Understanding Housing Markets in South Africa

Expanding Affordable Housing Market opportunities

Prepared by:
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Acknowledgements

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The CAHF is a non-profit mission-driven company with a vision for enabled affordable housing finance systems in countries throughout Africa, where governments, business, and advocates work together to provide a wide range of housing options accessible to all. CAHF’s mission is to expand Africa’s housing markets for all of its residents, through disseminating research and market intelligence, and supporting cross-sector collaborations and a market-based approach. Valuing innovation, evidence-based decision-making, collaborative networks, and local expertise, the CAHF focuses on promoting the opportunities to be found in under-served housing markets across Africa. For more information, please visit www.housingfinanceafrica.org.

The SACN was established in 2002 by the then Minister for Provincial and Local Government in collaboration with the mayors of South Africa’s largest cities and the South African Local Government Association (SALGA). It operates as an independent Section 21 company with a mandate to promote good governance and management in South African cities through research, analysis and the promotion of shared learning and partnerships. For more information please visit www.sacities.net. The cities in the network are Buffalo City, Cape Town, Johannesburg, Ekurhuleni, Ethekwini, Nelson Mandela Bay, Mangaung, Msunduzi and Tshwane and are included in this report.
The intention of the housing programme introduced in South Africa in 1994 was to address the housing needs of households with a monthly income of below R3500. The programme was not restricted to households falling in this category but did assume that people earning above R3500 would be able to access formal housing finance. However, this did not materialise, and in fact many people were unable to access adequate and affordable shelter. In recognition of the need to address this income segment, the Breaking New Ground policy (2004) proposed the introduction of a lending instrument that would allow households earning between R3500 and R7000 to access private sector funding.

The 2011 State of Cities Report (SoCR) noted that progress in delivering housing to the affordable market segment has been limited. Despite attempts to engage financial institutions through providing guarantees such as the Finance Linked Individual Subsidy (FLISP), a subsidy for households with an income between R3500 and R15 000, very few households have successfully accessed private mortgage funding to acquire housing in the affordable market.

Poor performance can be attributed to inadequate supply of suitable and well-located land, slow regulatory processes, delays and costs in providing bulk infrastructure and new services. There is also a mismatch between available stock, what is provided by developer and household affordability. In brief, the challenge is to close the gap between the demand by households for affordable, well-located houses with access to a range of amenities and the slow, unsustainable pace of delivering these housing options. Moreover, even when these housing options do exist, there is a lack of financing options for households to purchase these houses.

To better understand this market and the potential opportunities for both city governments and the private sector, the South African Cities Network (SACN) partnered with the Centre for Affordable Housing Finance (CAHF) to develop affordable housing profiles for each of its nine member cities. The intention of these profiles is to assist both the public and private sectors to better understand the workings of the affordable housing market. Each city profile also begins to identify some areas of investment and hopes to contribute towards changing the mindset that (to date) does not see this sector as profitable for investment and development.

The report further considers how to bridge the gap between affordable housing demand and supply, by financing the housing market in a sustainable manner and increasing the provision of affordable housing options. The profiles reflect briefly on issues related to location, land, infrastructure and the need for regulatory efficiency, but focus extensively on new ways of understanding the urban housing market through housing performance, affordability and the leveraging of equity to close the housing gap. Thus, these profiles are not presented as an exhaustive exploration of the affordable market but rather as a first step towards planning for a different kind of response and moving closer to achieving a more sustainable, holistic, integrated and improved property market.
The intent of this report is to improve the understanding and change perceptions of affordable markets in order to expand and deliver affordable housing options within South Africa’s municipalities by providing a high-level overview of municipal housing markets using key indicators, measuring and comparing market performance, and tracking that performance over time.

A frustration often voiced is that affordable markets are difficult to understand. We believe that more investment would be made available if there were a clearer sense of where opportunity might exist, not only for developers, builders and brokers, but also for city planners, housing advocates and residents themselves. This report series (one for each member city and the country overall) aims to:

- bring context to municipal housing markets, and affordable markets in particular,
- present findings which change perceptions of those markets, and
- show what kinds of opportunities exist to expand housing options, now and going forward.

