

## Opportunities in South Africa's housing finance & delivery framework

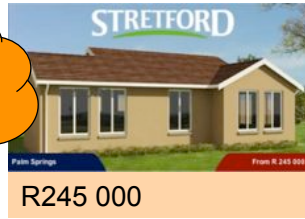
### Navigating the Gap

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## Outline

- Understanding the gap
  - Situating the gap market
  - Political and social implications
  
- Navigating the gap
  - Government's response
  - Zones of opportunity
  - A shift to rental

# Understanding the gap



**Subsidy market:**  
<R3500

- Loan affordability (9%): <R116 702
- Supply limited
- Limited resale

**Gap market(s):**  
R3 500 – R9 000

- Loan affordability (9%): R116 702 – 233 404
- Rental affordability: R875-R1750?
- No new supply
- Limited resale

**Gap / affordable market**  
R9 000 – R15 000

- Loan affordability (9%): R233 404– R483 481
- Supply limited
- Limited resale

**Normal market?**  
R15 000 +

- Loan affordability (9%): >R483 481
- Sufficient (too much?) supply
- Substantial resale

# Understanding the gap



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- **Supply** limited

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R3 500 – R9 000

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- Rental affordability: R875-R1750?
- No new supply
- Access to finance limitations?

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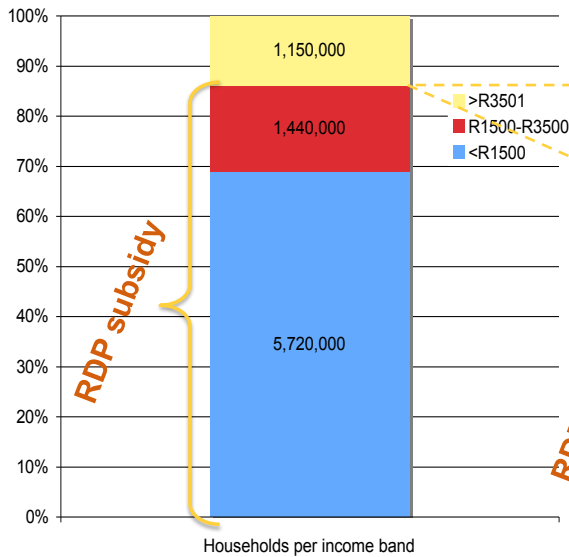
- Loan affordability (9%): R233 404– R483 481
- Supply limited
- Indebtedness?
- **Access to finance limitations?**

**Normal market?**  
R15 000 +

- Loan affordability (9%): >R483 481
- Sufficient (too much?) supply
- **Indebtedness?**

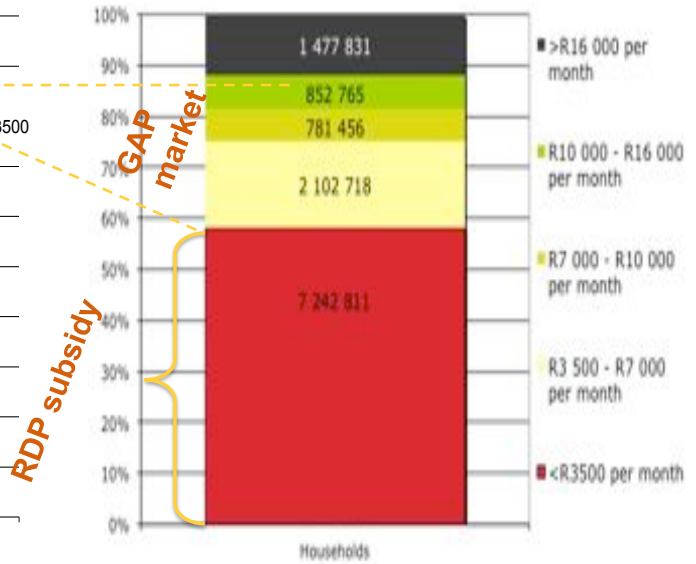
# Understanding the gap

Monthly hh income distribution  
(Housing White Paper 1994)



8,3m households in SA in 1994

Monthly hh income distribution  
(Income & Expenditure survey – 2010 Rands)



12,5m households in SA (2005/06)

# Understanding the gap: housing supply



Informal housing supply is the **dominant** delivery mechanism in the subsidy, gap and affordable housing markets.

**C A** Service delivery protests are about housing and <sup>7</sup>  
**H F** infrastructure: the RDP's "better life for all"



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**C A** Labour union strikes are also about housing <sup>8</sup>  
**H F** and our failure in meeting the constitutional right to access to adequate housing





## Striking South African workers are returning to the negotiating table

South African workers, who launched a three-week strike over wage disputes with the government, are set to resume talks with the government Monday.

