Analysis of South Africa's Housing Sector Performance

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December 2006

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1   INTRODUCTION

Twelve years after the advent of South Africa's democracy and the publishing of its Housing White Paper in December 1994, and two years after the approval of the Comprehensive Plan for the Development of Sustainable Human Settlements (also known as Breaking New Ground), dramatic changes have occurred in the housing landscape.

- With a focus on the delivery of subsidised housing to qualifying beneficiaries, the State has added upwards of two million housing units to the formal housing in the country – these now comprise 15% of all formal housing units in South Africa. For a range of reasons, however, delivery has now stalled.

- An unparalleled property boom has highlighted the potential of property as a prime investment class, and this has had a dramatic impact both on the wealth base of existing property owners and the affordability constraints of new home seekers, not to mention the capacity of the State to continue to deliver subsidised housing.

- With the advent of the Financial Sector Charter in November 2003, access to housing finance has increased dramatically for low income earners. However, with rising property prices and a construction sector focused on the country's massive infrastructure investment plans, this has created new and unexpected access challenges.

South Africa's current housing sector, with its stalling delivery and deteriorating affordability, is trapped within a complex and nuanced interplay of demand and supply.

Access to housing, and the interplay between demand (long housing waiting lists, burgeoning informal settlements, overcrowded inner city flats, and so on) and supply (RDP delivery, social housing, and bonded housing) has been given significant attention by policy makers and indeed in the literature. This has largely been an assessment of the scale of the housing problem – asking questions about the size of the demand and the capacity of the state and the private sector jointly to respond with the necessary supply. The economic aspects of this interplay, and the extent to which the residential property market is both defined by, and defining of this interplay, is a newer field of study.

This housing sector analysis sets out current housing sector performance in respect of demand and supply, and argues for new areas for attention by the State as it seeks to ensure access to housing for all South Africans in line with its policy objectives. It is a desk-top review, and has involved an analysis of key documents and statistics.

The analysis includes the following sections:

1. **Introduction:** this introduction.

2. **Background:** In her most recent speech on the housing budget, Minister of Housing Ms Lindiwe Sisulu reported that "*we have graduated ourselves out of being Minister of low-cost housing to taking on the responsibility of the entire residential property market.*" This approach frames the investigation – that it is the whole housing sector with which the State must concern itself if it is to address the needs of the housing poor.

   The section goes on to consider the 1994 housing challenge and the policy, framed in the 1994 Housing White Paper, which was designed to address this. Key policies adopted at the time are reviewed and the outcomes of these interventions are considered.

3. **Housing pressures: a demographic analysis of demand**: This section offers an approach to understanding the evolving nature of demand in qualitative rather than quantitative terms. The section also draws on analysis by Gardner (2004) which stratifies the countries population into eight sub-groups, roughly defined by income. To some extent, this can give an indication of housing affordability. In South Africa, approximately 79% of the population is eligible for housing assistance in terms of the R3500 per month

income threshold of the national housing subsidy scheme, and 90% of the population earns less than R7 500 per month.[1]

4. **Residential opportunities: an analysis of supply**: This section analyses past delivery performance in respect of both privately and publicly delivered housing. The first observation is that while private delivery has increased since 2000, the delivery of 'affordable units' (those costing less than R200 000, and ostensibly affordable to those in the Financial Sector Charter (FSC) target market), decreased from 63% of total delivery in 2000, to 30% of total delivery in 2004. Public sector delivery of subsidized housing has also declined rapidly and 2006 looks to be the most poorly performing year on record. At the same time, property prices have more than doubled since 1999, making properties much less affordable and creating significant gaps in the housing ladder. The section concludes with identifying where the gaps in the housing ladder are situated.

5. **Conclusions: South Africa's housing outcome**: This section considers the consequences of this demand / supply dynamic. Essentially the failure to deliver both subsidised and affordable housing units, notwithstanding the availability of end user finance, has resulted in a deepening of the split between the first and second economies. Without a dramatic increase in delivery in both these two areas, South Africa's housing landscape will remain as it is, with the vast majority of households living either in informal settlements or the subsidised houses that have been delivered, and the privileged few benefiting from a growing property market.

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[1] Statistics are according to the Labour Force Survey of September 2004. Note that the Labour Force Survey only measures wage income. Wages include all productive income for those who are employed or self-employed in the formal or informal sectors. It does not include pensions, grants and/or remittances, which we know are signficiant (over 10 million grant recipients, 22% of households in SA rely on pensions / grants as their main form of income, 12% rely on remittances as main source of income). Households with a zero wage income (38% in SA) do not have any employed members of the household.

2   Background

> *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*

In 1994, the challenges faced by the Department of Housing were many. With an estimated 86% of households earning less than R3500 per month, housing affordability was seriously constrained and in obvious need of subsidy support. However, existing subsidies from the previous regime were designed to support the racially-defined framework of the government's apartheid policy. They were also expensive and unable to support the breadth of the need defined by a post-democratic administration. The availability of end-user finance was also limited. Retail lenders lacked the capacity to extend downmarket, and there was an explicit reluctance on the part of some formal financial institutions to lend in certain areas and to certain groups of people. At the same time, the advent of the country's first democratic order brought with it enormous expectations and a society that was tense with anticipation regarding the promise for development and a 'better life for all'.

2.1   1994 policy response

The overall approach taken by government in its housing policy therefore came from two angles.

- On the one hand, government has sought to address the housing crisis directly through the scale delivery of subsidised housing for low income households. For the past twelve years, government policy has provided for the delivery of subsidised housing for ownership (the standard, RDP housing subsidy has delivered upwards of two million units since its launch in 1994) as well as for rental (the social housing subsidy has delivered just under 35 000 units since its launch in 1996).

- On the other hand, government has sought to create an environment in which the subsidised housing market can operate normally as part of the broader, non-subsidised housing market, in the interests of a growing and prosperous economy. This latter angle has become increasingly important as government seeks to emphasise the asset potential of the housing it produces and the role of such housing in poverty alleviation.

Three key strategic thrusts in the 1994 Housing White Paper[2] sought to respond to these intentions.

First, as highlighted above, the **National Housing Subsidy Scheme** provided a subsidised housing unit to eligible households – that is persons with dependents, resident in South

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[2] A summary of the seven strategies from the White Paper and currently contained within the National Housing Code is attached as Annexure 1.

Africa, earning less than R3500 per month, and who had never before owned a home. Subsidised units were accessible through a variety of mechanisms: as part of large scale developments in terms of the project-linked subsidy scheme; as flats for rent in terms of the institutional subsidy scheme; households could self-build their units through the Peoples' Housing Process; and so on.

Although the goal of delivering one million units in five years was only realised in seven, South Africa's rate of delivery of subsidised units remains unparalleled internationally. Originally, the subsidy quantum was stratified by income – higher income earners were able to access less subsidy than lower income earners. Today, households earning less than R1500 per month are eligible for just over R36 000. Households earning between R1500 and R3500 are required to contribute R2479, and access approximately R34 000 of subsidy value. The intention originally was that households earning above R1500 would be able to afford an additional amount of credit, which, when added to the subsidy amount, would afford them a better quality or larger size housing unit. However, the credit-linked option was never applied in the housing delivery process and households who could afford credit only ever did so after having received their RDP house and having lived in it for a while.

Second, the policy included a specific strategy to "**stabilise the housing environment**" and thereby encourage greater lending down-market by the existing banks which comprised the country's financial lending sector. This strategy led to a range of initiatives. Early on, various institutions were established to encourage banks to extend their loans down-market.[3]

Third, the policy sought to "**mobilise housing finance**" through the establishment of a wholesale financier which would support the emergence of a cadre of housing-focused, non-bank lenders to offer housing loans to low income earners. This led to the establishment of two institutions, the National Housing Finance Corporation and the Rural Housing Loan Fund, which would encourage increased lending for housing purposes to low income earners through the provision of wholesale finance and market development support to specialist housing lenders, micro financiers, social housing institutions and primary market lenders (or mortgage loan originators).[4] Rust (2003) has illustrated the composition of the sector in terms of the income of its clients as follows. Recent research by Pearson and Greeff (2006) indicates that the picture still holds true today, especially in terms of the extension of bank credit cards down market:

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[3] The Mortgage Indemnity Fund was established to provide banks with indemnity against non-commercial risk when they lent to the target market (households earning less than R3500 per month) in pre-approved areas. Servcon Housing Solutions was established to take over the banks' non-performing books in the low income market. The Masakhane Campaign was launched to encourage people to pay their rates and service charges to the local authority and to meet their bond repayment responsibilities. The National Home Builders Registration Council was established to regulate quality in the building industry and to provide consumers with a warranty against bad building. The National Urban Reconstruction and Housing Agency (Nurcha) was established as a guarantor of end user loans and building loans. And finally, a subsidy was introduced to support borrower's affordability for housing loans. Of these various initiatives, only Nurcha, the NHBRC, Servcon, and the National Housing Subsidy operate today. The MIF had a limited mandate and ceased operations as per the original agreement, in 1998 (without approving a claim). The Masakhane Campaign was never a great success and was discontinued within a few years of being introduced. The credit-linked housing subsidy mechanism was never really a success, with only a fraction of subsidy approvals being linked to credit. In terms of the new housing policy, "Breaking New Ground", this has been replaced effective April 2005 by a new "deposit" subsidy for households earning between R3500 – R7500. However, this deposit subsidy does not appear to have been implemented as yet.

[4] The National Housing Finance Corporation (NHFC) was established with government funding to support, broadly, the emergence of such institutions in urban areas. The Rural Housing Loan Fund (RHLF) was established with a donation from the German Development Bank KfW to support the emergence of housing lenders who operate in non-metropolitan and peri-urban areas. Originally, the National Housing Finance Corporation (NHFC) and the Rural Housing Loan Fund (RHLF) operated within one stable – RHLF was managed under contract by the NHFC, although funded with German government funding. Since 1 April 2002, however, the RHLF has operated as an independent social venture capital financier.

Figure 1 Market target by financial sector lenders

Bank focus:
- Moderate income
- New housing & resale (PIPs), social housing
- Secured with mortgage or pension
- Payroll deductible, preferred debit order
- Credit cards

Housing micro lender focus:
- Low-moderate income
- Whole house (new & resale) and incremental housing
- Secured with mortgage, pension or unsecured
- Payroll deductible, debit order (not preferred)

Pyramid labels:
- R7500 — Bond house: R100 000+
- R3500 — Bond house: R65 000 – R100 000
- Social housing via housing institutions
- Bond or pension backed house (very few) : R40 000 - R65 000
- Home Improvements or Housing loan (not bonded, very few) : R10 000 – R65 000
- Credit linked RDP House: balance of product less subsidy
- R1500 — Home Improvements or incremental housing: Housing loans or bank credit cards for R2 000 – R10 000

2.2 Housing sector performance since 1994

The consequences of this three-pronged strategy were manifold and have together impacted upon the performance of the housing sector.

Delivery emphasis on the RDP core house

Most drastically, perhaps, is the impact on the profile of delivery: because the credit-linked subsidy option never really worked, virtually all RDP housing subsidy delivery was targeted at the very bottom end of the scale – i.e. the delivery of the RDP house at a presumed value of about R36 000. Housing of slightly better value which might have been affordable to households earning between R1500 and R2500, or to those between R2500 and R3500, was never developed. As a result, all subsidised housing delivery conformed to the national minimum norms and standards – essentially a 30m² unit (usually one room with a toilet), on a 250m² plot of land.

Limited delivery of formal rental housing

Between 1996, with the introduction of the institutional housing subsidy targeted at the delivery of rental housing, and December 2005, the National Department of Housing recorded the delivery of 34 208 social housing units across South Africa. Anecdotally, formal providers of affordable rental housing opted in many cases to deliver housing without accessing the subsidies. While an explicit survey of the affordable rental housing stock delivered is not available, a proxy for affordable rental accommodation is that found within the inner city. The Trafalgar Inner City Report indicates that the inner cities of Johannesburg, Pretoria, Port Elizabeth, East London, Durban and Cape Town, are home to a population of about 400 000 people, the majority of whom rent their accommodation. However, much of this rental is informal, often in poorly maintained units. Very little new development, especially in respect of the low-middle income target, has happened in recent years. In Johannesburg, the Johannesburg Housing Company explicitly targets a lower-middle income tenant. JHC was formed in 1996, developed 117 units in 1997, and slowly, incrementally built its portfolio up to 21 buildings comprising just under 1800 units by 2006. Their delivery rate has therefore been about 180 units per annum since 1996. Given the affordability constraints in the ownership market, this is clearly insufficient to meet the demand in the market.

Emergence of informal options

For households earning just outside the subsidy eligibility threshold of R3500 per month, there was very little, if any delivery of housing affordable to their budgets. And, as noted

above, very little rental accommodation has been developed that is targeted to their affordability levels. As a result, many households doubled up: two families per house; while others moved into the burgeoning informal settlements[5], or inner city flats. The 2006 State of Cities report illustrates that across the nine major municipalities[6] in 2005, 25.75% of households lived without formal shelter. This number is unchanged from the 2001 statistic.

Over-indebtedness

The BEE Act, which led to the signing of the Financial Sector Charter resulted not only in a commitment by the financial sector to invest R42 billion in low income housing before the end of 2008, but also in the sudden accessibility of all forms of credit (most notably credit cards and store cards) to low income earners. Recent research done by Pearson and Greeff (2006) has found that this has put a strain on the debt profiles of low income earners and compromised their affordability for housing. While this is not directly a consequence of the housing finance strategy, access to credit generally is undermining the ability of households to afford access to housing finance.

Undersupply of housing to meet demand results in rising prices

As the availability of housing finance became less of an issue, other factors undermined the supply of housing for which such finance could be used.

- Property price appreciation: An interest rate peak at 22.75% prime in 1998, followed by a trough which levelled out at 10.5% in 2005 had an almost instantaneous impact on property prices which doubled and in some cases trebled in the period. Notwithstanding the enhanced affordability by the interest rate decrease, property price increases in many cases put repayments for moderate housing outside the affordability of many.

- Building material price escalation: Infrastructure investment demands promoted both by government (Gautrain, 2010 Soccer World Cup, etc.) as well as the private sector due to the general level of economic growth in the country, have seen building material prices rise in advance of inflation. In November 2005, the Mail and Guardian newspaper reported that "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." The Bureau for Economic Research showed that prices had increased by 143% between February 1998 and February 2005, during which time the housing subsidy had increased by just under 50%.

- Limited construction capacity together with insufficient economic opportunity in the low income housing sector: The high level of construction activity in the country has meant that construction capacity is focused away from the delivery of low income and affordable housing.

- Insufficient capacity at municipal level: Transition within municipal government has put serious strain on municipal capacity to perform its role in the development process. Research undertaken on behalf of the Banking Association in 2005 found that where it took between 12-18 months to convert raw land into registrable stands, the process now takes between 30 and 59 months. Where it previously took five months to develop houses on such stands, it now takes about 19 months. An additional factor adding to these delays relates to limitations in the bulk service capacity.

These outcomes are examined in more detail in the following sections which consider the questions of demand and supply in the housing sector.

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[5] The recent Financial Diaries study corroborates this finding, that high income households also live in informal settlements.
[6] The nine municipalities are Buffalo City, Cape Town, Ekurhuleni, eThekweni, Johannesburg, Mangaung, Msunduzi, Nelson Mandela Bay, and Tshwane.