How Important Is Context?

Understanding the local housing market context is very important, not only for the facts it provides, but also for the perception it influences. This is illustrated by the following example.

Which neighbourhood seems more attractive for housing development?

<table>
<thead>
<tr>
<th>Neighbourhood 1</th>
<th>Neighbourhood 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Average home value, sales price and per capita income are one-third of the metro average</td>
<td>• Outperformed the metro in 4/6 key housing performance measures, which indicates that the neighbourhood is growing faster than the metro overall.</td>
</tr>
<tr>
<td>• Almost half of the 11 000 households rent</td>
<td>• 5700 residential properties worth a total of R2-billion</td>
</tr>
<tr>
<td>• Only 11% of houses have bonds.</td>
<td>• Readily accessible to major employment hubs because of four metro stations</td>
</tr>
<tr>
<td>• Over last five years, there have been very few new registrations</td>
<td>• Last year, over R175-million in total annual household income and almost R9-million in sales.</td>
</tr>
</tbody>
</table>

Based on the above, Neighbourhood 2’s housing market appears much stronger, but in fact they are the same neighbourhood of Orlando West, just south of Johannesburg’s bustling downtown (and home to the 2010 World Cup).

This example shows that understanding context is important, but how that information is applied makes the difference between reinforcing perceptions and finding opportunity. With a better local understanding, cities can allocate resources more efficiently, entice development partnerships, leverage infrastructure and improve the long-term sustainability of their development efforts.

Most importantly, with a common understanding, business, government, and advocates can conceive opportunities, imagine solutions, and build a better, more intentional future, while broadening the housing opportunities available to even our lowest income residents.
Affordable Markets: Perception versus Reality

Affordable housing markets – those areas or properties with values under R500 000 – are often perceived as weak, stagnant and risky. However, a very different reality appears when key market indicators of affordable housing markets are isolated and compared to overall markets.

Evidence indicates that when affordable property markets are compared to the overall markets:

- Affordable markets are growing faster than markets overall.
- Many markets considered affordable by average values are not affordable when local incomes are used to measure housing affordability.
- Equity can be used to close the housing gap and boost the purchasing power of homeowners in affordable markets.

New Possibilities in Understanding Housing Markets

This report presents three new ways of understanding local housing markets, achieved by geocoding, merging and comparing familiar datasets in new ways at the local level across major municipalities. With this understanding, it is now possible to more successfully target specific housing solutions.

**Housing Performance Index** – measuring and comparing a basket of local, key market indicators to the city, allows the growth of housing markets to be measured relative to local conditions over time, across all cities.

**Affordability and the Housing Gap** – newly released census data at the local level makes it possible to consider housing affordability relative to local income, to quantify local housing gaps, and get a better sense of real affordability.

**Leveraging Equity** – accessing the equity in one’s home is the most common way households move up the housing continuum, and unlocking this equity in affordable markets can help to close the housing gap.
Applying Business Intelligence to Affordable Housing: Levelling the Playing Field

The private sector has been using business intelligence tools and digitised maps and data for years in order to find and achieve market potential. The CAHF applies data, tools and specific expertise to the affordable housing sector in ways that can level the playing field. This report draws on the Citymark dashboard, conceived of and developed by the CAHF. The highest and best use of this report is that interested organisations and individuals find new ways to support the growth of affordable housing in South Africa, by exploring and reconsidering areas for new investment, expanding existing investment, or confirming the success or strategic revision of ongoing activities.