By Saravali Kulkarni, Correspondent • October 9, 2012



State workers seeking higher wages take part in a strike in Johannesburg September 2, 2012. Striking South African state workers staged a protest march after rejecting a revised wage offer almost an ending their three-week strike that has the government and the labour movement at loggerheads. Siphwe Sibeko/Reuters

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### PRETORIA, SOUTH AFRICA

Weeks after wage negotiations were stalled, South African public sector unions who helped to bring the country to a 21-day standstill last month will resume talks with the government next Monday on whether to accept the government's latest wage offers.

#### Recent posts

- 03.13.12 Arez people things in Burma Pass, all eyes on 2012 election
- 03.10.12 7 strikes in Africa this week, other than Kenya 2012
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- 03.09.12 Crisis mapping: How troublemakers challenge Kenya 2012 campaign, shatter Kenya's stability
- 03.08.12 Joseph Kony 2012: It's time to 'Stop Kony' and the USA, But Learn to Respect Africans

Public sector unions under the Congress of South African Trades Unions (COSATU) are demanding an 8.6 percent wage increase and monthly housing allowance of R1 000 (about \$170) while the government insists on a 7.5 percent wage hike and R800 (about \$110) monthly housing allowance. Both offers are technically more than the government has to offer, and will require the government to either raise taxes or take on more debt.

Starting Aug. 18, the unions embarked on a crippling 21-day strike with nurses, teachers, immigration officers, Home Affairs and clerks, shutting down hospitals, schools, passport offices, and generally bringing public services to a standstill. Court injunctions prevented police unions from joining the strike.

#### Related stories

- Strikes in South Africa could have long-term economic consequences
- South African government makes salary offer to striking unions
- South Africa strikes continue with schools, hospitals shut

Besides creating emergency situations in public hospitals — where volunteers risked physical assault from union members to care for and feed the thousands of patients, including recently born infants — the public service strikes also took some of the shine off of South Africa's global image after this year's successful World Cup. But just a year before the ruling African National Congress holds its next elections for leadership positions, this was seen as the labor movement's best chance of pushing the issues of working class South Africans to the top of the ANC's agenda.

The militant SA Democratic Teachers Union (SADTU) will neither confirm nor deny whether it had accepted the government offer, saying the way forward would only become clear after the meeting on Monday.

"All I can say is that we are resuming the talks on 4th October (Monday)," SADTU spokesman Nomusa Cebile says in an interview. "What will happen then... we don't know."

Another militant union representing South African nurses, the National Education, Health and Allied Workers' Union (NEHAWU), say they will not accept the 7.5 percent wage increase and R800 (about \$110) monthly allowance.

"Our members from around the country are of the opinion that the R800 (about \$110) monthly housing allowance and 7.5 percent wage increase are not enough to cover their needs," says NEHAWU spokesman Sizwe Fanta.

Two other public sector unions, however, representing immigration workers, Home Affairs and government clerks, said they would not join the strike if other unions decide to go it alone.

Independent Labour Caucus (ILC) and Public Service Association (PSA) said they would not embark on another strike following the crippling industrial action which saw government lose more than R20 billion (about \$2.8 billion).

ILC Chairman, Chris Klopper, says his union expects other public sector unions under the umbrella Congress of South African Trades Unions (COSATU) to share the same view when they meet on Monday.

Government spokesman, Dumisani Ndwandwe, would say only that the wage negotiations would determine the course of action to be implemented.