2.3   A new policy in 2004: Breaking New Ground[7]

A parallel set of considerations, not directly related to the outcomes listed above, arose in 2004 with the approval by Cabinet of the "Comprehensive Plan for the Development of Sustainable Human Settlements". Also known as Breaking New Ground (BNG) the document sought to refocus policy attention on the development of sustainable human settlements, rather than just on the delivery of subsidised housing units.[8]

BNG comprises nine elements or programmatic interventions, and seven objectives.

Figure 2 BNG elements and objectives

BNG elements	BNG objectives
1. Supporting the entire residential property market	1. Accelerate the delivery of housing as a key strategy for poverty alleviation
2. Moving from housing to sustainable human settlements	2. Utilise the provision of housing as a major job creation strategy
3. Using existing and new housing instruments	3. Ensure that property can be accessed by all as an asset for wealth creation and empowerment
4. Adjusting institutional arrangements within government	4. Leverage growth in the economy
5. Building institutions and capacity	5. Combat crime, promote social cohesion and improve quality of life for the poor
6. Defining financial arrangements	6. Support 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.
7. Creating jobs and housing	
8. Building information, communication and awareness	
9. Establishing systems for monitoring and evaluation	7. Utilize housing as an instrument for the development of sustainable human settlements, in support of spatial restructuring.

The elements and objectives of BNG are a mix of substance and procedure and outcomes, outputs and inputs. However, BNG can be understood to set out the **ends** to be achieved, the **means** to achieve them and the **instruments** to be used in the process.

BNG defines four primary ends:

▪ **Sustainable human settlements**: "well-managed entities in which economic growth and social development are in balance with the carrying capacity of the natural systems on which they depend for their existence and result in sustainable development, wealth creation, poverty alleviation and equity."

▪ **Integration**: The shift from "housing units", to "sustainable human settlements" in BNG largely captures the integration end. Spatial restructuring is also critical and sustainable human settlements are seen to support spatial restructuring: "… utilising housing as an instrument for the development of sustainable human settlements, in support of spatial restructuring". There is also an institutional dimension as integration is both intra-governmental (within a sphere of government) and inter-governmental, requiring integrated planning and coordinated investment.

▪ **Housing assets**: "ensuring property can be accessed by all as an asset for wealth creation and empowerment" and "supporting the functioning of the entire residential property market to reduce duality …"

▪ **Upgraded informal settlements**: progressive eradication of informal settlements and urban inclusion: "informal settlements must urgently be integrated into the broader urban fabric to overcome spatial, social and economic exclusion"

The means to achieve them are:

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[7] This section was originally drafted for the City of Johannesburg's Housing Department towards the development of their housing strategy.

[8] The drafting of the comprehensive plan was informed by a number of processes. The document identifies these as including a detailed assessment and understanding of the local context, a review of performance and a consultation process. It was also informed by the Millennium Development Goals, especially target 11: "*Achieve significant improvement in lives of at least 100 million slum dwellers by 2020*" which has led to the national Minister's goal of "eradicating informal settlements" by 2014.

- **Municipal accreditation**: To reduce transaction costs and unnecessary administration, funds will flow directly from national government to accredited municipalities. National government will also provide operational costs for municipal housing units in accredited municipalities.

- **Effective inter-governmental relations**: Coordination and alignment is essential to ensure the effective and efficient flow of resources. This will be achieved through the enhanced planning framework; bilateral co-operation between the Department of Housing, the Social Cluster partner departments and the other spheres of government, particularly municipalities; the DoH and the metros working together to achieve the required alignment.

- **Delivery defined by demand**: "Demand responsiveness" cuts across many BNG proposals and the notion of demand definition underpins the rationale for an expanded role for municipalities"

- **Effectively functioning housing markets**: BNG develops a strategy around supporting the entire residential property market which includes: the state assisting lower-middle income groups (expanding the scope upwards); a more flexible approach to accommodate demand responsiveness and shift from product uniformity; enhancing the role of the private sector; and creating linkages between the primary and secondary residential property market.

Examples of the instruments to be used are those which already exist through previous policy frameworks (the National Housing Code, the Municipal Systems Act, etc.):
- Incremental housing
- Social housing
- Rural housing
- Financial services
- Municipal capacity building interventions
- Integrated development planning through Housing chapters of Integrated Development Plans (IDPs) also referred to as "housing sector plans"

BNG introduces an expanded role for municipalities. In shifting away from a supply-driven framework towards a more demand-driven process, it places an increased emphasis on the role of the State in determining the *location* and *nature of housing* as part of a plan to link the demand for, and supply of, housing. This approach will enable municipalities to assume overall responsibility for housing programmes in their areas of jurisdiction, through a greater devolution of responsibility and resources to them. BNG assumes that municipalities will proactively take up their housing responsibilities given that clear guidelines and resources will be forthcoming from the national sphere.

To this end, it will be municipalities who define the policies arising from the BNG strategy.[9] Already, the cities of Johannesburg, Ekurhuleni and eThekweni have sought to redraft their housing strategies in line with BNG, and Tshwane is currently undergoing this process. While their policies must be in line with the budgetary allocations and inherent conditionalities defined at national level (and some of these have yet to be defined), it will be the local implementation that will give expression to the intentions of BNG.

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[9] The N2 Gateway pilot project in Cape Town is the Minister of Housing's demonstration project for how Breaking New Ground is supposed to work. It is a massive effort, involving the construction of 22 000 housing units, as well as the necessary social and other infrastructure, along the 10km stretch of the N2 highway from the airport into the City of Cape Town. Currently, this stretch of highway is arguably South Africa's most obvious example of the housing crisis, in that the dense shack settlements are easily visible to all who travel it, and not conveniently hidden as most other townships and informal settlements are. The N2 Gateway is also an important part of the Minister's promise to eradicate slums throughout South Africa by 2014 (it is estimated that about 2,4 million households currently live in slum conditions across the country). However, implementation problems have bedevilled the scheme and clouded its potential to be a real example of the intentions of BNG.

3   HOUSING PRESSURES: DEMOGRAPHIC ANALYSIS OF DEMAND

An understanding of housing pressures in South Africa depends on an analysis of demand – who, throughout the income spectrum, wants what kind of housing, and critically, who, given low levels of affordability, lacks even the most basic accommodation.

Various efforts have been made to quantify the demand for housing in South Africa:

- In October 2006, the press reported[10] that "South Africa's housing backlog has widened due to growing urbanisation and demand… the number of dwellings classified as 'inadequate' – mostly shacks – had grown 20% from 1,5 million in 1996 to 1,8 million in 2001".

- Earlier in the year, the Banking Association reported[11] that according to its estimates, there was a shortage of about 661 000 'affordable' houses in the sub R200 000 price range, with the greatest backlog being experienced in Gauteng (191 000 houses lacking for the demand created by FSC-target housing loans), and the Western Cape (128 000 houses).[12]

Clearly, demand for housing is being expressed both within the subsidised and the starter or affordable housing market.

It is useful to look at the profile of the population from the perspective of housing sub-markets, as a way of beginning to develop ideas about housing demand. Gardner (2004) identifies eight 'sub-markets', defined by the tradeoff between the theoretical demand generated by a combination of households' own resources, subsidies and credit correlated against the practical ability (or inability) to access available accommodation options. Each sub-market therefore has a specific affordability profile, problems and needs. Figure 4, below, illustrates the sub-markets, summarises the proportion of South African households each one represents and outlines general levels of housing affordability (adapted from Gardner, 2004).[13]

In understanding the following illustration, a first important observation relates to the distribution of household income in South Africa. The high proportion of all households in the lower income categories is clear, with about 79% of all households falling into the fully-subsidised housing market (with household incomes of less than R3500 per month), an additional 11% earn between R3 500 and R7 500, and (up to R7000 household income) are eligible for the new 'deposit subsidy', and a full 38% earn no wage income at all.

Of course, these sub-markets are not static. The population growth rate by individuals and households varies across sub-markets such that over time, the proportional distribution may be different. Job creation initiatives, for instance, might facilitate increases in household income and the movement of people from one sub-market to another. In-migration of job-seekers from other countries, as well as urbanisation may increase the proportion of the lower income sub-markets. As explored further in 3.2, below, affordability is impacted quite significantly by the combined incidence of CPIX undermining the purchasing power of households and a static income threshold for subsidy eligibility resting at R3500 per month.

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[10] 18 October 2006. *Housing backlog increases despite new homes*, Sapa AFP. Accessed from the web on 21 November 2006.

[11] See the Banking Associations research into Housing Supply and Functioning Markets, available on their website: www.banking.org.za

[12] The Banking Association research estimates that 2,63 million households in the R2500 – R7500 per month income bracket can afford to access housing with a mortgage. However, the total number of houses in this category are just short of 2 million. Consequently, the estimated backlog is 661 000. In a paper by Illana Melzer (2006) prepared for the FinMark Trust, the estimated backlog was calculated rather at 850 000 units.

[13] The figures used here are based on detailed indicative financial calculations, but are meant as indicators of boundaries rather than as absolutes. It is not possible to accurately model the wide range of factors that affect housing affordability and finance availability, as well as the variations that occur within the housing market

Figure 3 Housing demand sub-markets in South Africa (from Gardner, 2003)

	INCOME (R/month)	SOUTH AFRICAN HOUSEHOLDS (% of All Households - LFS Sept 2004)	AFFORDABILITY (% inc & R/Mnth	ELIGIBILITY (R Total)	CONTRIB. (R min)	SAVINGS (R Total)	AFFORD (R Total)	PRICE (R Total)
8	V HIGH			NO	NO		YES	
Max	>R 8001	10%						
Min	R 7,500		25% / +R1875/m		R 18,921		R 170,286	R 189,207
7	HIGH			NO	NO		YES	
Max	R 7,499	4%	25% / to R1874.75/m		R 18,918		R 170,264	R 189,182
Min	R 5,500		25% / to R1375/m		R 13,875		R 124,877	R 138,752
6	MID-HIGH			NO	NO		YES	
Max	R 5,499	3%	25% / to R1374.75/m		R 13,873		R 124,854	R 138,727
Min	R 4,500		25% / to R1125/m		R 10,669		R 96,025	R 106,694
5	MIDDLE			NO	NO		YES	
Max	R 4,499	4%	25% / to R1124.75/m		R 10,667		R 96,003	R 106,670
Min	R 3,500		25% / to R875/m		R 8,052		R 72,471	R 80,524
4	MODERATE			YES	NO		YES	
Max	R 3,499	6%	25% / to R874.75/m	R 34,000	R 10,529		R 72,451	R 116,980
Min	R 2,500		25% / to R625/m	R 34,000	R 8,231		R 51,765	R 93,996
3	LOW INCOME			YES	YES		YES	
Max	R 2,499	10%	25% / to R624.75/m	R 34,000	R 2,479		R 17,603	R 54,082
Min	R 1,500		25% / to R375/m	R 36,000	R 2,479		R 6,408	R 44,887
2	V. LOW INCOME			YES	YES		YES	
Max	R 1,499	25%	25% / to R374.75/m	R 36,000	R 2,479		R 6,404	R 44,883
Min	R 1		25% / to R0.25/m	R 36,000	R 2,479		R 4	R 38,483
1	NO WAGE INCOME			YES	NO		NO	
Max	R 500	38%	0% / to R0/m	R 36,000	R 0		R 0	R 36,000
Min	R 0		0% / to R0/m	R 36,000	R 0		R 0	R 36,000

Loan finance terms: Unsecured loans: term: 2 yrs; int: 35%; dep: 0%. Min: R0, max: R10,000 / Guaranteed finance: term: 5 yrs; int: 19%; dep: 10%. Min: R5,000, max: R60,000 / Mortgage loans: term: 20 yrs; int: 12%; dep: 10%.Min: R20,000, max: none

The above model suggests affordability for housing is strongly influenced by the availability of the housing subsidy and housing finance, and then, the availability of housing stock to purchase with these resources. Housing subsidies are, however, only as available as the national allocations allow, and provincial or local capacity to convert them into housing opportunities. Housing finance is dependent on wider market forces that influence the risk parameters for lending and the lender's willingness to engage in the market, coupled with the borrower's predisposition to take up products on offer. Recent developments in respect of the Financial Sector Charter (FSC) do suggest an increase in availability of housing finance for low income earners, as banks target lending to households earning between R1500 and R7500. While this is encouraging, the extent to which this investment opportunity can be realised is dependent on housing supply conditions relating to the rate of delivery and affordability of product from developers.

Quite critically, the table and illustration above demonstrate that housing affordability is very low: 90% of the population cannot afford housing costing more than R190 000. Of the population that can afford finance, the bulk (17%) is limited to an affordability of housing between about R100 000 (households earning R2500 per month, eligible for a housing subsidy and able to afford about R50 000 of credit, could presumably afford a house of about R93 000) and R189 000 (with a repayment amount of 25% of income, a household earning R7500 per month could afford approximately R170 000 in credit, which together with a deposit might yield a house of about R189 000). A further 10% of the population might afford an improved RDP house – adding between R6 000 and R18 000 credit to the subsidy amount. As much as 63% of the population is dependent on the state subsidy for meeting their housing circumstances.

From a rental perspective (and assuming affordability for rental is the same as for ownership), the following table illustrates that rental affordability is also limited to rents of less than R2000 per month.

Figure 4 Affordability for housing payments (rental charges or instalments on credit)

INCOME	AFFORDABILITY
R 7,500	25% / R1875/m
R 5,500	25% / R1375/m
R 4,500	25% / R1125/m
R 3,500	25% / R875/m
R 2,500	25% / R625/m
R 1,500	25% / R375/m
R 500	10% / R50/m
R 0	0% / R0/m

Affordability also appears to be declining among households who rent. Research undertaken by Shisaka (2006) found that mean household income of households renting formal rental accommodation (as reported by the October Household Survey in 1999 and Labour Force Survey in 2005) declined in real terms from R3200 per month in 1999 to R3100 (in 1999 Rands) in 2005. Households renting backyard dwellings also saw a decline in their incomes in real terms: from a mean of R1500 in 1999 to a mean of R1400 (in 1999 Rands) in 2005.

Figure 5 Mean hh income in 1999 and 2005 of renting households

Census		Formal rental	Household rental	Other
OHS 1999	No. hh (millions)	1,6	1,0	0,8
	%	15	9	7
	Mean hh income (R)	3200	1500	1500
LFS 2005	No. hh (millions)	1,5	1,1	0,9
	%	12	9	7
	Mean hh income (R)	4100 *(3100 in 1999 Rands)*	1800 *(1400 in 1999 Rands)*	2200 *(1700 in 1999 Rands)*

3.1 Current housing situation and conditions

Figure 6, below, is drawn from Gardner (2004), and illustrates the spread of housing across South Africa type and tenure by income, based on Census 2001 and 1996 figures. About half of South African households live in accommodation that they own, including traditional dwellings, private dwellings, ex-council stock and subsidized housing. Just over a third of South African households live in accommodation that they rent, including private rental, social housing, council rental and informal rental. The last 12.3% of residents squat in informal dwellings.

