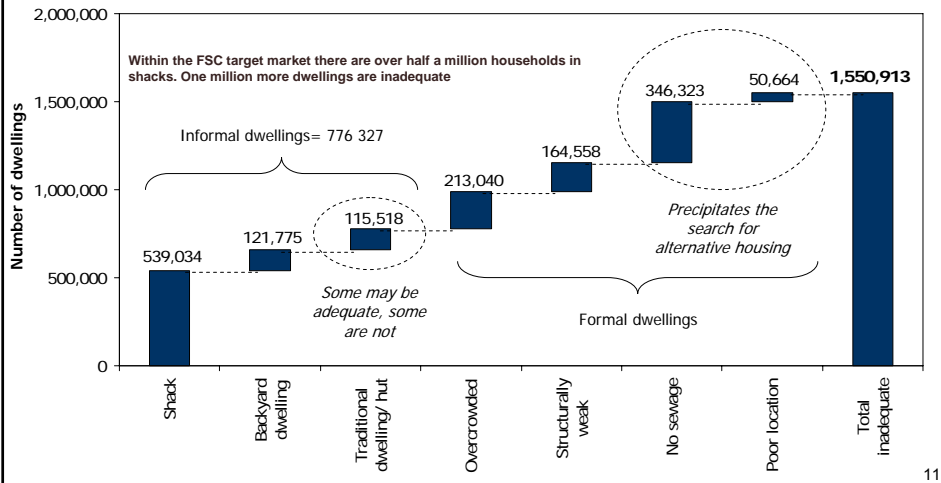
**Maximum loan values (12.5%, 20-year loan, installment = 30% of income)**



Source: Labour Force Survey September 2004

\* Note: Household income incorporates wage income only. Other income sources are not included

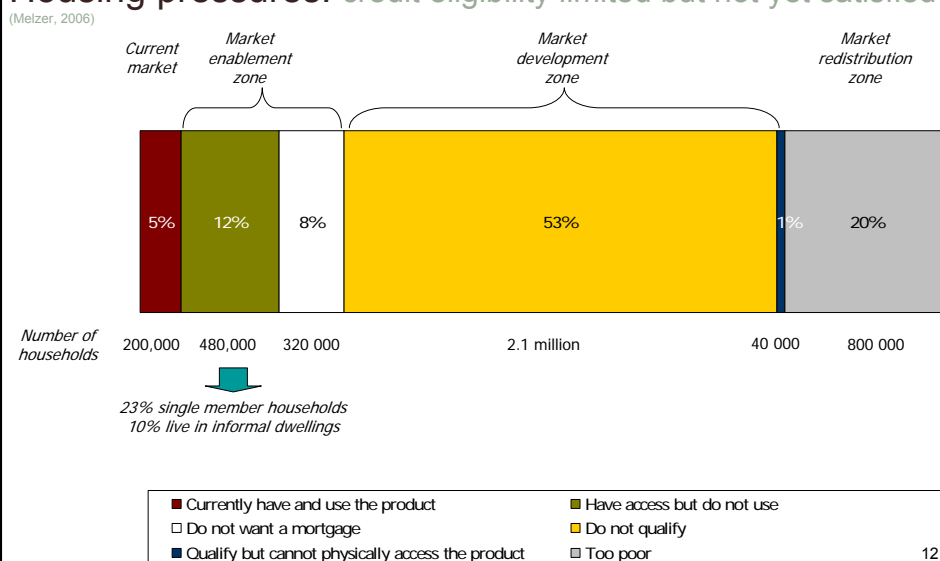
## Housing pressures: housing quality is poor (Melzer, 2006)



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

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## Housing pressures: credit eligibility limited but not yet satisfied (Melzer, 2006)