Methodology

This report draws on the Citymark dashboard, conceived of and developed by the CAHF. Citymark uses 2011 census data from StatsSA and South African deeds registry data as provided by Lightstone, one of the leading property data firms in South Africa. Data was aggregated to StatsSA subplaces and uploaded into a business intelligence dashboard for easy analysis, rendering and exploration. The CAHF has supplemented given land and census indicators within the dashboard, based on experience in housing and real estate development. All of the indicators can be shown at the suburb, main place, municipality and nine-metro levels, and through this structure, benchmarks and comparisons across areas are made, and understanding is gleaned.

The data has limitations – it has been estimated that up to 50% of South Africa’s properties are not on the deeds registry, and census efforts are always challenging. However, both datasets are available at the local level consistently across all metros, widely recognised and understood, and richer than anything else available, making consistent comparisons possible. It is understood that low-income areas are often under-represented in both datasets, suggesting more rigorous analysis would likely result in even greater growth and representation than currently found.

Limits

The data does not reflect the informal market or the rental sector. It does not include opinion surveys or data samples. This report is not intended to provide a definitive quantification or holistic picture of the market or demographic conditions. Nor is it intended to be the last word on economic potential, but rather the first look at which places might be performing better (in certain ways) than their peers and within the metro overall. From this level of understanding, areas of priority interest might be targeted more specifically for more traditional in-depth market analyses.
Market Size

Market size reflects the scale and scope of conditions within local markets, including volume and distribution values and levels of activity. These indicators provide key information about the potential scale and suitability of various housing strategies and opportunities. Johannesburg has the highest number of households, while Cape Town has the highest number of residential properties. Overall, the households-to-residential properties ratios are fairly consistent despite the size of the city. Most large cities have higher household income levels, which is shown to make larger cities generally more affordable.
**Market Activity**

Sales and lending activity within local markets provide context to counter market perceptions, and entice more investment. Affordable properties (under R500 000) account for about half of all properties on the deeds registry in South Africa yet about one-third of all sales transactions. Based on the number of sales, affordable properties appear to have lost some market share after the post-2008 reductions. In 2009, however, that proportion reached 40%, perhaps a reflection of the impact of the economic recession on upper income families. The total sales and bonded sales in 2012, and percent change from 2011, shows that, although sales have increased, bonds have generally decreased.
While some cities experienced sharp increases in sales from 2011 to 2012, interesting differences in market activity can be seen by property band\(^2\).

**Market Activity - All Municipalities**

Change in sales activity and bonded sales change from 2011 to 2012, by value of property

<table>
<thead>
<tr>
<th>Property Band</th>
<th>2011 Sales</th>
<th>2012 Sales</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Johannesburg</td>
<td>21%</td>
<td>73%</td>
<td>-57%</td>
</tr>
<tr>
<td>Buffalo City</td>
<td>57%</td>
<td>22%</td>
<td>-100%</td>
</tr>
<tr>
<td>City of Cape Town</td>
<td>21%</td>
<td>73%</td>
<td>-57%</td>
</tr>
<tr>
<td>City of Tshwane</td>
<td>21%</td>
<td>73%</td>
<td>-57%</td>
</tr>
<tr>
<td>Ekurhuleni</td>
<td>21%</td>
<td>73%</td>
<td>-57%</td>
</tr>
<tr>
<td>eThekwini</td>
<td>21%</td>
<td>73%</td>
<td>-57%</td>
</tr>
<tr>
<td>Mangaung</td>
<td>21%</td>
<td>73%</td>
<td>-57%</td>
</tr>
<tr>
<td>Mpondoland</td>
<td>21%</td>
<td>73%</td>
<td>-57%</td>
</tr>
<tr>
<td>Nelson Mandela Bay</td>
<td>21%</td>
<td>73%</td>
<td>-57%</td>
</tr>
</tbody>
</table>

Despite the highest percent growth in sales, properties worth less than R250000 (in green) experienced the greatest drop in bonded sales levels over the same period. Sales transactions grew under R500 000 in six cities (Buffalo City, Cape Town, Johannesburg, Ekurhuleni, eThekwini and Nelson Mandela Bay), yet the percentage of affordable properties financed with a mortgage bond dropped in all but three cities.