Figure 6 Spread of housing and tenure by income – South African Urban Households (Information adapted by Gardner (2004) from Census (1996 & 2001), Shisaka (2002), Gardner (2003))
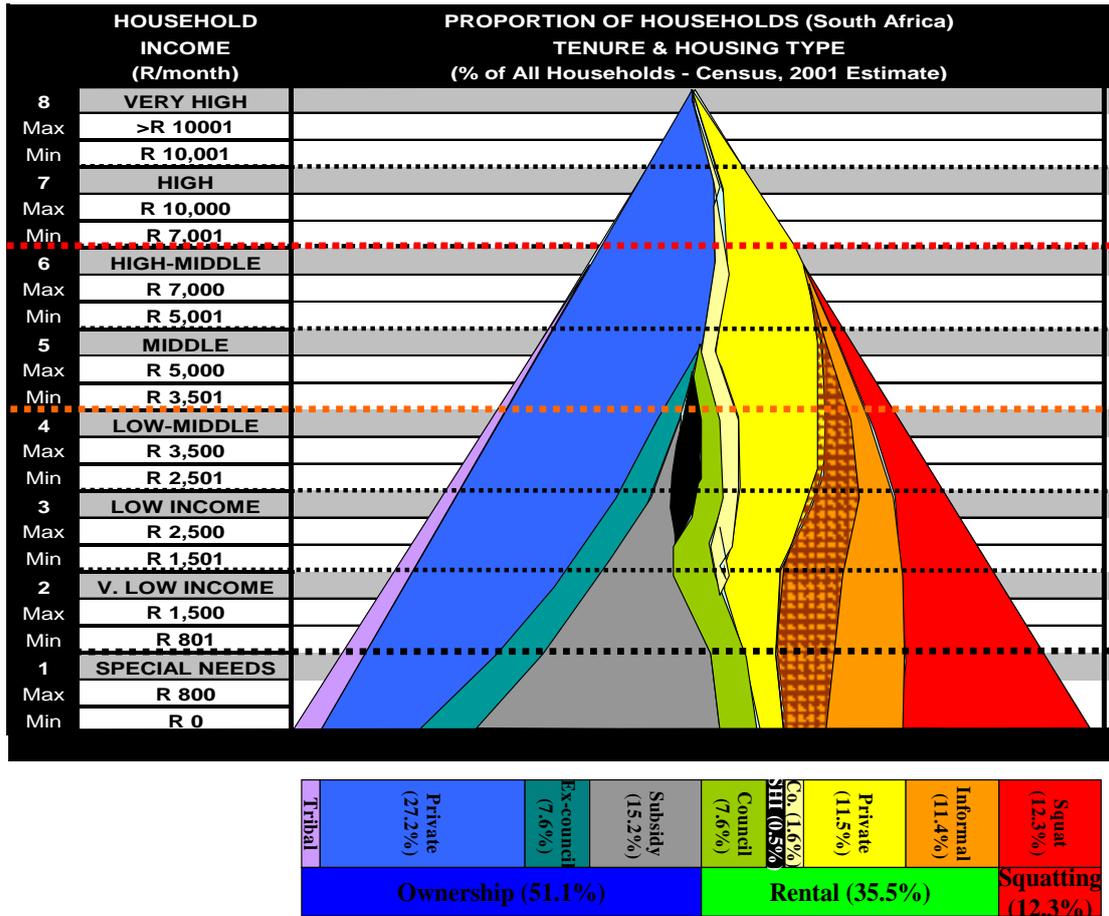
The above illustration provides a nuanced perspective of the tenure and housing conditions of households in South Africa:
- Just over 50% of SA households own their dwellings (whether this is tribal, a private dwelling, an ex-council unit or a subsidised housing unit.
- Another 35% of SA households rent their housing (whether from the local council, a social housing institution, a formal landlord, a private household landlord, or informally)
- A full 12% of households squat with informal tenure and in informal housing conditions. Within this group, household monthly incomes range from the very lowest all the way through to R7 000.

It is clear from this diagram that the majority of households in the worst housing conditions (squatting, backyard shack and backyard room rental) are very poor households. It is also clear that pushing them into fully-subsidised, minimum-standard owned accommodation may not suit them from a number of perspectives: their choice of tenure (rental vs. ownership), their ability to afford owned accommodation (both capital and running costs), the ability to

access the (albeit significant but still insufficient) newly developed subsidised stock and the suitability of this accommodation given their household size[14].

Research by Shisaka (2006) and drawing on October Household Survey (1999) and Labour Force Survey (2005) data, shows that the overall proportion of households in rental accommodation has declined by four percent over the period:

Table 1   Housing tenure in South Africa, 1999-2005 (Shisaka 2006)

Overall housing sector							
Data Source		Owned	Rented	Traditional	Informal Settlement	Other	Total
OHS 1999	No hh (mil)	5,2	3,4	1,15	1,0	0,1	10,85
	%	48	31	11	9	1	100
	Mean hh income (R pm)	3500	1600	700	1100	200	2600
LFS 2005	No hh (mil)	6,2	3,5	1,5	1,4	0,1	12,7
	%	49	27	12	11	1	100
	Mean hh income (R pm)	3900 *3000[12]*	2900 *2200*	600 *500*	1200 *900*	1400 *1100*	2900 *2200*

* Figures shown in italics are real household income figures in 1999 Rands, adjusted for inflation between 1999-2005 by a deflation factor of 1.2 (i.e. assuming cumulative inflation of 30%)

Despite the low mean household income, and as illustrated in the Gardner diagram above, there are households living in informal settlements and in informal rental who earn as much as R7 000 per month, clearly outside subsidy eligibility. In principle, they should be able to afford a product of about R189 000 – and yet they live in an informal settlement in sub-standard housing. Why are they making this residential choice?[15]

What is not clear from the above diagram, but evident in other data, is that even formal stock is not always adequate. This does not necessarily place a liability on the state (the household may not be eligible for a subsidy) but it does precipitate a search for alternative housing, towards which equity from the inadequate unit is unlikely to be applied. Figure 7 below, illustrates the point.

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[14] Gardner (2003) found that in backyard areas in Kathorus and Orlando East, households comprised roughly one-third one-person households, one-third two people households and one-quarter three-person households, with the remainder comprising households of greater than 3 members.
[15] The recent Financial Diaries study corroborates this finding, that high income households also live in informal settlements.

Figure 7 Quality of housing in the FSC target market (Labour Force Survey, September 2004)
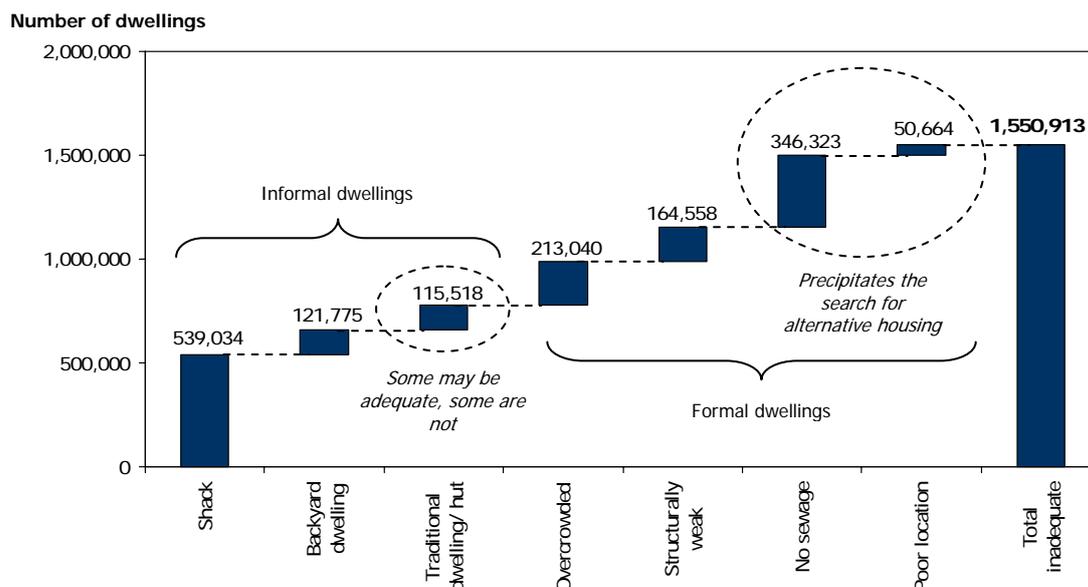
There are an estimated 4 million households who earn between R1500 – R7500 per month (and on this basis comprise the FSC target market for housing finance). Over half a million households (over 12.5%) in this grouping market live in shacks. A further one million dwellings (25%) are inadequate. Not only does this suggest at least a latent demand for 1,5 million units in the FSC target market, it also indicates that should such households find better housing to purchase, their affordability will be limited to the credit they can access, as their current dwelling will provide little if any equity in its sale.

3.2 Eligibility for subsidy

When the housing subsidy was designed in 1994, income eligibility ceilings were set at R800 household income per month, R1500, R2500 and R3500. In the years since the subsidy was first introduced, the quantum of the subsidy has increased – generally in line with inflation – but not the eligibility ceiling. This has meant that a household who today has the same buying power and deemed housing affordability levels as a household who was eligible for the subsidy in 1994, is today ineligible for the subsidy. This is illustrated in the following table.

Table 2   Declining purchasing power of households at specific income thresholds (1996-2005)

1996 value	2001 value	2005 value
800	1108	1371
1500	2077	2571
2500	3462	4285
3500	4847	5999

In 1996, a household earning R3500 per month was eligible for the subsidy. In 2005, as a result of CPIX, a household earning almost R6000 per month has the same level of affordability as the 1996 household. However, the eligibility ceiling has remained R3500. This means that the subsidy is today available to people who in 1996 earned somewhere between R1500 and R2500.

If households are ineligible for subsidy, the only way they can improve their affordability for housing is to access credit. However, this is also limited.

3.3 Eligibility for credit

Affordability aside, research undertaken by the FinMark Trust found eligibility for mortgage finance to be an issue, even within the Financial Sector Charter target market. Research into the access frontier for mortgage finance found that notwithstanding impressive Banking Association SA figures of R16,7 billion of housing lending to the FSC target market (households earning between R1500 – R7500 per month, adjusted annually for CPIX) between November 2003 and December 2005, only 5% of the target market currently has access and fully 53% of households in the target market do not qualify for the privately supplied mortgage products that are available at present. This is even though such products have been explicitly designed for the target market.

The access frontier is illustrated in Figure 8, below.

Figure 8 Access frontier for mortgage finance in the target market
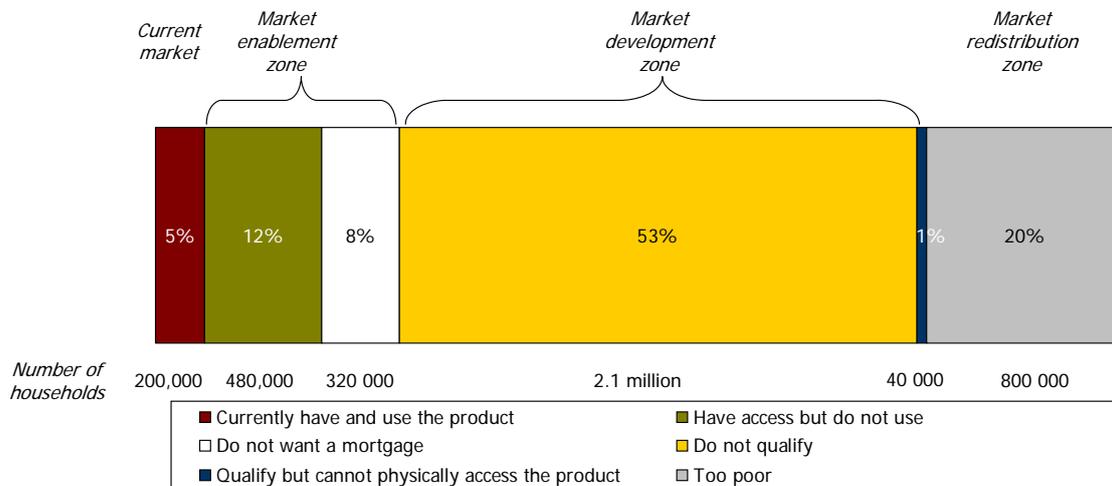
Source: Underlying data based on FinScope^{TM} 2005 using household heads
Source: Underlying data based on FinScope^{TM} 2005 using household heads
Note: percentages do not add up to 100% because of rounding

Clearly any shortages of suitably priced, mortgageable housing stock would effectively prevent households who lie in the market enablement zone (20% of the target market, or 800 000 households) from accessing a mortgage. However, while the stock shortage is understood to be significant (this is addressed in the next section), it is not clear to what extent it impacts on those within the mortgage market development zone (53% of the target market), given their ineligibility for existing mortgage products. Reasons for ineligibility relate to the age of the borrower (persons older than 45 years of age cannot access a 20 year mortgage product because of the requirement they finish payment before retirement), their current credit profile (many in the target market have multiple judgments against them), their affordability given other financial demands (many in the target market already have other obligations), and so on.

It is no doubt the case that access to mortgage finance could be enhanced if lenders restructured and optimized the structure and processes associated with existing mortgage products to align more closely with the needs and characteristics of the target market. Improved loan servicing processes, redefined borrower, property or area criteria, and loan level product features such as insurance or collateral requirements, as well as portfolio interventions such as guarantees are all mechanisms that could be considered.

However, there is also a limit to the extent that mortgage products, even if optimized, can facilitate access to housing finance across the target market. Data on the nature of the housing need and the financial and risk profile of households in the target market highlights the occurrence of a range of housing processes, and therefore the need for a range of housing finance products, most notably, incremental housing loans.

3.4 Demand projections for rental housing

There is no definitive study on the demand for rental housing in South Africa. In 2005, Shisaka Development Management Services estimated that 3,5 million households, or 27% of the population, live in rental housing.[16] Of these, Shisaka estimated that 1,5 million households lived in formal rental accommodation, including a house or brick structure on a separate stand or yard, flat in block of flats, town/cluster/semi-detached house.

Research undertaken for the Social Housing Foundation by Dauskardt and Stewart (2005) quotes a unpublished report by Viruly Consulting dated 2004, which estimated total demand for affordable rental housing at about 1,8 million units in 2001. This was expected to grow at around 5% per annum to 2011. Growth is expected in total demand for a variety of rental housing types. While more comprehensive research on total and effective demand is required, it is nevertheless clear that the potential social housing sector is significant and is anticipating strong growth.

The national demand for rental units (of whatever type) is estimated in the following table.

Table 3   National demand progression for rental units (Viruly, 2004)[17]

Province	2001	% Growth 2006	% Growth 2011
Eastern Cape	162,924	2.86%	2.80%
Free State	111,920	3.87%	3.77%
Gauteng	654,486	7.21%	7.01%
KwaZulu Natal	344,020	5.73%	5.43%
Limpopo	53,161	5.49%	5.29%
Mpumalanga	100,642	5.23%	4.93%
Northern Cape	30,347	6.05%	5.81%
North West	128,517	3.17%	2.99%
Western Cape	232,406	4.17%	3.98%
Total	**1,818,423**	**5.23%**	**5.14%**

The Viruly study (2004) offers projections on the demand for different sorts of rental housing in South Africa between 2001 and 2011. The expected demand for formal rental accommodation (highlighted in yellow in the following table) is expected to be around 81 000 units per annum.