Note: Totals do not add up to 100% because of rounding

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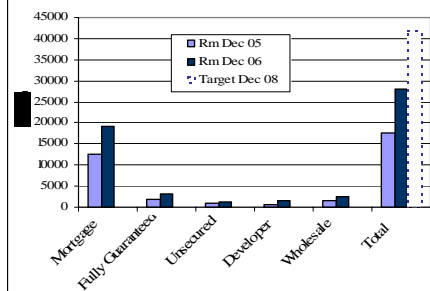
## Housing pressures: FSC targets on track

| Unaudited Banking Association figures of FSC bank lending for housing |                                  |            |                                  |            |
|---|----------------------------------|------------|----------------------------------|------------|
| Product   | Number originated (Jan 04-Dec05) | %          | Number originated (Jan 04-Dec06) | %          |
| Mortgage  | 90 000                           | 27%        | 133 700                          | 26%        |
| Fully Guaranteed  | 135 000                          | 41%        | 199 800                          | 39%        |
| Unsecured   | 105 000                          | 32%        | 178 700                          | 35%        |
| <b>Total</b>  | <b>330 000</b>                   | <b>100</b> | <b>512 200</b>                   | <b>100</b> |

Value of loans originated between Jan 04 and end December 06 (unaudited)

| Product          | Rm            | %              |
|------------------|---------------|----------------|
| Mortgage         | 19 230        | 69%            |
| Fully Guaranteed | 3273          | 12%            |
| Unsecured        | 1394          | 5%             |
| Developer        | 1468          | 5%             |
| Wholesale        | 2568          | 9%             |
| <b>Total</b>     | <b>27 933</b> | <b>100.00%</b> |

Value of FSC target loans originated by banks (unaudited figures)



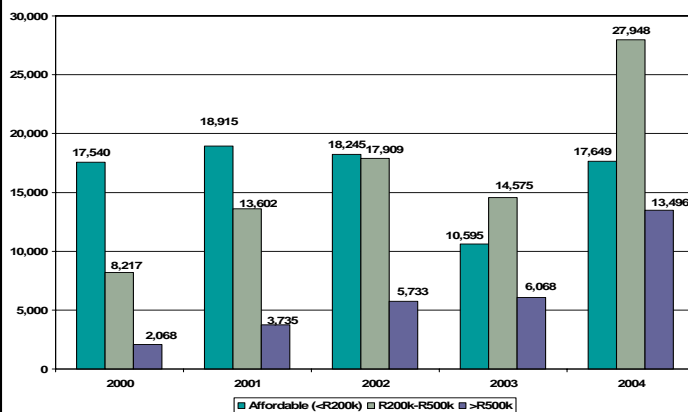
## Housing pressures: analysis of demand

- Limited affordability for housing due to
  - Limited or no income
  - Other financial pressures and demands, family size
  - Household reticence to take on mortgage finance
  - Historically low levels of household expenditure on housing
- Limited eligibility for finance due to
  - Many low income households informally employed, dependent on multiple earners, un-banked, cash based
  - Limited access to security (houses unmortgageable, limited pension)
- Effective demand for credit is limited
  - Many households cannot afford or manage large scale finance
  - Smaller loan values critical ...
  - But housing construction process not aligned with affordability
  - Availability of finance has had an inflationary effect

# Residential opportunities

## Analysis of supply

### Residential opportunities: New delivery: NHBRC enrolments 2000-2004 (Neill et al, 2006)



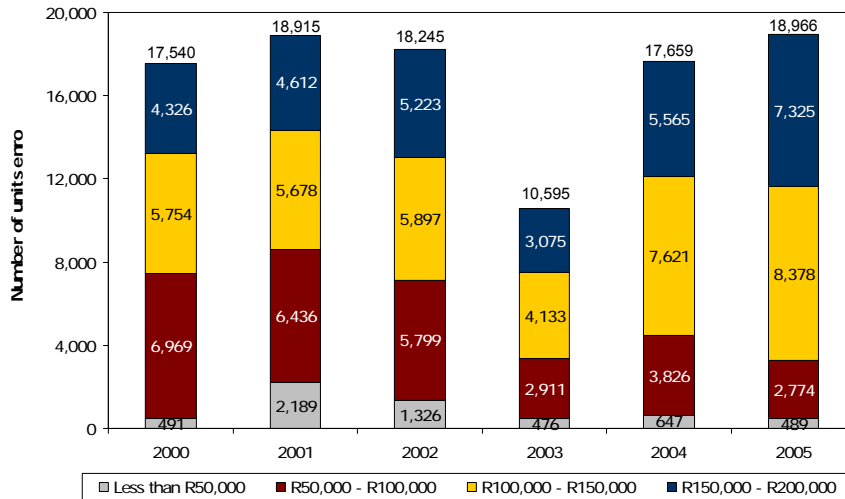
- NHBRC data indicates that the private sector delivered a total of 196,296 houses from 2000 to 2004.\*
- The affordable (<R200k) housing market's share over this period was 42.25% or 82,944 units.
- As an overall proportion of delivery, affordable housing has declined from 63% in 2000 to 30% in 2004, even though actual unit numbers have remained almost constant.
- The most dramatic growth in both numbers as well as overall delivery ratios has occurred in the R200k plus and especially the R500k plus segments.