It is worth noting that other research done by CAHF found that borrowers in the Financial Sector Charter target market (i.e. affordable market borrowers) were not any riskier than borrowers in the so-called normal market – the level of non-performing loans in each sub-market were about equal.\(^3\) This means that risk considerations should not be driving what appears to be a disinterest by lenders in the affordable market. Are lenders missing opportunities to support the growth of affordable markets? Are buyers finding alternative ways to finance their homes?

**Lending Activity**

Cities with high percentages of mortgaged properties also have above-average property prices and incomes, and among the lowest affordability ratios. In other words, more expensive markets with higher average incomes tend to have more mortgage bonds. Also the five major municipalities (Cape Town, Johannesburg, Tshwane, Ekurhuleni and eThekwini) have much higher rates of mortgaged properties than the next four cities.

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\(^2\) Property bands are those properties or areas whose average value is under R250 000, between R250 000 and R500 000, and over R500 000.

Market Share per Lender

Four private banks dominate South Africa’s residential lending sector, with a wide range of secondary lending institutions offering financing, such as non-depository institutions and private companies or sellers. By exploring the market share of various lenders, perceptions can be estimated about market viability, exposure and preferences in their lending approaches and target markets.

Although sales transactions fluctuate from year to year, market share stays fairly consistent at the municipal level. (Note the different scales of the two graphs: lending volumes in affordable markets on the right are almost one-tenth the overall residential property market.) The number of mortgage bonds added to the deeds registry each year reflect the post-2008 slowdown, which reveals a slower recovery in lending for properties under R500 000.

While overall volumes have changed from year to year, the share of the market among the institutions has also remained consistent, city-wide and for affordable properties. Possible factors contributing to the slower recovery in the affordable market may be reduced access to credit (and increased use of unsecured credit, which is not reflected in these figures), less resilience to the market downturn, and less access to available, affordable housing.

Understanding Housing Markets in South Africa
Findings: SACN member cities
Overall Key Findings
The importance of the affordable housing market in South Africa cannot be overstated, and this market is increasingly being recognised as a critical part of South Africa’s economy.

A person’s or family’s home is often their most valuable asset and often represents their entry into the economic mainstream. In an increasingly urbanised country, South African cities have a tremendous influence over how opportunities to access housing can be maximised for millions of households. These findings set out to show how understanding affordable housing markets more fully can expand housing opportunities, especially for lower income city residents.

The perception of housing provision is changing rapidly, from a social service to an economic asset central to moving families up and into the economic mainstream.

In his address to the special President’s Coordinating Council on Human Settlements (2010), President Jacob Zuma challenged cities to integrate housing and economic opportunity, to diversify approaches, and to promote and improve access to housing opportunities in the gap market. The Outcome 8 delivery targets for sustainable human settlements explicitly note:

The current housing development approach with a focus on the provision of state subsidised houses will not be able to meet the current and future backlog and there are questions related to its financial sustainability. We need to diversify our approach to include alternative development and delivery strategies, methodologies and products including upgrading of informal settlements, increasing rental stock, and promoting and improving access to housing opportunities in the gap market.

The municipalities within South Africa are key economic drivers in the nation’s economy, and their urban housing markets provide much of that strength and resilience. How cities diversify their approach and engage with their housing sector partners will be key to their success in improving access to housing. New analytic tools allow for the ability to understand housing market, as economic assets rather than social services, in three key new ways.
Housing Performance Index

Affordable markets drive municipal housing market growth and have grown consistently since 2010. In seven of the nine SACN member cities, the affordable areas are growing faster than the municipality itself.

- The fastest growing suburbs are located in many of the lowest cost suburbs within the city; affordable areas overall are growing faster than the municipalities in comparison to the national market.
- Home values and sales prices are appreciating faster, and the proportion of homes and sales of the overall market is expanding faster than those of houses over R500 000.
- New registrations and sales of affordable properties are increasing at a faster rate than across the city’s overall residential property market.