Table 4   Types of rental housing: projected demand 2001-2011

Type of Rental Housing	2001- 2006		2006 -2011	
	5 Years	/ Annum	5 Years	/ Annum
House or brick structure on a separate stand or yard	224,510	44,902	281,739	56,348
Traditional dwelling / hut / structure made of traditional materials	21,849	4,370	26,797	5,359
Flat in block of flats	81,012	16,202	103,021	20,604
Town / cluster / semi-detached house (simplex; duplex; triplex)	14,630	2,926	18,410	3,682
House / flat / room in back yard	53,613	10,723	69,425	13,885
Informal dwelling / shack in back yard	64,457	12,891	83,248	16,650
Informal dwelling / shack NOT in back yard	49,493	9,899	62,212	12,442
Room / flatlet not in back yard but on shared property	16,889	3,378	21,536	4,307
Caravan or tent	1,692	338	2,093	419
Private ship / boat	206	41	250	50
Total	**528,351**	**105,670**	**668,731**	**133,746**

These numbers notwithstanding, levels of affordability in the rental sector in South Africa are low. The Trafalgar Inner City report for 2006 reports that ten percent of tenants say they have

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[16] The research used 2005 Labour Force Survey statistics.
[17] Unfortunately this report is not publicly available.

a household income of less than R1500 per month; forty percent say their income is between R1500 and R3000; and thirty-three percent say they earn between R3001 and R5000 per month. At the same time, average rentals for a one bed roomed flat are reaching R1800.

3.5 Conclusions on demand for housing

Even without a review of the data, a simple windshield survey of South Africa's cities, the dense and derelict inner cities, sprawling informal settlements, and overcrowded township areas, bears evidence that there is a housing crisis. The demand for housing is substantial and growing, as the population grows, as families migrate to urban areas, and as existing housing conditions deteriorate.

A quick review of the Property Section included weekly in the Saturday Star newspaper, however, quite clearly indicates that there is also an affordability crisis. Coupled with low (and declining real) incomes, decreasing accessibility of the housing subsidy, other financial pressures and demands, and historically low levels of household expenditure on housing, effective demand (i.e. demand coupled with willingness or ability to pay) for housing is low and limited only to a fraction of the population.

Access to finance does improve access to mortgaged housing for 25% of the Financial Sector Charter target market (about one million households). A further percentage of the population is likely to afford other forms of non-mortgage credit and could presumably improve their housing circumstances incrementally on this basis, together with some support from the state. For the remaining households, however, ineligibility for credit or affordability constraints limits their capacity to meet their housing needs independently.

4   RESIDENTIAL OPPORTUNITIES: AN ANALYSIS OF SUPPLY

This section briefly considers the available data in respect of the supply of housing in South Africa across the price and product spectrum since 2000. The aim is not to provide a finite analysis of all delivery – data in this respect simply does not exist – but rather to ascertain key trends evident in the subsidised and affordable housing markets. More specifically the intention is to highlight the gaps that exist between the current housing demand profile and housing supply trends, and to identify possible areas of concern.

4.1   Housing supply[18]

Housing supply affordable to low-middle income households (i.e. the FSC target market of households earning R1500 – R7500 per month) has been on the decline and for some time has not been meeting the demand, neither in the subsidised nor in the affordable housing markets.

4.1.1   Private sector delivery

Drawing on NHBRC data of housing enrolments between 2000 and 2004, Nell et al (2005) reports that the private sector delivered just under 200 000 houses across South Africa between 2000 and 2004. Of this, 42% or 82 944 units were delivered in the sub R200 000 market, also known as the "affordable" market. While this is a significant proportion overall, the annual proportion of affordable housing delivery has declined form 63% in 2000 to 30% in 2004, even though actual unit numbers have remained almost constant.

Figure 9 New delivery: NHBRC enrolments 2000-2004
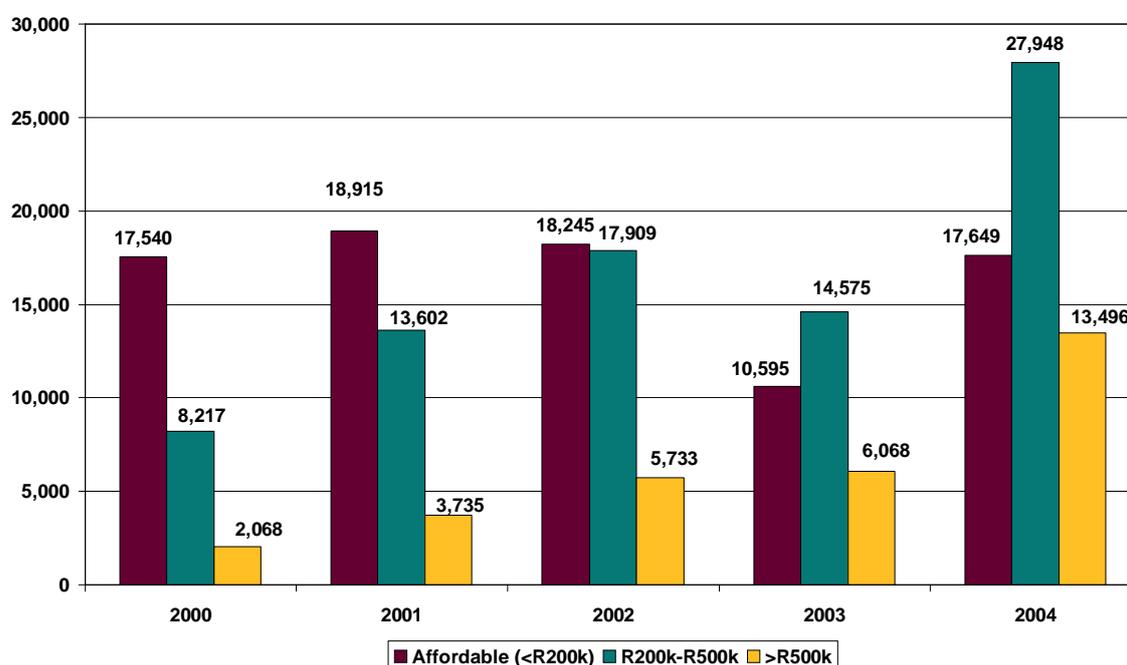
While the proportion of delivery within the affordable market has been declining, there has been very real growth in the R200 000 – R500 000 market, and in the R500 000+ market.

Melzer (2006) analyses the sub R200 000 delivery numbers further.

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[18] This section draws heavily on the research conducted for the Banking Association as part of the Housing Supply and Functioning Markets research.   All reports from the study are available on the Banking Association's website, www.banking.org.za

Figure 10 NHBRC enrolments <R200 000 from 2000-2005
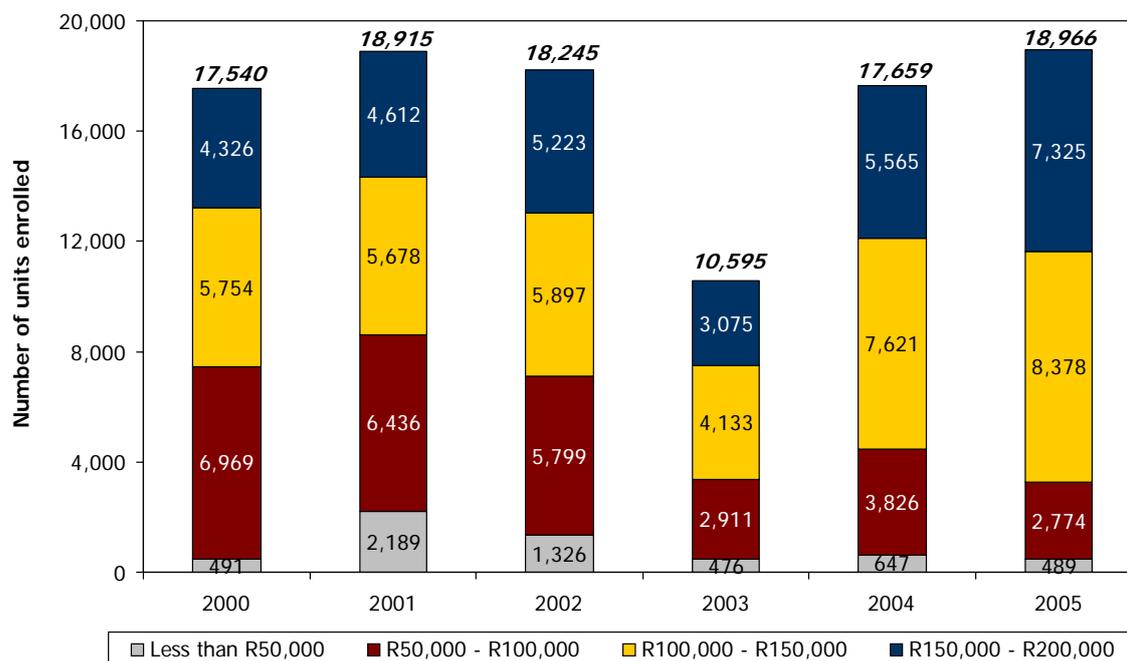
Other than a dip in 2003, delivery has remained largely constant for houses costing between R100 000 and R200 000. However, delivery of houses costing between R50 000 and R100 000 (affordable to at least about 20% of the population), has halved since 2002. Delivery of housing costing less than R50 000 (other than state subsidised housing) is negligible.

Nell et al (2005) use housing supply figures to define the backlog. The following table sets out the number of households estimated to afford a sub-R200 000 unit (i.e. households earning between R2500 – R7500 per month) and adjusted for overcrowding, and the number of existing units occupied by these households. Subtracting the number of households (adjusted for overcrowding) from the number of existing units provides an indication of the backlog (physical need).

Figure 11 Calculated housing need for households earning R2500 – R7500 per month (Nell et al, 2005).

	2003	2004	2005	2006	2007	2008	2009	2010
HOUSING DEMAND								
No of households (R2,5-R2,5k)	2,403,374	2,465,873	2,525,050	2,580,605	2,632,210	2,682,216	2,710,009	2,737,109
Housing stock needed units	2,446,329	2,509,946	2,572,494	2,629,723	2,683,237	2,734,629	2,763,681	2,791,318
Existing units	1,884,270	1,933,271	1,950,274	1,968,977	1,989,551	2,012,183	2,037,077	2,064,461
Physical need	562,059	576,675	622,220	666,745	693,686	722,446	726,604	726,856

As illustrated above, the estimated backlog of housing affordable to households earning between R2500 and R7500 per month (and eligible for FSC housing loans) in 2005 was 622 220 units. This was addressed by the delivery of 19 703 houses. At the current delivery rate, it is projected that the backlog in the 'affordable' market will grow to just under 750 000 in 2010. If this backlog were to be addressed to 60% by 2010, the delivery rate would need to increase dramatically to 140 000 per annum.

4.1.2   Public sector delivery

Notwithstanding the delivery of just under two million subsidised housing units, public sector delivery of subsidised housing has decreased substantially. Having peaked in the 1997/98 financial year with the delivery of 295 811 houses, delivery has been on a steady decline, with the 2006/2007 financial year threatening to be the lowest on record.

Figure 12 Subsidised houses completed or under construction (1994-June 2006)
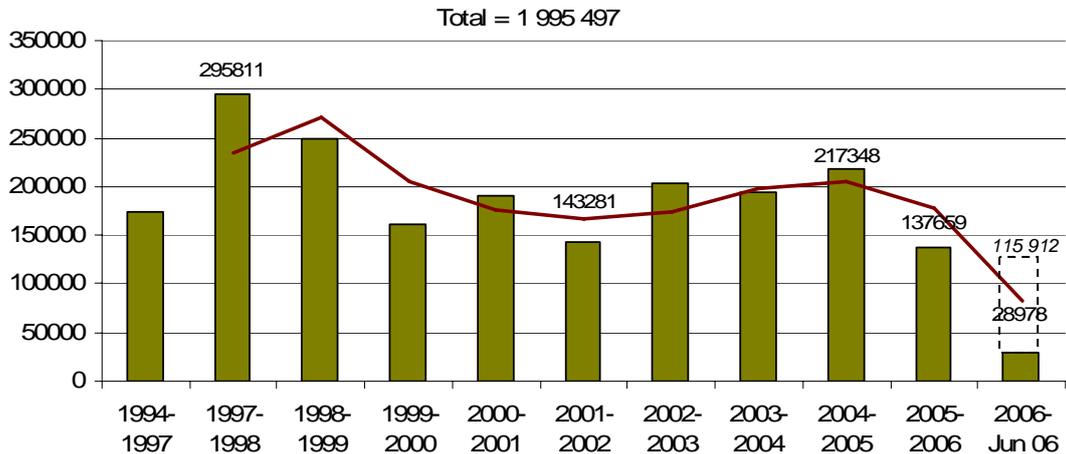
4.1.3   Conclusions on the delivery of new housing

The data indicates a shift in delivery emphasis, away from the affordable market to the lower rung of the middle income market. Between 2000 and 2005, NHBRC enrolments of houses costing between R200 000 and R500 000 have increased nearly four-fold. Enrolments in the R500 000+ category have also increased, while enrolments for houses costing under R200 000 have remained static at about 17 000 units per annum. Proportionately, however, the sub-R200 000 category has declined from comprising almost 70% of delivery in 2000 to comprising less than 40% of delivery in 2005. This is summarised in the following diagram, also from Nell et al (2005).

Figure 13 Delivery distribution: NHBRC enrolments <R500 000 (2000-2005)
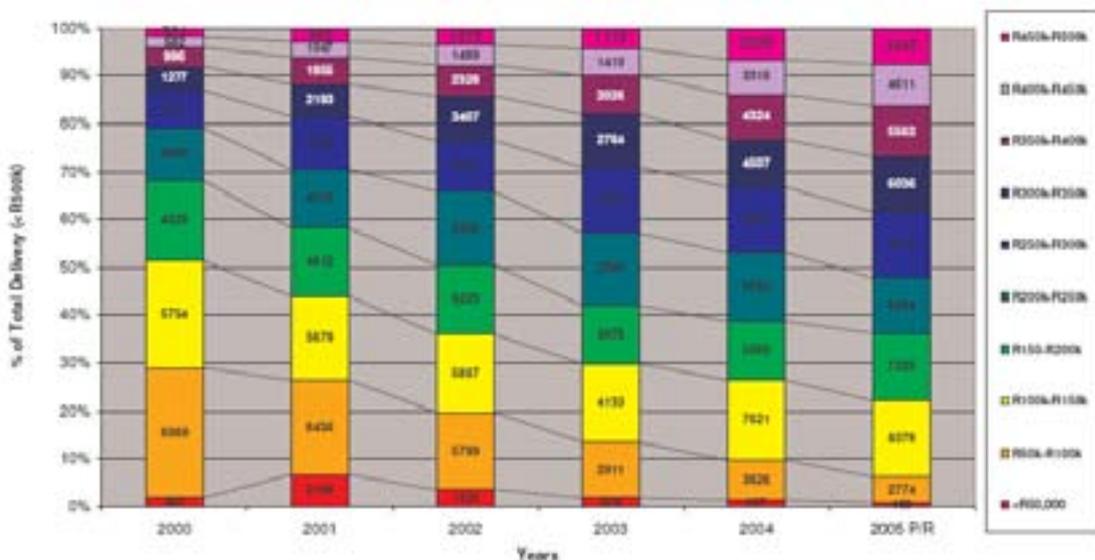
The figure below shows both the seasonally adjusted and the trend series for recorded building plans passed at constant 2000 prices between January 2001 and March 2005. The trend series has been rising since July 2001 indicating that the delivery emphasis has increasingly been on higher end housing.