\* It should be noted that the inclusion of RDP units, while legally prescribed, is not consistent across the Provinces. However it is likely that a portion of the R50k and below units (only 637 delivered in 2004) are RDP units.



## Residential opportunities

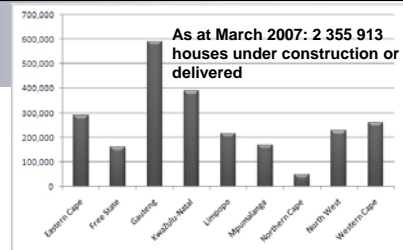
NHBRC enrolments ≤R200 000 from 2000-2005 (Meizer, 2006)



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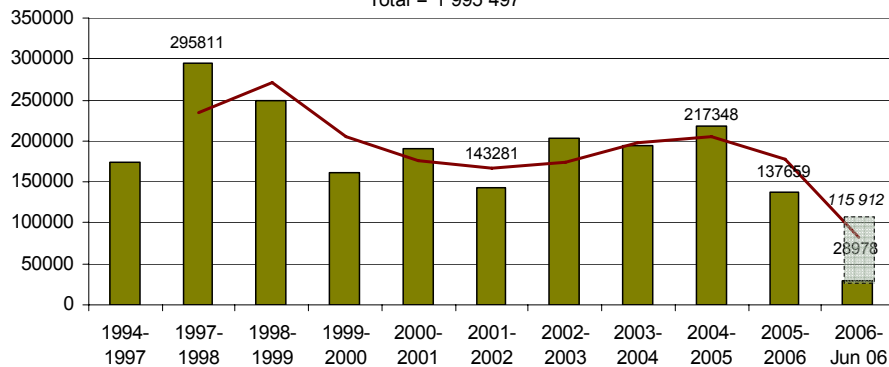
## Residential opportunities

New delivery insufficient



### Subsidised houses completed or under construction (1994-June 2006)

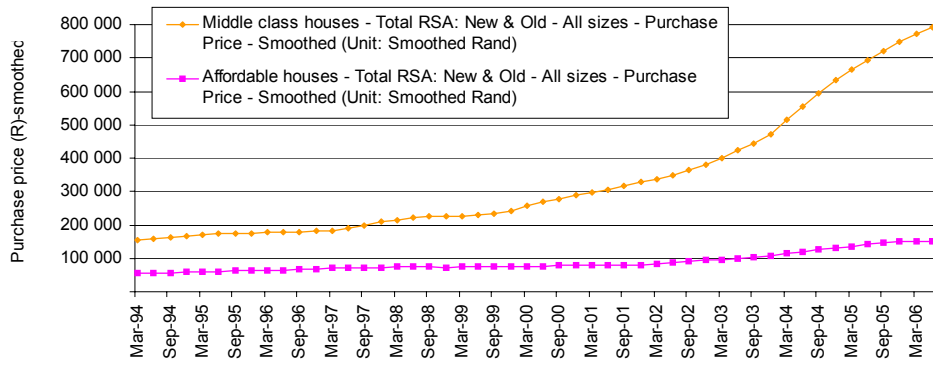
Total = 1 995 497



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## Residential opportunities