Affordability Ratios and the Housing Gap

In measuring affordability at the local level, many local housing markets are not affordable to the average local income.

- New data from the census allows for affordability levels and housing price gaps to be determined much more precisely; estimating area affordability by property value alone does not consider the ability of local incomes to actually afford those homes.
- On average, across the nine cities, it takes three times the average household income to afford the average house. This varies considerably from area to area however, from 1.7 in Tshwane to 3.9 in Msunduzi. The housing affordability gap – the difference between the average sale price and the average affordable mortgage bond – ranges from R280 000 to R706 000.
- Understanding affordability and housing gaps at the neighbourhood level can drive providers of housing to offer more affordable and more integrated housing solutions.

Leveraging Equity

Equity in affordable properties can boost purchasing power.

- Affordable homes have higher rates of equity than the overall market and, if leveraged to fill the housing gap, can on average double the purchasing power of lower income households.
- Policies that encourage better connections between homeowner equity and sales prices can drive demand for gap housing and entice more supply.
- Expanding the housing continuum, through providing better gap housing, potentially doubles the housing bond market.
Housing performance: affordable markets drive municipal market growth

In seven of the nine member cities, the affordable markets are growing faster than the overall housing market. In 2012, the growth of seven affordable markets outpaced their host cities.

The two charts track the Housing Performance Index of the nine member cities and all affordable properties valued under R500 000 within them. Results show a wide range of growth, stability and sluggishness. Housing markets in most cities dropped during the 2008 economic downturn. Some markets recovered quickly, while others continue to stabilise.

Most notably, seven of nine affordable property markets are growing faster than the metros that contain them (highlighted by dashed circles). Affordable markets in only two metros (Ekurhuleni and Mangaung) have experienced a recent slowing. The performance of affordable properties compared to the municipalities confirms the strength and importance of those markets to the municipality overall.
The affordability ratio ranges from 1.7 to 3.9
Lower sales prices do not necessarily translate into greater affordability, and higher prices do not necessarily mean less affordability.

Various methods were used to compare what local households can afford to pay in the nine cities: by price, by percentage of affordable properties and by affordability ratio (comparing household incomes to sales prices). Housing in the least affordable market requires almost four times the average income.

MARKET AFFORDABILITY IN THE NINE CITIES

Some cities appear more affordable by value, as they have many properties valued under R500 000. For example, in Mangaung and Msunduzi over half the properties in the metro are affordable by value (73% and 58% respectively under R500 000) compared to traditional high-cost markets like Johannesburg (46%) and Cape Town (44%). However, based on household incomes, Mangaung and Msunduzi are the least affordable, with the highest affordability ratios of all nine metros, at 3.7 and 3.9 respectively. This does not mean that families are literally paying almost four times their incomes for housing in Mangaung but that homeownership is much more out of the average family’s reach than in other cities – families are more likely to be living in overcrowded or suboptimal living situations, and affordability is a significant barrier.

Cape Town and Johannesburg have the highest average property prices and the fewest properties under R500 000, but affordability ratios below or in line with the metro average of 3. This is likely a reflection of the above-average incomes in those cities. The implication is that one strategy for expanding affordable markets might include focusing on income growth to expand earning potential, or what kinds of income can be applied towards housing costs. Based on these findings, housing interventions designed for example in Cape Town might be very different from those needed in Mangaung.

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4The grey lines (benchmarks) indicate the average indicator value across all nine cities.
Affordability and the housing gap: many local housing markets are not affordable to the average local income

In about 1355 (or almost 40%) of the 3700 suburbs within the nine member cities, property values average less than R500 000. However, the average property is affordable to the average household in only 668 suburbs, a rate (20%) less than half that.