Figure 14 Real value of recorded building plans passed by municipalities (2000 prices)[19]
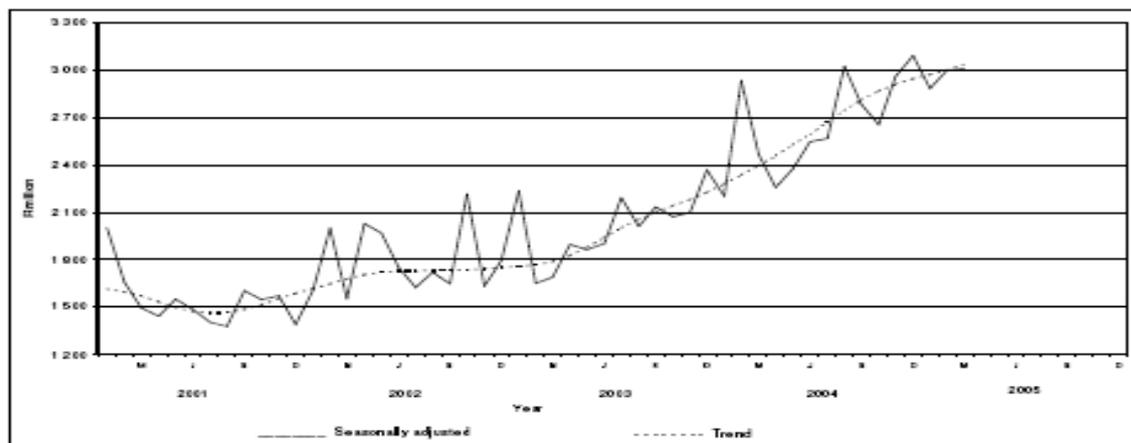
While the property price boom suggests a well-functioning residential property market responding to years of pent-up demand, the reality is that supply performance varies across pricing segments.

In 2003, the National Housing Strategy "Breaking New Ground" noted that many private sector delivers were opting out or being pushed out of the low-income housing sector. Specifically, many of the larger players who were often quite actively involved in early stages as both contractors and developers (e.g. Grinaker, LTA, Group 5 etc.), generally delivering small units, have over time reduced their involvement with this market segment. Research conducted by the CMDA in July 2002 revealed "high levels of developer demoralization with many indicating that the insistence on meeting higher norms and standards together with static subsidy levels was making projects unviable." The other key concern raised by developers was increased political interference which exacerbated the problem.

4.2 Delivery of rental housing

There is no definitive data set measuring the supply of rental housing in South Africa. In 2001, Sigodi Marah Martin and Matthew Nell and Associates undertook a review of the rental housing sector. Analysing delivery of private rental, social housing, hostels and informal rental, the consultants found that the delivery of formal rental was on the decline. However, specific and comparable data was unavailable and so a quantitative analysis was not possible.

In 2006, research undertaken for the FinMark Trust and other funders by Shisaka and CSIR found that the rental sector in 2005 comprised 27% (3,5 million households) of the overall housing sector. While the sector had increased by about 100 000 households in respect of the number of households living in rented accommodation from 1999, it had decreased in size in respect of the overall housing sector (from 31% in 1999 to 27% in 2005). Shisaka also found that notwithstanding this total increase of about 100 000 units in the six year period between 1999 and 2005, **the total number of households occupying formal rental units decreased by about 100 000 in the same period, while household rental (i.e. backyard dwellings) and other forms of rental increased.**

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[19] Source; StatsSA, 2005, Selected building statistics of the private sector as reported by local government institutions , March 2005 (Statistical release P5041.1)

Table 5   Rental housing sector – Growth from 1999 to 2005

Census		Formal rental	Household rental	Other
OHS 1999	No. hh (millions)	1,6	1,0	0,8
	%	15	9	7
	Mean hh income (R)	3200	1500	1500
LFS 2005	No. hh (millions)	1,5	1,1	0,9
	%	12	9	7
	Mean hh income (R)	4100 *(3100 in 1999 Rands)*	1800 *(1400 in 1999 Rands)*	2200 *(1700 in 1999 Rands)*

Meanwhile, in its 2006 inner city report, leading property management company Trafalgar reported considerable developments in the delivery of inner city rental accommodation. Initiatives such as the Urban Development Zone tax incentive for investment in inner city residential accommodation, and the Better Buildings Programme in Johannesburg, have resulted in an increase in investment in residential rental accommodation. The numbers are not available however, for more detailed analysis.

4.3   Housing affordability

Much has been made in the media of dramatic increases in the prices of houses countrywide, and more specifically in the predominantly white suburbs. Fuelled by improved consumer sentiment on the back of 35-year low mortgage interest rates and sustained double digit building cost inflation, together with an increased availability of credit, house prices have soared over 100% in many suburbs in a matter of five years.

> "… *house prices have more than doubled since June 2000, while consumer inflation has risen by only about 25% over the same period. The nominal growth in house prices last year was 32,2% and ABSA expects this to slow to the 15% to 20% range in 2005." (Mail & Guardian online 03 February 2005 11:07)*[20]

ABSA House Price Index figures between 1994 and the present show that the 'middle class' market started showing appreciation gains after 1998 and took off after 2003. The 'affordable' market, on the other hand, really only started to appreciate after 2003, and at a much slower rate. The gap between the 'affordable' and 'middle class' markets has widened considerably since 1994. This has a significant impact on household mobility and the potential for housing, especially among owners in the 'affordable' market, to offer wealth accumulation prospects through asset growth.   While 'middle class' houses move away in affordability from 'affordable' houses, owners in the 'affordable' market cannot move out and up.

**Figure 15 Average house price (1994-March 2006) ABSA House Price Index**
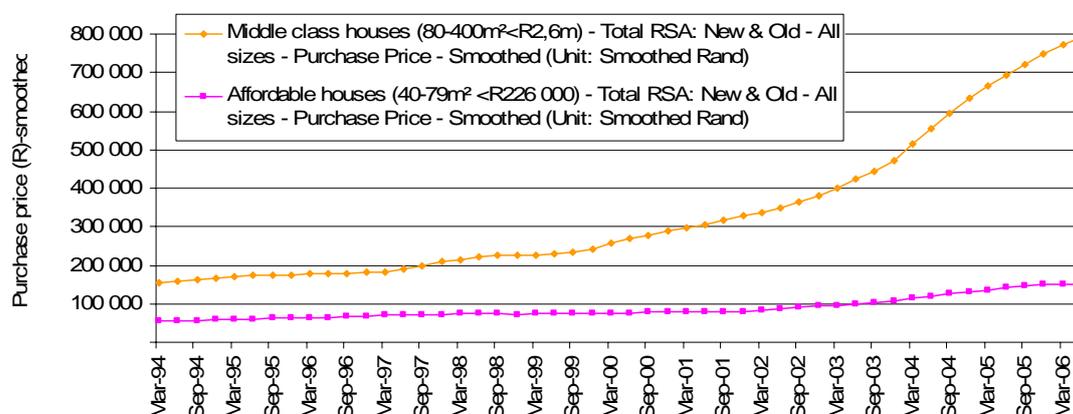
Of course, the 'middle class' market includes a wide range of property – ABSA's average is derived from property that is 80-400m² costing less than R2,2million.   More nuance is

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[20] Absa: January house prices up 29,6%. Mail & Guardian online. Downloaded on 27 May 2005.

provided in the table below (also drawn from ABSA) which differentiates between house sizes in the 'middle class' market.

**Figure 16 Average house price growth from 2002-2006(Q2) South Africa**
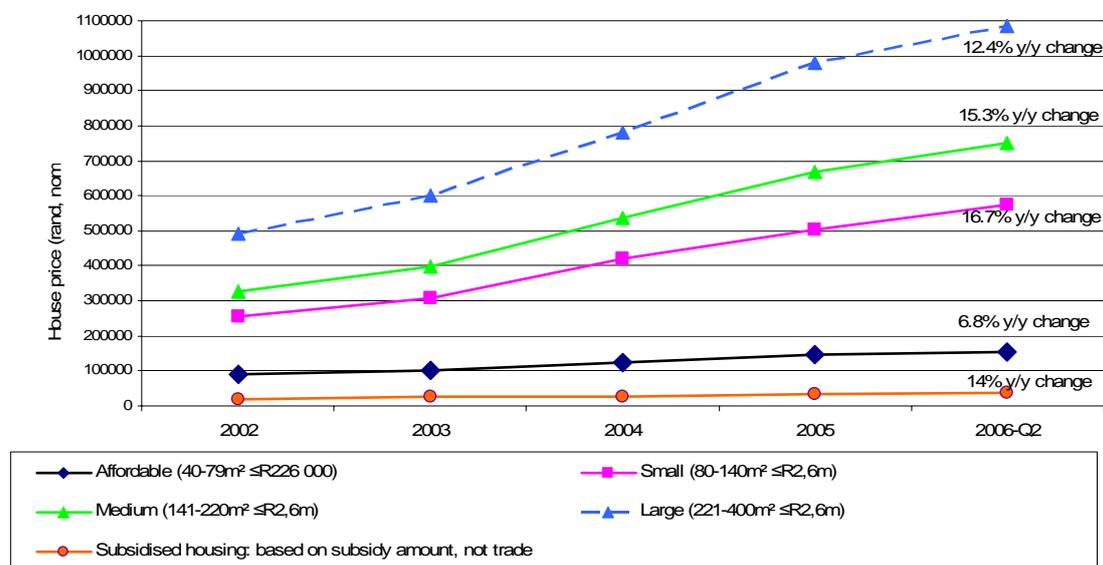
This picture also shows a widening split between the various rungs of the housing ladder, from RDP houses in the subsidy market through to the larger properties in the 'middle class' market:

- At the bottom of the property pyramid are RDP subsidy beneficiaries. While there is little research on the tradable value of subsidized housing it is widely understood that there has been substantial depreciation in formal sales. However, this year the value of the subsidy is R36 528, up 14% from last year's amount, and almost 80% since its 2002 value.

- The next house in the property ladder is the "affordable" unit, which in the second quarter of 2006 was selling at an average of R152 185. Between 2002 and the 2nd quarter of 2006, 'affordable houses' appreciated about 70% in value. Even though the rate of growth has been slower in the affordable market, the space between the subsidised house and the 'affordable' house is widening in Rand terms – now R115 657. A mortgage on this amount at 12.5% over 20 years would result in an instalment of R1314.03 per month – affordable (at a 25% installment to income ratio) to a household earning about R5250 per month.

- From here, however, it becomes more difficult to climb the property ladder and realise, as Hernando de Soto suggested was the key to making property markets work for the poor, the equity growth in the housing. A 'small' house of between 80-140m² averaged just under R600 000 in the second quarter of 2006. Assuming a household in the 'affordable' market could realise the full R152 185 in equity from the sale of their house, they would still require finance for the remaining R423 000 or so – which at 12.5% over 20 years would result in a R4806 instalment per month, affordable to a household earning about R19 000. Even in a high growth economy such as we hope for in South Africa, it is unlikely that someone would manage to improve their income from R5250 to R19 000 per month. This means that even households accessing 'affordable' housing with FSC loans are unlikely to ever be able to improve their housing situation further.

Each rung of the housing ladder is moving further away from the one below it, further entrenching people in their income groups and undermining the springboard potential of housing into greater wealth. Between 2002 and the present, 'small' houses in the 'middle class' market appreciated by 120% while 'affordable' houses appreciated by only 70%.


Figure 17   Change in property prices 2002-2006(Q2) South Africa
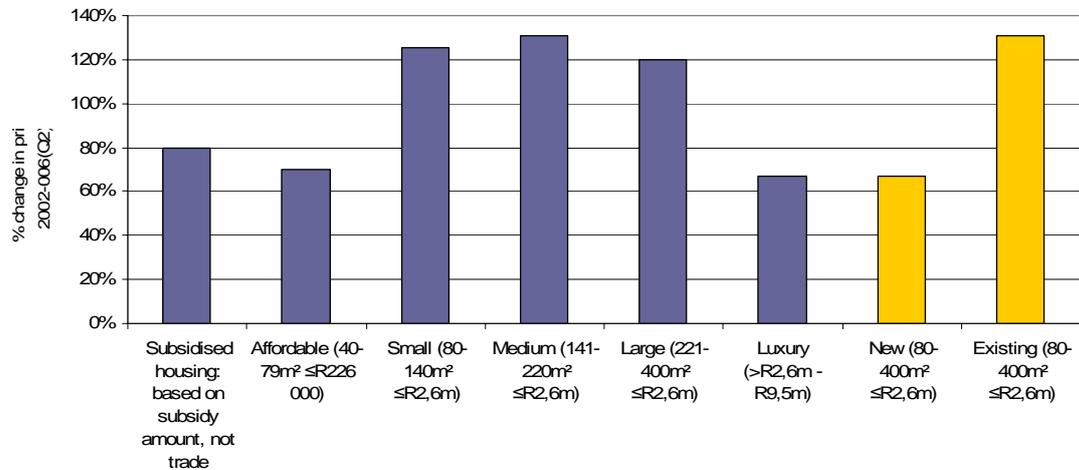
One consequence of this is that as the property market cools at the top end and value can still be found at the bottom end, market heat can begin to shift downwards. The most recent FNB Property Barometer has found just this, with property prices in former black townships (traditionally part of the 'affordable' market) now escalating at a greater rate than the 'middle class market'.[21]

At the same time, property prices of existing units appreciated dramatically by about 130%, while new properties appreciated by just under 70%. This has brought the comparative value of new and existing housing together. In other words, the resale market is becoming less and less of a particular value proposition for new home buyers.
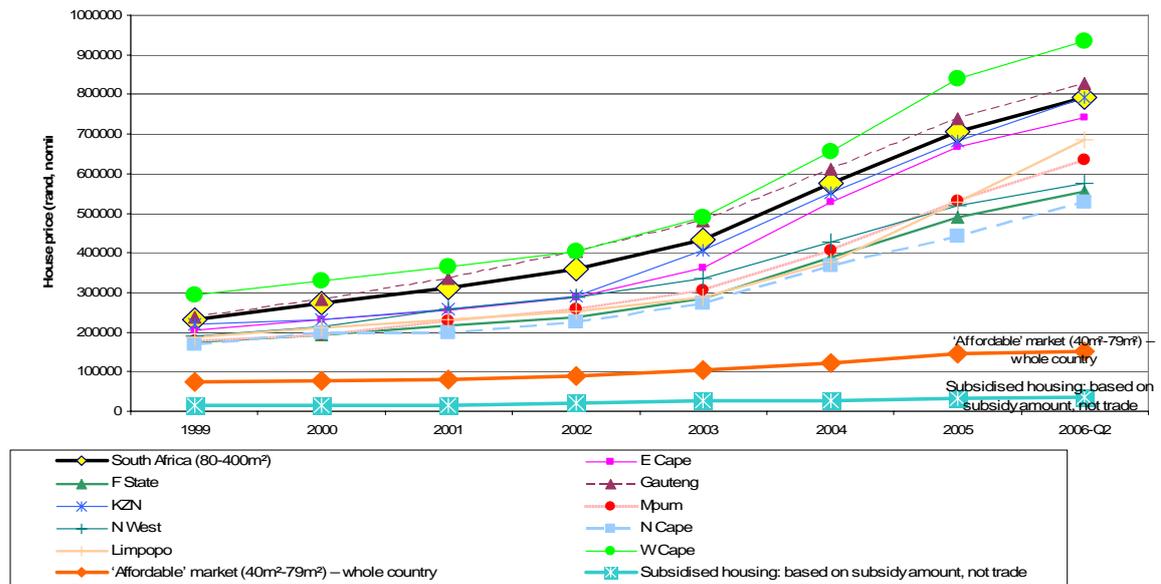
Figure 18 House price growth of new and existing housing (2002-2006(Q2))
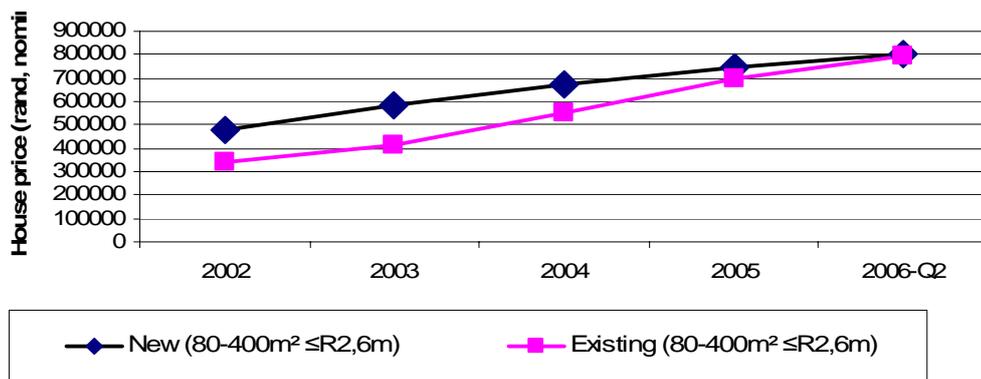
Gaps in the housing ladder are also spatially defined – between provinces and within cities.