Housing prices escalating rapidly, creating gaps

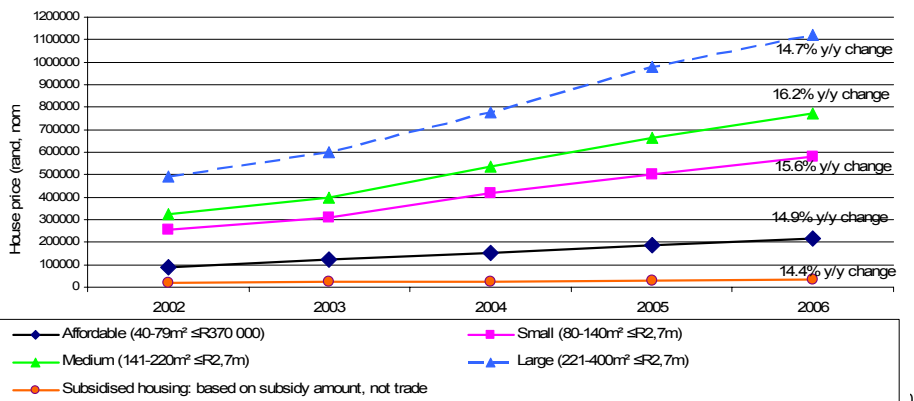


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## Residential opportunities

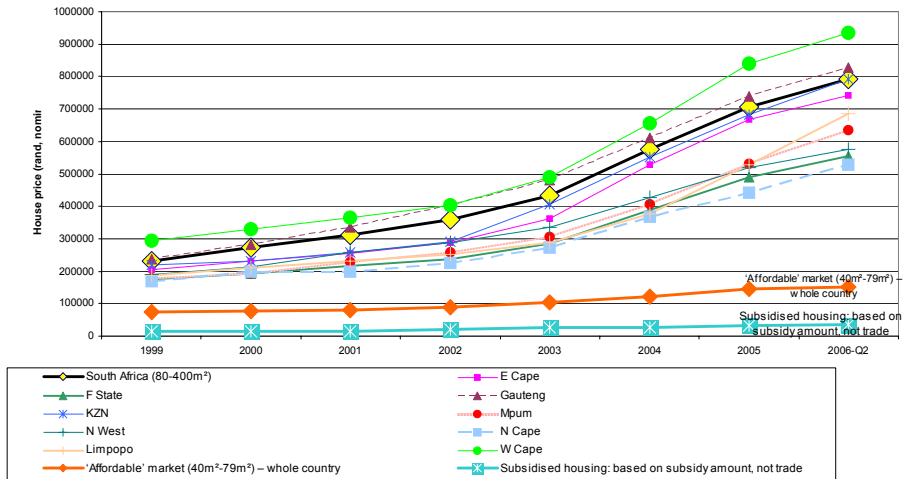
Real gaps in the housing ladder

House Price Appreciation in SA  
(Source: ABSA Residential Property Perspective - First Quarter 2007)