COMPARISON OF SUBURBS WITH AVERAGE PROPERTY VALUE OF LESS THAN R500 000 AND SUBURBS WITH AFFORDABILITY RATIO OF 1:1 OR LESS

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Total suburbs</th>
<th>Affordable by value</th>
<th>Total suburbs</th>
<th>Affordable by income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buffalo City</td>
<td>196</td>
<td>79</td>
<td>127</td>
<td>27</td>
</tr>
<tr>
<td>City of Cape Town</td>
<td>856</td>
<td>197</td>
<td>778</td>
<td>85</td>
</tr>
<tr>
<td>City of Johannesburg</td>
<td>700</td>
<td>225</td>
<td>591</td>
<td>124</td>
</tr>
<tr>
<td>City of Tshwane</td>
<td>483</td>
<td>185</td>
<td>426</td>
<td>164</td>
</tr>
<tr>
<td>Ekurhuleni</td>
<td>580</td>
<td>268</td>
<td>485</td>
<td>118</td>
</tr>
<tr>
<td>eThekwini</td>
<td>489</td>
<td>212</td>
<td>410</td>
<td>71</td>
</tr>
<tr>
<td>Mangaung</td>
<td>110</td>
<td>58</td>
<td>76</td>
<td>24</td>
</tr>
<tr>
<td>Msunduzi</td>
<td>96</td>
<td>32</td>
<td>84</td>
<td>14</td>
</tr>
<tr>
<td>Nelson Mandela Bay</td>
<td>233</td>
<td>99</td>
<td>213</td>
<td>41</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3743</strong></td>
<td><strong>1355</strong></td>
<td><strong>3190</strong></td>
<td><strong>668</strong></td>
</tr>
</tbody>
</table>

Property values average under R500 000 in 1355 of the 3743 suburbs, or almost 40% of those suburbs containing residential properties in the nine municipalities. However, using census data now available at the suburb level, when local average household incomes are taken into account, local incomes are able to afford the average local sales price in only about 668 suburbs or one-fifth of all suburbs, or under half the suburbs perceived affordable by value. When viewed on a map, many of these neighbourhoods have been traditionally considered affordable. This helps to inform those misperceptions and find more appropriate solutions.

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5Total suburbs by value include those suburbs in which residential properties exist.
6Total suburbs by income include those in which residential sales transactions occurred in 2012.
The housing gap ranges from R290 000 to R700 000

On average in the nine cities, to afford the average house takes three times the average income.

### Relative Housing Gap by Municipality

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Average monthly income</th>
<th>Target affordable house price</th>
<th>Average sales price</th>
<th>Housing price gap</th>
<th>Affordability ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buffalo City</td>
<td>R8 714</td>
<td>R222 000</td>
<td>R663 000</td>
<td>R441 000</td>
<td>3.0</td>
</tr>
<tr>
<td>City of Cape Town</td>
<td>R13 164</td>
<td>R336 000</td>
<td>R1 031 000</td>
<td>R696 000</td>
<td>3.1</td>
</tr>
<tr>
<td>City of Johannesburg</td>
<td>R14 777</td>
<td>R377 000</td>
<td>R1 024 000</td>
<td>R648 000</td>
<td>2.7</td>
</tr>
<tr>
<td>City of Tshwane</td>
<td>R15 566</td>
<td>R97 000</td>
<td>R683 000</td>
<td>R288 000</td>
<td>1.7</td>
</tr>
<tr>
<td>Ekurhuleni</td>
<td>R10 694</td>
<td>R273 000</td>
<td>R726 000</td>
<td>R454 000</td>
<td>2.7</td>
</tr>
<tr>
<td>eThekwini</td>
<td>R9 759</td>
<td>R249 000</td>
<td>R909 000</td>
<td>R661 000</td>
<td>3.7</td>
</tr>
<tr>
<td>Mangaung</td>
<td>R8 368</td>
<td>R213 000</td>
<td>R786 000</td>
<td>R573 000</td>
<td>3.7</td>
</tr>
<tr>
<td>Nelson Mandela Bay</td>
<td>R9 582</td>
<td>R244 000</td>
<td>R950 000</td>
<td>R706 000</td>
<td>3.9</td>
</tr>
<tr>
<td>Msunduzi</td>
<td>R8 482</td>
<td>R216 000</td>
<td>R649 000</td>
<td>R433 000</td>
<td>3.0</td>
</tr>
<tr>
<td>Metro Average</td>
<td>R11 012</td>
<td>R280 746</td>
<td>R824 720</td>
<td>R543 974</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Using the average monthly income to determine affordable housing shows a clear gap between the average income and the average sales prices. In the nine cities, the average income can afford a home of R280 000, yet the average sales price overall is about R825 000. In other words, it takes three times the average income to afford the average house. The overall housing price gap is about R540 000, and the gap is actually higher in four of the nine cities.