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[21] Business Day, 22 November 2006. *Township property market vibrant*, says FNB. Nick Wilson, Property Correspondent.

Figure 19 Average house price growth from 2002-2006(Q2) South Africa by Province

The graph above illustrates significant provincial disparity, with property prices in the Western Cape being the highest and in the Northern Cape the lowest. This has an impact on the potential for household mobility. A household seeking to sell their home in the Northern Cape and move to the Western Cape, for instance, would struggle to find the same value of house at an affordable price.

Mobility is constrained even within cities. In Johannesburg, for instance, there is a clear difference in property prices in the northern and western suburbs from the central and southern suburbs. This creates areas of social exclusion and a city segregated by income.

Figure 20 Average house price growth from 2002-2006(Q2) within Johannesburg
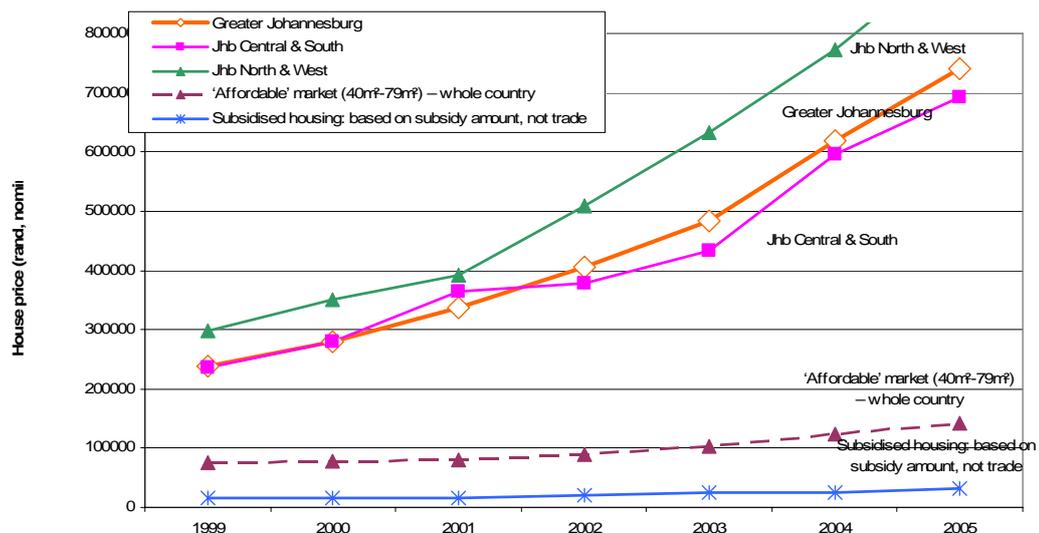
The 2004 study into Township Residential Property Markets (Shisaka, 2004) found that property price increases vary by neighbourhood, and that specifically, properties in former black township areas appreciate at a much lower rate to the rest of the country, if at all. The study compared, for instance, property prices as registered in the Deeds Registry, of three

township areas in Johannesburg and Ekurhuleni, and what the researchers determined were two comparable neighbourhoods outside of the township.

Table 6   Comparison of township and non-township property prices (Shisaka, 2004)

|	Former black township areas			Non-township areas	
	Diepkloof	Protea North	Elita Park	Mayfair	Elandspark
Median purchase price	R104,000	R95,000	R17,000	R205,000	R153,000
Percentage formal secondary transactions 1999-2003	13	16	14	26	51
PIPs as a % of secondary transactions	19	11	67	4	51

The Banking Association has added its voice to the commentary on rising property prices, arguing that housing affordability is decreasing. Drawing from the various indices, the Banking Association's figures show a rapid growth in property prices during the FSC period.

Table 7   Prices of affordable (40-79m²) houses – ABSA House price index, Rode Report 2004 & 2005, Building Cost Report 2006

Product	Dec 2003	Dec 2004	Dec 2005	June 2006
Stand	R46,000	R57,000	R80,000	R93,000
Top structure	R86,500	R93,000	R99,000	R102,600
New house (total)	R132,500	R150,000	R179,000	R195,600
2nd hand house	R102,500	R122,600	R140,900	R151,500
Prime interest rate	11.5%	11.0%	10.5%	11.0

Over the FSC period from December 2003 until the present, houses (whether new or resale) have increased by just under 50%. Land costs have doubled in the period. As a result, even the most basic new house is no longer affordable to the FSC target market and 2nd hand houses are becoming increasingly less so.

Figure 21 Changing housing affordability of the FSC Target Market (Banking Association)
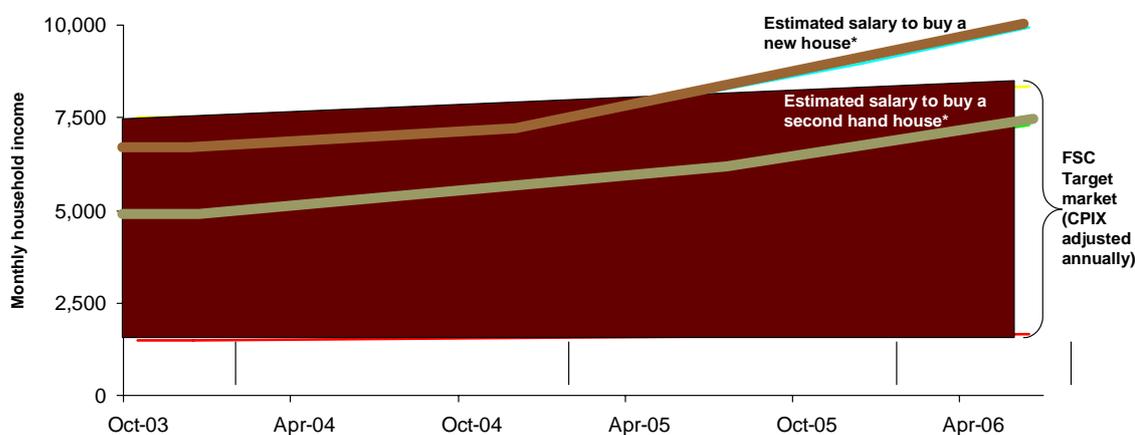
As noted earlier, while property price growth seems to be easing at the top end, analysts suggest that the growth trend is shifting down market, in which case the curves in the graph above will become even more accentuated.

These cost increases are not only a function of a vibrant and growing property market, but are also due the lack of supply in relation to the availability of credit. With an increasing effective demand, given the availability of housing finance to the FSC target market, the price of housing in limited supply increases. The Banking Association argues that limited supply is largely due to inefficiencies in the systems and processes that govern transactions. For instance, the Banking Association has pointed out that the process of land assembly, which recently used to take about 18 months, can now take up to 5 years. The delivery of top structures, which used to take about 5 months, will now take up to 19 months. In both cases,

it is the statutory municipal capacity requirements that are holding up the process, including the processing of applications, the opening up of township registers, the bulk servicing of land, and other factors. Besides delaying actual delivery, this increases costs, and acts as a disincentive to developers to participate in this market.

While the data suggest that overall the residential property market is booming, on closer inspection the reality is less encouraging – revealing the isolated and located reality of this appreciation, with varying effect. **With an average house price of over R800 000 across the country[22], the property boom being recorded in the press is clearly only being enjoyed by households already with housing (that is, they have an asset that is appreciating with the market); and presumably less than 10% of the country's population (that is, households earning much more than R7 500 per month). Of course, one of the factors driving this massive appreciation in property prices is the supply shortage of intermediate, affordable, housing units,**

4.4 *Limited residential opportunities: gaps in the housing ladder*

The data both in terms of housing supply and housing affordability suggests increasingly limited residential opportunities across South Africa, and that the housing backlog is not only limited to the subsidised market. Large segments of the housing ladder remain un-supplied, while increasingly many of the more affluent markets are reaching the limits of household affordability as households are forced to compete for limited supply. In addition, the so-called 'credit gap' seems to be widening, even in the face of apparently better access to credit, due to the inability to convert financial affordability into effective demand due to the lack of affordable accommodation options to purchase. Notably, the benefits of house price appreciation (as much of the press coverage has noted) are significantly uneven across suburbs – largely demarcated in terms of race and income.

The current supply of housing opportunities by both the public and private sectors across the entire housing market is nowhere near adequate to meet current demand and annual household growth. More critically, the housing that is currently available does not, and is unlikely to in the near future, support the affordability thresholds of many of the identified sub-markets.

Table 7, below, illustrates the availability of stock given the affordability parameters of the various housing sub-markets. Overall, the situation is bleak: very little stock is available for households earning less than R10 000, either for rental or for ownership. This is intuitively correct. None of the flyers handed out at robots, advertising new townhouse or cluster developments, and very few of the properties advertised in the Saturday Star property section, are ever less than R350 000. Rental properties even in relatively run-down areas such as Yeoville in Johannesburg, are let at R2000.00 for a two-bedroom flat.

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[22] ABSA Residential Property Perspective – 4q 2006. In the 3rd quarter of 2006, the average house in the 'middle segment' of the market (houses between 80-400m² and ≤R2,6 million) was R818 333.

Table 8   Housing product availability by housing sub-market type (adapted from Gardner, 2004)

	HOUSEHOLD INCOME (R/mth)	Afford @25% R/Mnth	Prod. Price (R Total)	Informal backyard rental	Social Housing Institutions (SHI)	Individual Landlords (IL)	Small Private Landlords (SPL)	Large Corporate Landlords (LCL)	Subsidy: Project-Linked	Subsidy: Peoples Hsng Process	Subsidy: Consolidation	Subsidy: Hostels	Subsidy: Individual (?)	Subsidy: Deposit/Credit-Linked	Subsidy: Institutional (Soc. Hsng)	Pvt Devpr: Inst. Sale Projects	Pvt Devpr: Projects (Own)	Secondary Mkt T/fers (Informal)	Secondary Mkt T/fers (formal)
				RENTAL HOUSING SUPPLY					**SUBSIDISED HOUSING SUPPLY**							**PRIV. SUPPLY**		**2NDY MRKT**	
8 VERY HIGH Max >R7,501 Min R 7,500		R1875	R189 207	None	None	OK / Ltd	Limited	OK / Ltd	None	None	None	None	None	None	None	Limited	OK / Ltd	None	OK / Ltd
7 HIGH Max R 7,499 Min R 5,500		R1375	R 138,752	None	V Limited	Limited	Limited	Limited	None	None	None	None	None	None	V Limited	Limited	Limited	None	Limited
6 HIGH-MIDDLE Max R 5,499 Min R 4,500		R1125	R 106,694	None	V Limited	Limited	Limited	Limited	None	None	None	Limited	None	V Limited	V Limited	V Limited	V Limited	None	V Limited
5 MIDDLE Max R 4,499 Min R 3,500		R875	R 80,524	Limited	V Limited	V Limited	Limited	V Limited	None	None	None	Limited	None	V Limited	V Limited	V Limited	None	None	V Limited
4 LOW-MIDDLE Max R 3,499 Min R 2,500		R625	R 93,996	Limited	None	None	None	None	Limited	Limited	Limited	Limited	V Limited	None	V Limited	None	None	Limited	None
3 LOW INCOME Max R 2,499 Min R 1,500		R375	R54,082 / R 42,887	Limited	None	None	None	None	Limited	Limited	Limited	Limited	None	None	None	None	None	Limited	None
2 V. LOW INCOME Max R 1,500 Min R 1		R0	R 36,000	Limited	None	None	None	None	Limited	None	Limited	None	None	None	None	None	None	Limited	None
1 SPCL NEEDS Max R 500 Min R 0		R0	R 36,000	Limited	None	None	None	None	Limited	None	Limited	None	None	None	None	None	None	Limited	None

Given the context of a generally supply-constrained and demand-squeezed housing ladder at all levels bar housing for very wealthy households, there some very clear gaps in the housing ladder:

- **Bonded housing supply gap**: The first big gap is for housing units above the minimum housing standard (R36 700) through to about R230 000 units. An example of this gap is the much touted Cosmo City in Gauteng: billed as a demonstration of how projects will be undertaken in the future, the development comprises fully-subsidised houses, along with a mix of bonded houses, which started at about R210 000 but now trade for at about R350 000.   At current mortgage interest rates, these bonded properties would be affordable to households earning outside the FSC target market threshold of R7500 per

month. Households earning more than the R3500 subsidy eligibility threshold, and less than the R7 500 required to afford the next available property, will not be able to live in Cosmo City. There are too few rungs in the housing ladder.

- **Affordable rental**: There is very little new rental property being developed for households who cannot afford to pay more than R2500 per month for their housing. It is at this market that the social housing sector has been targeting its properties, but even given projections for delivery by this sector, this will not begin to meet demand. Even with the supply of social housing, however, a gap would exist for households who could not afford to pay more than R1500 per month – that is households earning less than R6 000.

5   CONCLUSIONS: SOUTH AFRICA'S HOUSING OUTCOME

We have graduated ourselves out of being Minister of low-cost housing to taking on the responsibility of the entire residential property sector.[23]

Since 1994, housing policy in South Africa has been focused on the housing crisis – the overwhelming backlog of houses as reflected in the masses of informally and inadequately housed people throughout the country. Broadly, this housing crisis was defined in terms of household income: households earning less than R3500 per month were classified as unable to meet their housing needs independently and were therefore identified as being in need of state support.[24]   In 1994, it was estimated that the country had a backlog of three million housing units.[25]   In response, the policy was built around the presumed need for a mass housing delivery programme.