## Residential opportunities

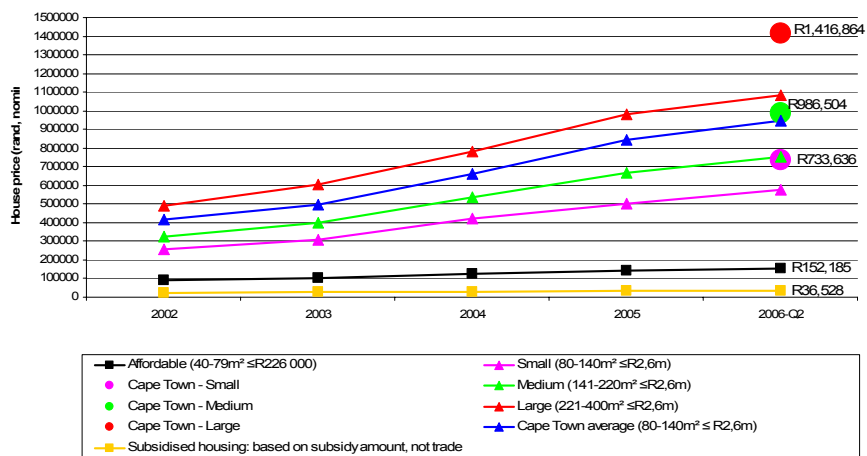
Gaps are spatially defined by province



## Residential opportunities

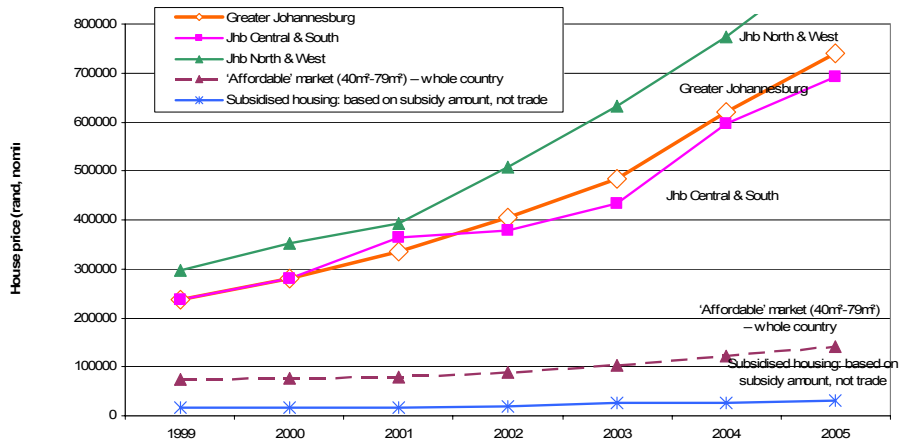
Gaps are greater in some areas (Example, Cape Town)

ABSA House Price figures by house size: National and Cape Town



## Residential opportunities

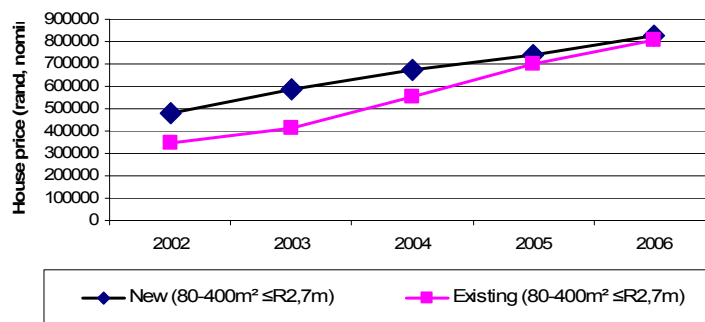
Gaps are also spatially defined within cities (Example: Johannesburg)



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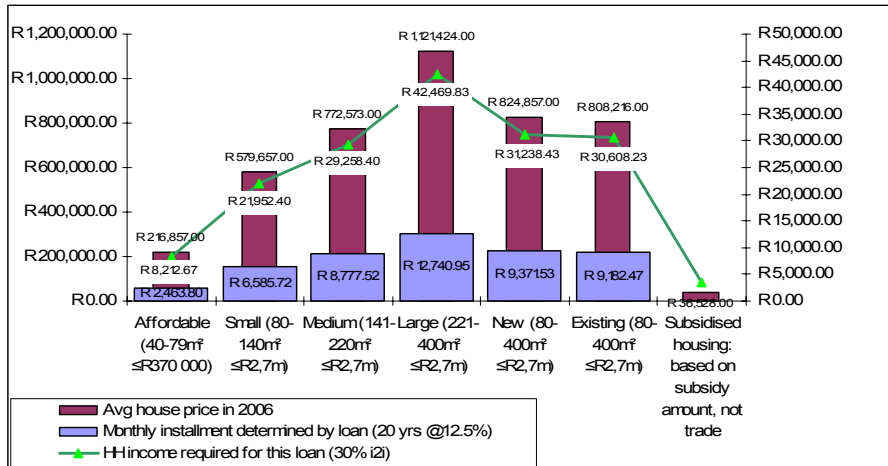
## Residential opportunities