Municipalities can use this information to better align housing policy in order to address real affordability at the local level and to encourage development that successfully meets the needs of local households. Municipalities can also use this information to integrate affordable housing into higher priced markets by understanding more specifically where and how to target more affordable options.
Equity rates are higher in low cost markets

In most cities, access to home equity helps to drive housing sales. Equity rates in affordable markets, while lower in value, are often much higher than the market overall and can play an important role in expanding affordable housing markets.

The charts compare the portion of equity on average available to the average sales prices (which reduces the effective cost of those homes) both in the cities overall and for properties below R500 000 within the cities.

**AVERAGE EQUITY TO AVERAGE SALES PRICES: ALL MUNICIPALITIES**

<table>
<thead>
<tr>
<th>Municipality</th>
<th>R 0K</th>
<th>R 100K</th>
<th>R 200K</th>
<th>R 300K</th>
<th>R 400K</th>
<th>R 500K</th>
<th>R 600K</th>
<th>R 700K</th>
<th>R 800K</th>
<th>R 900K</th>
<th>R 1 000K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buffalo City</td>
<td>50%</td>
<td>56%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City of Cape Town</td>
<td>46%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>City of Johannesburg</td>
<td>53%</td>
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<td>City of Tshwane</td>
<td>46%</td>
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<td>Ekurhuleni</td>
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<td>Ethekwini</td>
<td>48%</td>
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<td>Mangaung</td>
<td>33%</td>
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<td>Msunduzi</td>
<td>40%</td>
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<td>Nelson Mandela Bay</td>
<td>44%</td>
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<td>Avg Sales Price: R 825K</td>
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In cities, the average sales prices is R825 000 and the average equity is R384 000. For affordable properties, prices and equity are one-quarter to one-third of these values (R237 000 and R174 000 respectively). However, the percentage of equity is twice as high in affordable markets than the city average: over 75% of the value of the average affordable home is equity, compared to 45% in overall markets.

For properties under R500 000, existing homeowners have access to much greater levels of equity, which, if applied more effectively, could increase purchasing power (and sales prices) significantly. Accessing that leverage more effectively could unlock housing markets in affordable areas. Developers, lenders and municipalities can expand the viability of housing options in previously overlooked areas by more carefully considering local equity levels to fill the housing gap.
Equity can close the housing gap and boost market viability

The following examples illustrate the effectiveness of using leverage to close the housing gap:

⇒ If the average homeowner uses the equity from their current property to purchase the average house, the mortgage bond they need to access drops from R825 000 to R441 000, reducing the income required to purchase the home from about R34 000 to R20 000 per month (which is how most households purchase these homes).

⇒ If an average homeowner in the under-R500 000 range applies that market’s average equity of R174 000 to purchase the average house of R237 000, it reduces the bond to less than R100 000. However, applying that equity to purchase a higher priced home almost doubles their purchasing power to over R400 000. The value of that equity enables them to keep their monthly bond very low, or seek higher priced housing, fuelling demand for more housing options.