This simple approach to housing delivery has been at the root of all housing activity since 1994. It was the basis for government's promise to build one million houses within the first five years of government (a promise realized by about the seventh year, in fact), and the most substantial housing delivery programme ever undertaken by any country in the world. It is also been at the root of much of the dissatisfaction.

While public sentiment in the early years was largely supportive of this approach, experience with the products delivered led to widespread dissatisfaction towards the end of the 1990's and into the new millennium (Zack and Charlton, 2003).

One of the key factors undermining South Africa's affordable housing programme has been a failure to acknowledge the fundamental linkage of low income housing with upper income housing, in the 'housing ladder'. Simply put: among the realm of financial pressures they find themselves under, subsidy beneficiaries have little incentive to invest in their housing, and thereby improve it, if that housing is worth little more than the shelter it provides.   And if subsidy beneficiaries don't invest in their housing, neighbourhoods of subsidized properties deteriorate while their residents rather prioritise investments in other things including white goods such as televisions, hi-fi systems, and so on. And finally, if neighbourhoods deteriorate, the government's investment of R25 000 or R30 000 or R32 000[26] in the housing of each beneficiary becomes stagnant – and housing becomes a consumptive good rather than a productive good.

This problem was acknowledged by the Ministry of Housing which, in 2002 first began speaking about the "housing asset" that government had provided – instead of the number of "housing units".   But the problem remained.   If RDP housing was worth less than its replacement cost, how could the asset value potential of subsidized housing be realized? It is to this predicament that much of subsequent policy has since been directed.

In principle, government wishes to subsidise low income households out of informal housing by giving them a basic housing unit with decent services for ownership. On the basis of this ownership, government expects subsidy beneficiaries to invest in their housing and at some stage in their lives, sell the housing for a profit so that they can buy another home higher up the housing ladder. The sold home becomes the entry-level accommodation for the next low income person – and in this way, a subsidy beneficiary becomes part of the housing supply chain. The new home that is bought becomes the next asset for the person who was once a

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[23] Minister of Housing Ms Lindiwe Sisulu, speaking in the National Assembly, at the tabling of the budget vote for the Department of Housing for the 2005/06 financial year, 17 May 2005.

[24] The National Housing Subsidy Scheme is available to households who earn less than R3500 per month and who satisfy a range of other criteria.

[25] RSA (1994) White Paper: A new Housing Policy and Strategy for South Africa. Notice 1376 of 1994.

[26] The total investment in housing by the state is in fact much higher. In addition to the R32 000 basic subsidy, 15% is added to cover land costs, and further investment is made in terms of the Municipal Infrastructure Grant (MIP). In addition, new settlements are also often subsidized in terms of their ongoing operating costs, the professional fees involved, electricity connection, the social package which includes water and electricity, and so on. If all of this is situated w here it cannot be maximized, where the household cannot use it to improve their housing, it's wider purpose is undermined.

subsidy beneficiary and is now climbing the property ladder, improving her housing conditions independently, without state support, on the back of an appreciating property market.

Critically: if there are no buyers to purchase the original subsidy beneficiary's RDP-improved house, she can't realize the real asset value of her house (replacement value plus appreciation) and use this to improve her housing circumstances. In this case, her housing asset has become what Peruvian economist Hernando de Soto calls "dead capital" – useless from a capital perspective, although still useful from a shelter perspective. However, even if the original subsidy beneficiary can sell her RDP-improved house, if there are no houses available that improve on her current dwelling but are still affordable – that is, if the next best house is not a short step up the housing ladder – she is unable to find somewhere to move to, and becomes unwilling to sell her property.

In this way, the availability of higher income housing is relevant to the mobility of households in low income properties, because it is the destination to which they wish to climb. In functioning housing markets, rental property often serves the function of offering an intermediate step up or down the ladder as the household resituates itself as it passes through different stages in the housing life cycle. If there is no housing of either improved or reduced value for a household to move to, they have no option but to stay where they are. This was the finding of recent research into the workings of township residential property markets (Shisaka, 2004), where it was noted that only 26% of households were willing to move. Among the reasons given for their reticence was the limited choice of other options and the poor economic value they could expect from their current home. This reduces overall supply, and more and more people become less likely to move – creating a dysfunctional property market.

Housing demand can therefore not be narrowly defined. A housing 'backlog' comprises households in a variety of housing circumstances and with a variety of needs or demands. Over time, they will need to move into different housing circumstances as their housing needs change. Their ability to do so will be determined by the availability of supply in their housing destination. Thus, a household in an informal settlement pool can only move into subsidised housing or affordable rental (or whatever other housing they may seek) if such exists. If it doesn't, they remain in their current housing situation – which by default becomes the best they can access and afford.

5.1 A housing approach based on pools and flows

Figure 23, below, illustrates the focus of housing policy: to drain pools where demand outstrips supply by facilitating flow from one pool to the next.

To apply the metaphor, if it is housing policy's intention to "drain" the informal settlement pool (that is, improve the housing circumstances of households currently living in that situation), it needs to facilitate the flow to the better option. This flow, however, depends on supply – whether through the delivery of new accommodation in the desired pool, or through the draining of that pool (i.e. the making of housing in that pool available) by households moving to another pool. If there is a backlog in supply (either through a dysfunctional secondary property market or limitations in the delivery of new housing), even if the pool in question is high up the income pyramid, this undermines the movement of households lower down the income pyramid into this pool, and ultimately undermines the opportunities of households even at the very bottom of the pyramid into adequate housing that is affordable to them.

Figure 22 A housing approach based on pools and flows
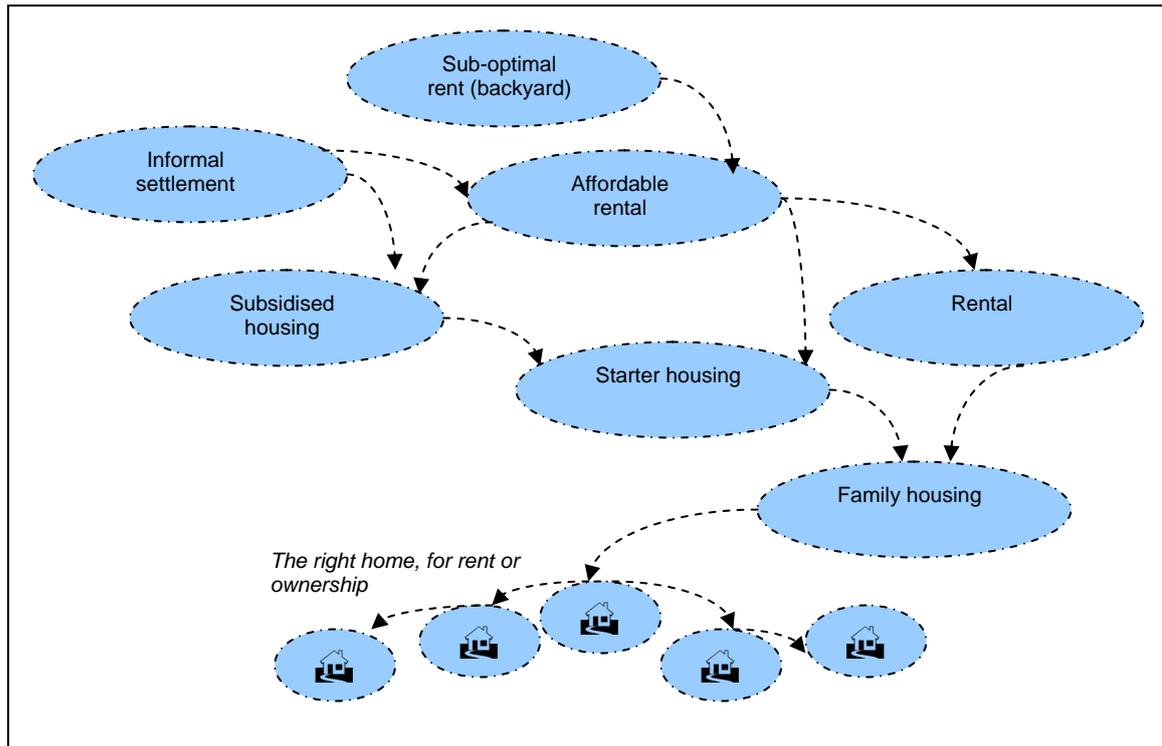
The housing challenge facing the nation, therefore, is to ensure sufficient housing supply in each of the pools, relevant to the affordability parameters of the population. The emphasis must address the flows – improving annual delivery performance by both the public and private sectors – to ensure that "pools" of backlog do not get bigger, and ideally start to decline so that ultimately, full housing mobility is realised. This implies setting targets differently, because it means focusing not only on the pools that affect the lowest income earners, but rather on all pools or blockages in the entire housing market.

The consequence of not doing so is the prioritisation of sub-optimal housing forms, and an entrenchment of the split between the first and second economies, as illustrated below.

**Figure 23 The consequence of blocked pools and flows**
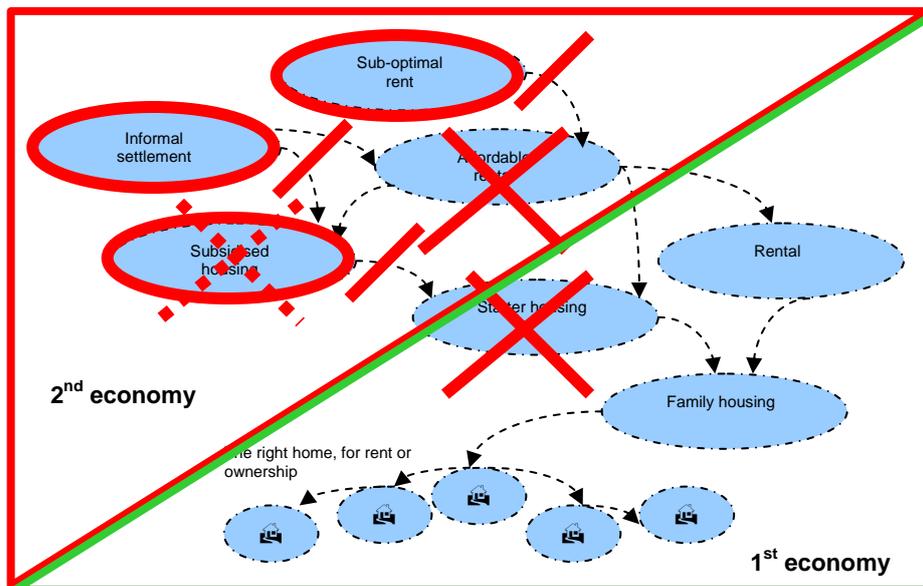
5.2 Housing supply supported by filtering

Linked to the concept of pools and flows, is the concept of housing filtering. When households will move from one home to another over the course of their lives, the houses they occupy at various times, whether on a rental or ownership basis, remain fixed. **Houses vacated by households moving to other accommodation become part of the supply for other households.**

Thus, when the initial subsidy beneficiary decides to leave their RDP subsidised house and move into some other accommodation (such as starter housing), their subsidised house becomes new supply for another subsidy beneficiary or low income purchaser.[27] As households filter up, therefore, houses filter down, becoming new housing opportunities for households lower down the property ladder. Over time, the house in question might change – a room might be added, or the servicing quality improved. This improves the long term durability of the housing stock, while also improving its value for the owner at the time.

**Figure 24 Housing filtering**
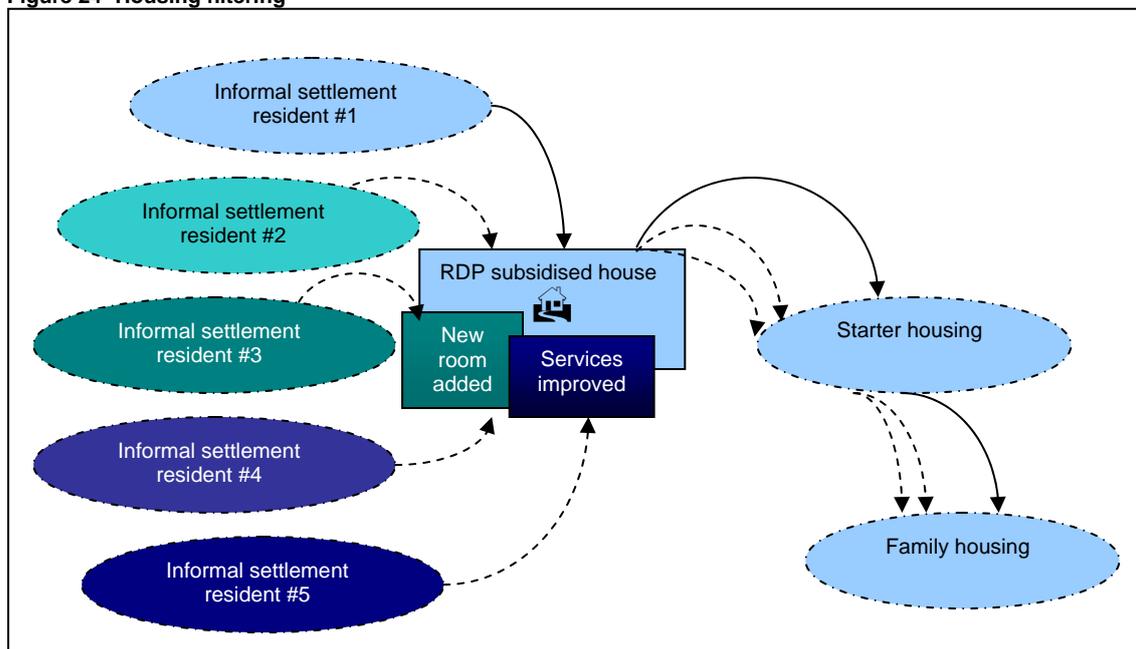
This aspect of housing market performance creates opportunities for the State:

▪ Subsidised housing delivered in 2006 can continue to operate as housing supply, as this year's subsidy beneficiary moves up the housing ladder and purchases houses delivered by the private sector. Ultimately, the State will no longer need to build subsidised housing – rather, it will just need to provide housing subsidies to households moving into existing subsidy-affordable stock.

▪ The enhanced value that can be realised from home improvements provides an incentive for gentrification and consolidation of the built environment even in the lowest income neighbourhoods. This will contribute significantly towards the sustainability of our human settlements.

However, if there is insufficient starter housing for RDP subsidy beneficiaries to move into, as is currently the case, then the filtering capacity of the subsidised unit is lost and the dependence on the State's capacity to deliver at scale and ahead of population growth remains. Further, South Africa's current subsidy beneficiaries do not have the opportunity to realise the asset value of their housing, again entrenching the divide between the first and the second economies.

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[27] Of course, this depends on the availability of an individual subsidy mechanism so that subsidy eligible households can purchase resale housing and not just housing available in newly delivered subsidised projects.