Resale market on par with new build



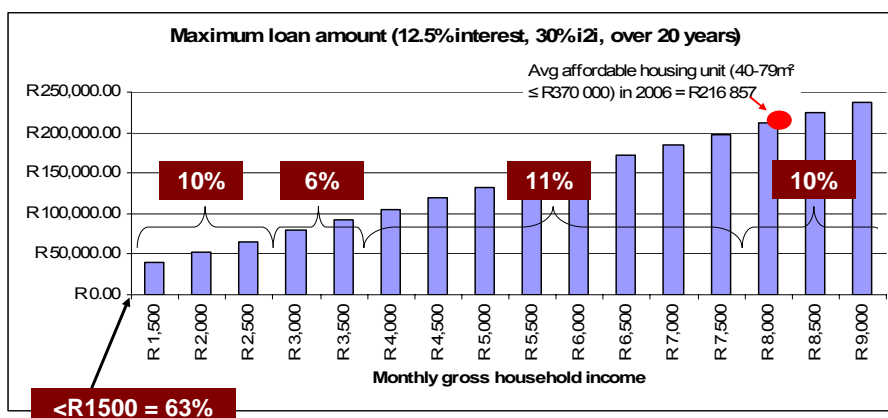
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## Residential opportunities: “affordable” house not so affordable



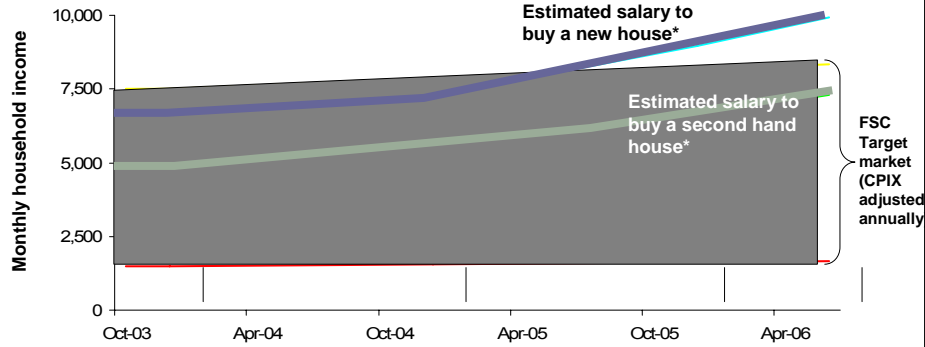
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## Residential opportunities: “affordable” house not so affordable



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## Residential opportunities: housing affordability decreasing



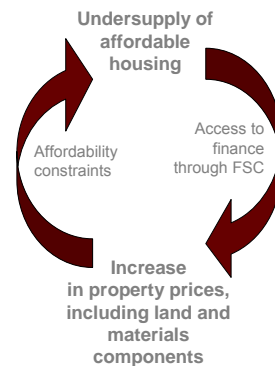
| Contributors                         | Dec 2003 | Dec 2004 | Dec 2005 | June 2006     |
|--------------------------------------|----------|----------|----------|---------------|
| <b>Stand</b>                         | 46 000   | 57 000   | 80 000   | <b>93 000</b> |
| <b>Building cost (top structure)</b> | 86 500   | 93 100   | 99 000   | 102 600       |
| <b>2nd hand affordable house</b>     | 102 500  | 122 600  | 140 900  | 151 500       |
| <b>Prime interest rate</b>           | 11.5%    | 11.0%    | 10.5%    | 11%           |

\*Based on calculated average house prices, 20-year loan at prime plus 2; 25% instalment to income  
 Source: ABSA affordable house price index; The Rode report 2004 & 2006; The Building Cost Report 2006

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## Residential opportunities: an analysis of supply

- **Critical undersupply of affordable housing**
  - Limited delivery overall (less than 200 000 units total in four years; delivery of 'affordable' units less than 20 000 annually)
  - Developer focus on higher income, townhouse developments
  - Affordable resale property markets are improving in churn but slow
  - Banking Association estimates shortage of 650 000 units, and a need for delivery of 132 000 'affordable' units annually to address shortage by 60% in 5 years.
  - Reasons for undersupply relate to limited margin realisable by developers given high costs of delivery (i.e. delays, input costs (land, materials, labour), administrative constraints (i.e. no estate agents) and capacity constraints), and low affordability
  - **Critically, no low cost or incremental delivery options other than the subsidy**
  