Markets, however, must be functioning well: buyers must be looking, lenders must be lending, and homes must be available to drive interest. Existing constraints include availability of homes, the ability to sell government stock (which comes with an 8-year resale restriction), credit accessibility and indebtedness, and also the willingness of existing homeowners to sell their most important asset. It is worth noting that in many areas, government stock is now passing sale restriction periods and is likely available for inclusion in the housing market, an important fact which local governments can confirm and promote in this context. Unlocking home equity to fill the housing gap expands the notion of what is possible going forward.
Equity growth in low-cost homes outpaces the overall market

Since 2007, the value of home equity in properties under R500 000 has grown at four times the rate of equity in the housing market overall.

A comparison – of the change in value of home equity for cities overall (red) and for properties under R500 000 (green) within the cities – reveals that the value of equity of affordable properties has grown at four times the rate of residential properties overall. This is important for promoting the use of equity to expand affordable housing options.

The equity in affordable properties is growing because:

- historically, these properties have been less likely to be financed with mortgage loans,
- the value of these properties is rapidly increasing, and
- the high levels of government investment in the entry-level market to build homes for free (or at a very low cost) for millions of low-income families.

Equity growth is also higher in areas where registrations of new properties are higher. New registrations are an important indicator of market growth, showing the expanding asset base of the homeowners. By highlighting this aspect of market growth, policymakers, investors and developers can encourage the use of home equity to generate more demand in areas where housing options were previously limited.

Equity reduces risk

Leveraging equity reduces risk in three ways:

1. For the borrower, the mortgage bond amount is more likely to be affordable from the start.
2. For both the homeowner and lender, the more a homeowner has invested in their home, the more effort will be made to avoid default.
3. For the lender, in the case of a default or foreclosure, the bond is more likely to be covered by the value of the home, minimising loss of principal.
Equity expands the housing continuum

A well-located, appropriately priced home stimulates housing supply and offers cities an excellent opportunity to recycle existing subsidised housing stock.

A homeowner, who perhaps gained access to an RDP house years ago, accesses the equity value by selling the property to another lower income family who buys that house with an individual subsidy. A new subsidy beneficiary has a house without the state having to build a new house.

The original seller uses the proceeds from that sale (as equity) as a down-payment on an affordable market home, either choosing to reduce the amount that has to be borrowed, or purchasing a slightly higher priced home.

Developers see the demand created by sellers who are realising their equity and adjust their delivery projections to accommodate this demand.

In this way, each sale creates demand for a new purchase. The state succeeds in placing a new subsidy beneficiary in an existing house – thereby saving itself the time and expense of building a new house – while also supporting the upward mobility of the earlier subsidy beneficiary who uses their property to improve their asset wealth and climb the property ladder. Understanding the housing continuum this way, it becomes possible to see that the steady growth of informal housing in urban areas might in fact be due to the lack of affordable housing options further up the housing ladder, not just a shortage of basic shelter.

Government can leverage its prior investment

Local governments can promote the advantages of using the equity in the housing stock created, by providing new housing options at no additional cost and leveraging their prior investment

In 2011, CAHF established that government-sponsored housing constituted 24% of the total residential property market in South Africa (and probably even more, considering studies show that many homes have not yet been formally registered7). If just a portion of these homes become available as resale market supply, existing RDP housing can constitute new supply, provided original residents can sell their property to incoming potential homebuyers. In this way, efforts to find and register missing title deeds expands housing options and addresses current housing shortages directly. In this context, government programmes that promote the creation of new moderately priced housing will benefit the entire housing market.

Most importantly, by accessing equity in their homes, homeowners will be able to progress up the housing ladder more quickly and more efficiently than before.

7 In 2011, the CAHF released a study which highlighted that as many as 50% of all subsidised housing units delivered as part of the government’s Reconstruction and Development Programme (RDP) or Breaking New Ground (BNG) policy, were not formally registered on the Deeds Registry. For more information and the findings on this study, visit http://www.housingfinanceafrica.org/projects/rdp-assets-study/ Since then, the Department of Human Settlements has identified the title deeds backlog as a national priority issue. This is also highlighted in the ANC’s 2014 election manifesto.