Figure 25 Failure to realise housing filtering
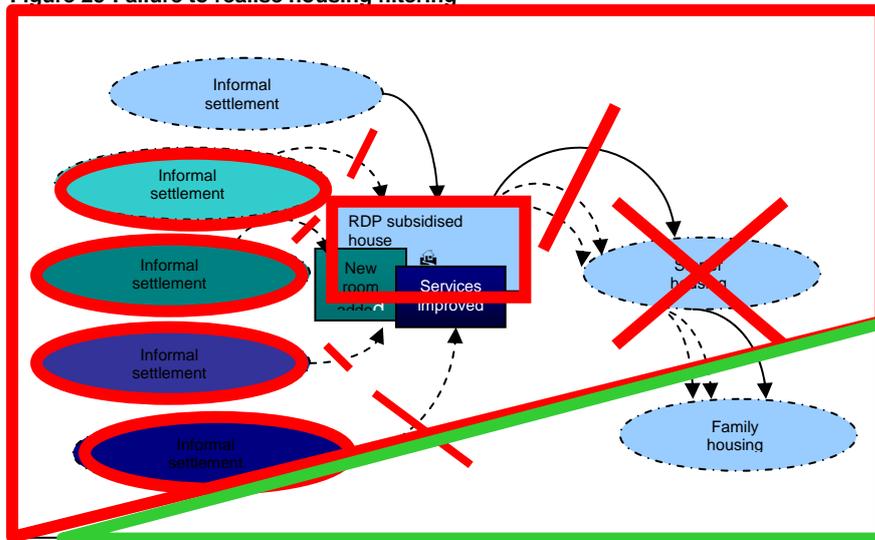
The filtering phenomenon also means that government at City level needs to ensure that the array of housing opportunities available are appropriate for the local population, and specifically, that housing delivery is targeted at the needs of segments of the population that are expected to grow. For instance, if housing supply does not keep pace with the housing needs of the expected growth of the Black middle class in a City, pressure could be put on the delivery of subsidised housing, as households with higher levels affordability "downward raid" to access the next best accommodation that is available. Similarly, if the delivery of subsidised housing (whether as new units or in the resale market – which itself is influenced by the availability of housing one rung up the ladder), additional pressure is put on informal settlements and informal rental accommodation in the inner cities and backyards, as households seek whatever shelter is available.[28]

When there are significant gaps in the housing ladder, so that households in various stages of their housing life cycle are unable to find appropriate housing, the functionality of the secondary property market is challenged and households' asset investment are constrained.

The role for housing policy therefore, is not to force households to reconsider their notion of the housing asset, but rather to remove all barriers and constraints which result in a de facto shaping of this understanding, so that households can make real choices on the basis of real opportunities.

5.3   Recommendations

While South Africa's housing sector is undermined by a range of factors, many of which have been highlighted in other research, the central issue relevant to all of these is the failure of the

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[28] A useful example of another impact of these dynamics can be found in Protea Glen, a middle-income, privately developed suburb in Soweto, and the evictions which took place in July 2004. The evictions raised several separate but related issues. Working under instruction from the banks, the sheriff issued eviction orders to residents who had defaulted on their bond repayments. Residents resisted eviction and eventually the Minister of Housing, Lindiwe Sisulu intervened. It wasn't clear from the press reports how the non-payment had started. Newspaper stories, however, quickly linked this resistance with other examples of civil unrest without understanding the market dynamics which contributed to the situation. In a normal market, it is unlikely that residents would resist eviction, because eviction itself would be unlikely. In a normal market, when homeowners fall on hard times and are unable to meet their mortgage obligations, they sell their home and use the equity from the sale to buy a cheaper, more affordable house. In this way, home ownership is understood world-wide to be a kind of personal safety net against bad times. In Protea Glen, however, residents could neither find a buyer for their homes, nor could they find cheaper housing as an alternative. They were locked into their homes, so to speak, with nowhere to go – a huge incentive to resist eviction. Because they were unable to sell their homes, the equity the Protea Glen residents had invested in them was worthless. When the banks repossessed their homes, they lost everything. They might as well have been renting. The absence of a secondary market in Protea Glen – a consequence of blocked pools and failed flows – meant that the safety net that property ownership is traditionally understood to be was rather a liability.

housing market to perform as a single market with free flowing pools and a range of housing options available to all home seekers, whether low or high income. The state subsidised housing delivery programme is undermined by its inability to draw on private sector delivery capacity to 'pull' households with housing affordability out of the subsidised net into better quality housing, making their subsidised unit available to others on the waiting list.

There are a range of factors which have together created these blocked pools. Many are usefully outlined in the Banking Association's research on housing supply and functioning markets (Nell et al, 2006). This section highlights two central issues.

Given the backlogs, enhancing delivery must be the central priority. This means increasing the rate and scale of delivery of subsidised housing, as well as increasing the rate and scale of delivery of affordable housing, at each tier of affordability in the sub-R200 000 product range.

5.3.1   Stimulating increased supply

As a first initiative, it is critical that Municipal processes on which the housing development process depends (town planning, building plan approval, clearance certificates, and so on) are reviewed, streamlined and expedited. Key problems include the following:

▪ **Township registers**: While processes have been underway for some time to open township registers and transfer publicly owned housing stock to long-term occupants, the impact is far from satisfactory to date. This has been hampered by the very real problem of resolving ordinances, jurisdictions, as well as the lack of township registers and the unresolved problem of rates and service charges arrears. However if addressed in a concerted and programmatic manner this process could transfer significant assets to households in former black township areas. While this would not result in new supply it could provide an important asset base for many families which wish to leverage the housing assets. This would also relieve the burden for managing and maintaining this stock that currently rests with provincial and local government structures.

▪ **Building plan, subdivision and rezoning procedures**: Current anecdotal evidence suggest that these routine functions are severely delayed and problematic in most municipal authorities. The hassle factor is cited by many developers as both a cost and time concern that can influence the viability of projects. A quick intervention is clearly possible here – comprising the recruitment of additional staff and the restructuring of the procedures to expedite these critical processes through a more performance-oriented approach.

▪ **Title deeds**: the TRPM study highlighted the issue of title deeds as undermining the secondary (resale) residential property market. Problems relating to the municipal role in this process included:
   o Delays in opening a township register, due in some cases to the resolution of the underlying land rights
   o Delays in transferring to individual deemed owners, due to significant delays by municipalities in valuing township properties
   o Uncollected arrears which accrue to the new owner in order for transfer to be affected.

▪ **Clearance certificates**: the TRPM study found that clearance certificates are an issue both for secondary and primary transactions. In both instances, it was found that municipalities were delaying the process by requiring a property valuation for the valuation role before a clearance certificate could be issued. With primary transactions, however, this delay was entirely unnecessary as the consumer had already entered into a relationship with the Municipality. In general, the simple process of obtaining clearances can delay transfer processes for a number of months.

▪ **Utilities**: the question of utilities and services is critical. Service deficits manifest themselves in water pressures, road congestion and electricity supply shortages. Commenting in an article by MoneyWeb, property economist Francois Viruly says that service deficits illustrate the need for town planning to be integrated with the infrastructure

capacity of the city.[29] Another issue relates to municipal capacity constraints in securing connections for new developments.

- **Service provision**: also lacking in the current environment is the effective and efficient collection of service payments by city governments. This undermines investor appetite for the provision of rental housing.

In all cases, the turn-around times would do well to improve, as delays involve substantial costs for developers who also must bear the inflationary and exchange rate risk. Research conducted in Johannesburg in 2004 found that the way in which that city carried out its development facilitation role had a substantial bearing on capital costs of a project and greatly influenced investor appetite. The various capital costs identified by the study and the specific components over which a municipality might provide support are summarised in the following table:

Table 9   Municipal influence on capital cost components of residential developments

Capital cost components	Municipal influence
Use Value Components: Market Demand & Landlord Requirements: These components contribute towards the cost of providing the accommodation as required, and reflect the level of investment necessary to meet the accommodation demands of the market and the management needs of the landlord. These include the following: - Accommodation / Property Acquisition - Effectiveness & Efficiency - Professional Fees - Taxation	- Taxation - Local environment (impact on property values)
Compliance Components: Comply with Regulations: These components involve expenditure to ensure compliance with local, provincial and national statutory requirements. They include the following: - Town planning - Services Safety - Fire Safety - Professional Fees	- Significant influence on the costs, standards, and time associated with adhering to these components.
Risk Component: Management of Risks: Given the prevailing inner-city conditions and nature of development, cost provisions are generally made for the following to provide for risk. They involve expenditure on risk management, risk absorption or risk offsetting (insurance): - Material Supply & Delivery Surcharge - Time Delays - Vacant Possession	- Influence relates to local governance issues and turn-around times for municipal issues
Finance & Taxation Components: These components involve the cost of servicing short or long term debt and the payment of capital gains tax on net revenues generated, as well as payment in respect of Value Added Tax: - Development bridging finance costs before time delays - VAT rebate on zero rated subsidies - Tax allowance / rebate on capital investment - VAT input / output	- Influence as illustrated by recent UDZ incentive.

Matthew Nell and Associates (2004) note that among the most significant of constraints undermining investor appetite for inner city residential development is the difficulties involved in implementation. They recommend that a "highly strategic intervention would be the establishment of a "development facilitation" team that could assist developers go through the development process, expediting the necessary inspections and approvals, clearing the various blockages that appear in the system, and so on. Financial support towards development contributions and connections costs would also impact on the capital costs inherent in a development, thereby impacting favourably on initial yield." This conclusion can be applied to most city governments in South Africa.

To the extent that housing suppliers have withdrawn from the market, incentives to draw them back in will be required. Options include rates concessions, tax-based incentives (such as the Urban Development Zone tax incentive for inner city residential rentals), applied for a defined period to specific sorts of development. While costs of development are kept high by municipal inefficiency to and a failure of municipalities to perform in their roles as required, housing affordability will depend on subsidy support from the State.

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5.3.2 Broadening the State's understanding of its housing responsibility

Building on the Housing Minister's own admission that the whole housing market is of importance, this paper has emphasised the need to broaden the policy of focus of the State's housing responsibilities. Specifically, this relates to accepting a wider definition of housing need, and that households earning below (in some cases) R15 000 per month are also house-poor, in addition to the sub-R3 500 per month subsidy target market. **Government must accept responsibility for the performance of the entire housing market, and in this regard, expediting and streamlining housing development functions also in higher income developments.**

This broadened approach also implies a wider definition of housing intervention. There are a number of areas in which the Housing Department does not normally involve itself would nonetheless be of benefit to the housing process. Much research has already been done in this area, which illustrates how housing processes can be facilitated beyond the state's direct intervention. Housing policy should think strategically beyond its currently narrow role of housing provision to accommodate the variety of facilitative interventions that might support wider delivery efforts by a diversity of players.

As a first step, developing an awareness and understanding of housing sector market performance is critical. The drivers and barriers which influence demand and supply for housing, at whatever income or value level, must be monitored and addressed. More critical, however, is that where blockages undermine a functioning market – where free flow through the pools or up the housing ladder is constrained by limitations in supply (or in access to available supply as the case may be) government must consider mechanisms to intervene and rectify the situation. In some ways, government has already done this in respect of its motivations to the finance sector to provide end user finance down market. **With finance now flowing, however, it is supply that has become the constraint. This must now be addressed.** This is a tall order for a government intent on meeting the need of its subsidy eligible population – which already comprises the vast majority. However, failure to address blockages higher up the ladder will quite fundamentally undermine the state's capacity to delivery at the bottom end. The entire market is relevant to government's goal of addressing the needs of the poor.

An acceptance of a wider housing definition might also suggest that the housing responsibility for the country falls more broadly within the ambit of a number of departments, and not just housing. For instance, the active participation of National Treasury might be considered in matters relating to the performance of the housing market. The active participation of the Department of Trade and Industry might be considered in matters relating to the performance and engagement of the construction industry. These issues should be given greater attention at a Cabinet level to ensure that the breadth of the housing environment is given attention by the State.

The current situation of increased demand in the absence of supply must be better managed. Failure to do so will lead to ever increasing property prices even at the bottom end, further excluding the poor from the housing market.

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ANNEXURE 1: Seven Strategies of the National Housing Code

The following seven strategies comprise the national housing policy as set out in the Code.

1. **Stabilising the Housing Environment:** This strategy has emerged from the history of bond boycotts in South Africa, in which many mortgage lenders found themselves exposed as borrowers defaulted on their loans. For financiers, the key aspect of stabilising the housing environment is ensuring that the "sanctity of contract" is respected and upheld by all parties.

   This strategy led to the establishment of:
   - The Mortgage Indemnity Fund (since terminated)
   - Servcon Housing Solutions (currently being transformed into a "Land Bank" to assist the state access affordable, well located land for housing delivery)
   - Thubelisha Homes
   - The National Home Builders' Registration Council (NHBRC)

2. **Mobilising Housing Credit:** The strategy to mobilise housing credit is closely linked with the strategy to stabilise the housing environment, in that both seek to increase the level of investment in the low income housing sector.

   This strategy led to the establishment of:
   - The National Housing Finance Corporation (NHFC) (currently undergoing transformation)
   - The Rural Housing Loan Fund (RHLF),
   - Nurcha (recently defined as the State construction bank)
   - The Social Housing Foundation (soon to undergo a transformation in line with the new social housing policy and legislation)

   Some have argued that the Financial Sector Charter was a result of pressure put to bear on the financial sector by the national Department of Housing (among others) to provide housing credit to low income earners. Certainly, as a result of the signing of the FSC and specifically the commitment to provide housing finance of R42 billion to a low income target market, the Department of Housing shelved its efforts to draft a "Community Reinvestment Act".

3. **Subsidies:** Probably the most well known of the seven strategies, the introduction of once-off capital grants is an acknowledgement of the income disparities that exist and the negative impact this has on a low income family's ability to access the housing it needs. Subsidies provide a lump sum of money, available only once in the beneficiary's lifetime, as a financial leg-up into the market process.

   Although not initially introduced with the White Paper in December 1994, an institutional subsidy, allowing for collective ownership and rental tenure, was implemented in late 1995. Here, the assumption is that this form of ownership is temporary, a respite between homelessness and ownership. When the beneficiary acquires sufficient personal equity which, when added to the individual subsidy, allows them access the housing they need, it is assumed that the beneficiary will excuse themselves from the co-operative or rental housing arrangement and enter the market on an individual ownership basis.

4. **Supporting the Peoples Housing Process:** This strategy is to provide support to people wishing to build or organise the building of their houses themselves. It is targeted at what government has called the "hard core" poor – those earning less than R1500 per month. This strategy led to the establishment of the Peoples Housing Partnership Trust.

5. **Rationalising institutional capacities:** South Africa's housing sector has a history of complex and fragmented institutions that operated at cross purposes to one another. The assumptions behind this strategy are that a single institutional framework for housing is

necessary, and that the role of the state is "to reduce levels of dependency and increase levels of independence from State financial assistance".

6. **Facilitating the speedy release and servicing of land:** Perhaps the most obvious and visible remnant of apartheid policy is the lack of access to well located land. However, this strategy was not pursued energetically within the Department of Housing, as it was being pursued in the Department of Land Affairs, through legislation such as the Development Facilitation Act, the Less Formal Townships Establishment Act, and others, all set out in the Department of Land Affairs' white paper. The Communal Property Associations Act also arises from this strategy.

7. **Co-ordinating state investment in development:** Finally, the Code emphasises the RDP principles of co-ordinated development. Under the ambit of this strategy, the Urban and Rural Development Frameworks were developed. However, until the launch of Breaking New Ground which seeks to address this point specifically, very little in respect of inter-governmental coordination was done.