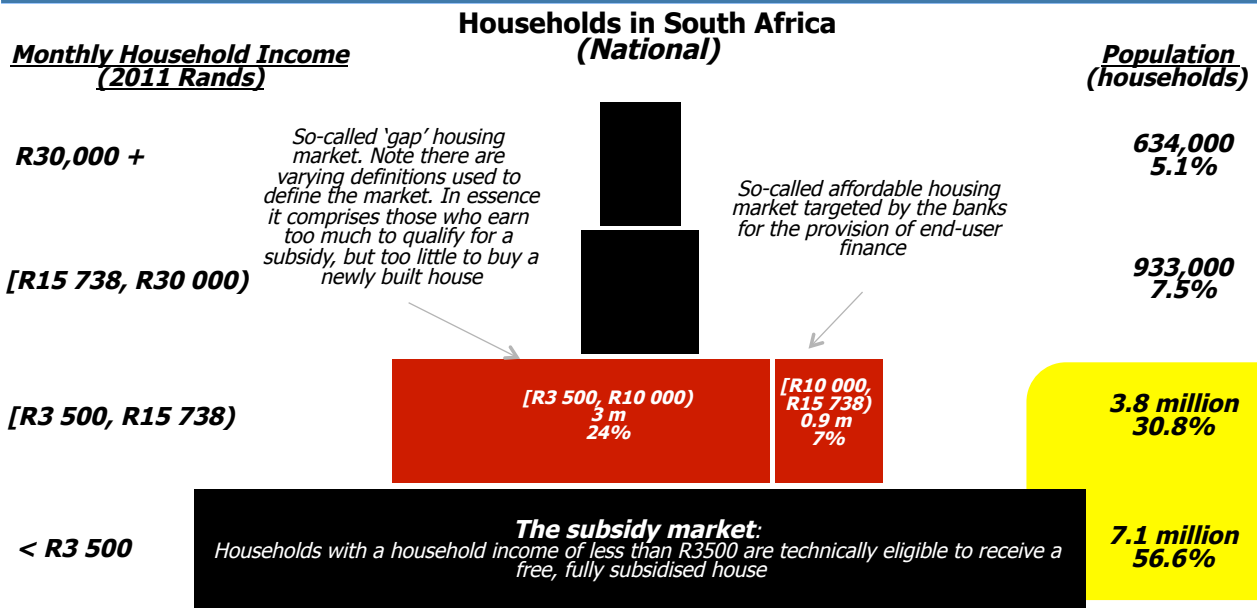
#### Related stories

- Strikes in South Africa could have long-term economic consequences
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## Understanding the gap: [www.mywage.co.za](http://www.mywage.co.za)



The affordable housing sector comprises of those households that earn between R3 500 and R15 738. However in reality there is limited new stock at prices lower than R250 000, to finance a house at this price a household would have to earn at least R10 000

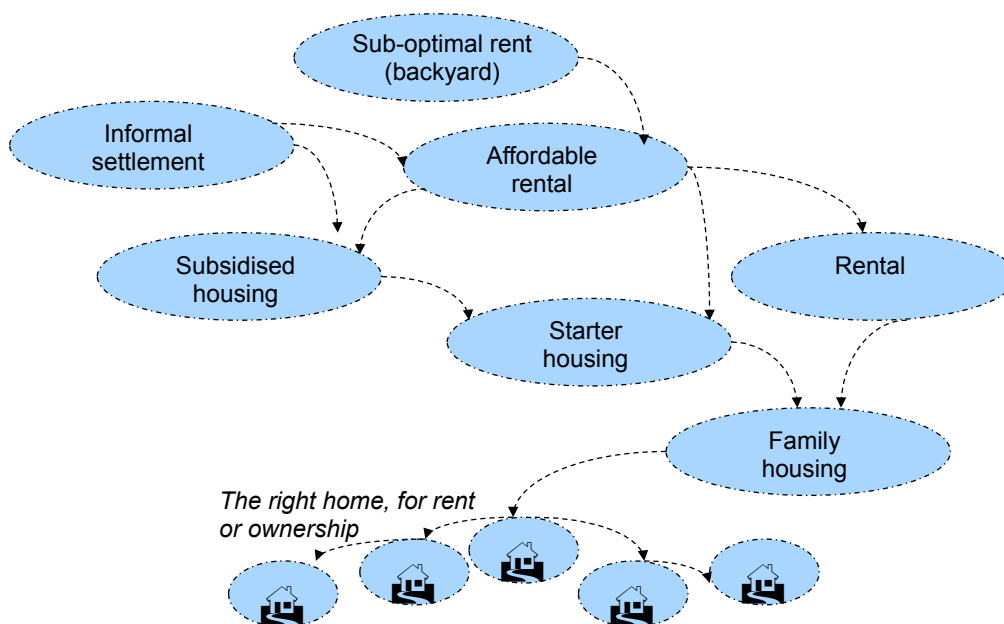


**Of the affordable market we estimate that only 7% (or 0.9 million households) qualify for current strict end user bonds which means that the rental market could be as much as 24% of households**

Source: IES 2005/6; Totals may not add up due to rounding; Incomes have been inflated to 2011 Rands