- **Dramatic property price escalations in new and resale market put most housing out of reach of even moderate income borrowers**
  - Rapid rise in luxury and high cost housing now shifting to lower cost segment
  - Ironically, access to finance fans the fire

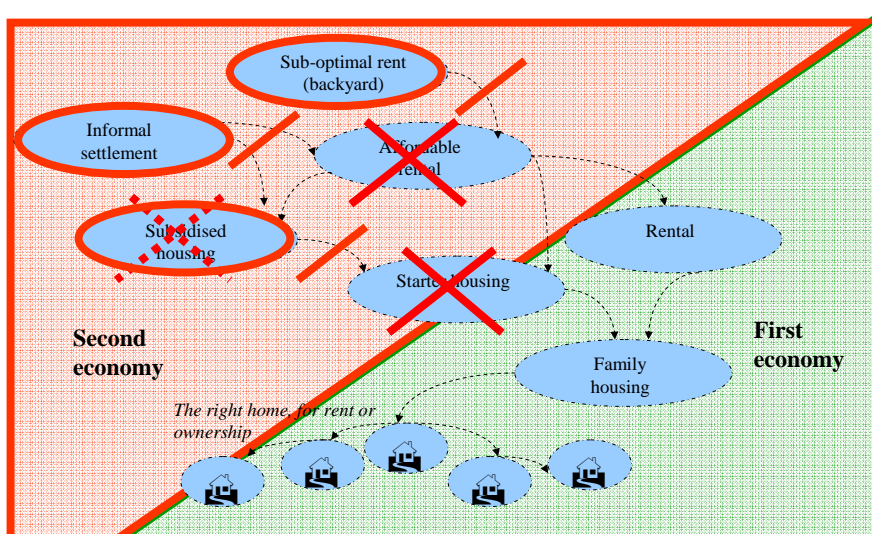


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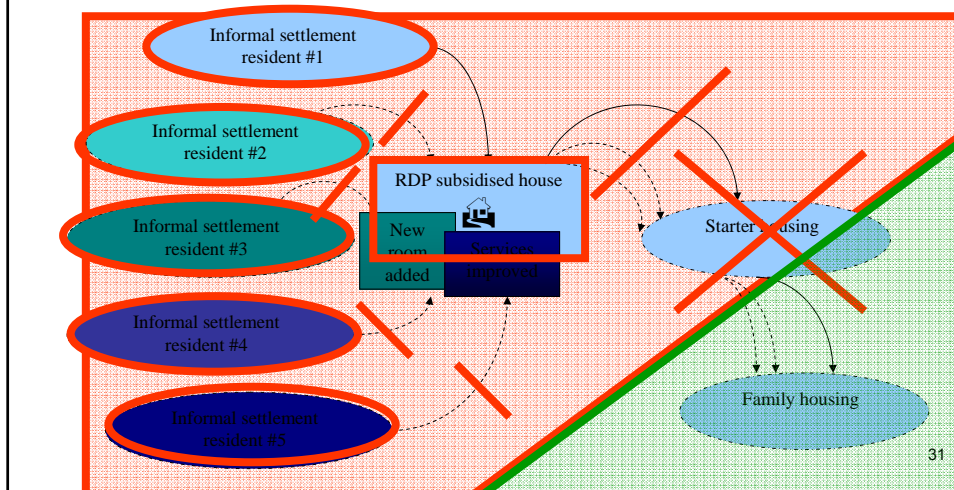
# South Africa's housing outcome

Consequences of the demand/supply dynamic

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



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



## South Africa's housing outcome

- Delivery rates must increase if housing demand is to be met
  - Need for subsidised delivery is clear, but
    - Distortion effect?
    - Still too few
  - “Affordable housing” as a category lacks policy attention
    - FSC only intervention
    - Breaking New Ground attention to sustainable human settlements
    - Implicit cross-subsidisation in inclusionary housing policy further disadvantages low-moderate income borrowers
  
- Core implementation requirements
  - Expediting key processes: building plan approvals, planning, clearance certificates, sewers and infrastructure provision, roads, electricity, etc.
    - Partners for Housing
  - Title deeds
  - Special “fast-track” and targeted incentives
    - Urban Development Zone
    - Other?



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