## Understanding the gap: filtering, pools & flows in a functioning market



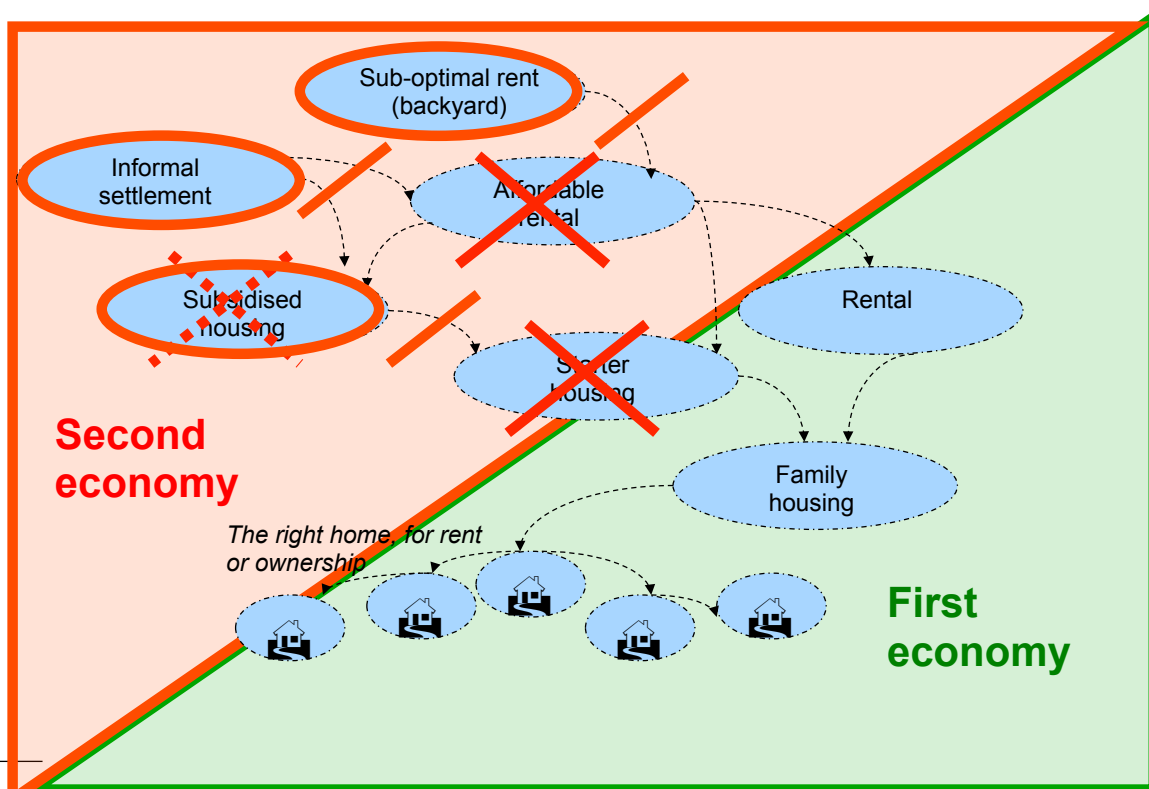


Table 1.5: Credit granted – credit type

Agreements	2010-Q3 R000	2010-Q4 R000	2011-Q1 R000	2011-Q2 R000	2011-Q3 R000	2011-Q3 % Distribution	% Change (Q3/Q2)	% Change (Y/Y)
Mortgages	26,340,185	26,867,971	24,759,915	25,448,516	30,278,386	30.62%	18.98%	14.95%
Secured credit	25,198,591	28,120,840	27,447,578	26,961,813	30,779,506	31.12%	14.16%	22.15%
Credit facilities	8,813,263	10,245,638	10,431,232	12,064,178	14,882,323	15.05%	23.36%	68.86%
Unsecured credit	13,384,913	16,834,873	16,694,204	18,954,134	21,213,694	21.45%	11.92%	58.49%
Short-term credit	1,398,409	1,462,223	1,420,539	1,650,746	1,745,095	1.76%	5.72%	24.79%
<b>Total</b>	<b>75,135,362</b>	<b>83,531,545</b>	<b>80,753,469</b>	<b>85,079,389</b>	<b>98,899,004</b>	<b>100.00%</b>	<b>16.24%</b>	<b>31.63%</b>

Table 1.6: Gross debtors book – credit type

Agreements	2010-Q3 R000	2010-Q4 R000	2011-Q1 R000	2011-Q2 R000	2011-Q3 R000	2011-Q3 % Distribution	% Change (Q3/Q2)	% Change (Y/Y)
Mortgages	755,385,615	760,679,133	769,891,414	773,371,066	786,002,454	62.06%	1.63%	4.05%
Secured credit	215,339,271	221,715,121	226,348,046	228,974,115	240,613,866	19.00%	5.08%	11.74%
Credit facilities	129,687,691	131,855,932	133,031,600	135,751,871	138,020,910	10.90%	1.67%	6.43%
Unsecured credit	66,173,578	73,797,286	80,864,530	87,977,920	101,102,222	7.98%	14.92%	52.78%
Short-term credit	668,029	728,570	697,482	747,099	816,713	0.06%	9.32%	22.26%
<b>Total</b>	<b>1,167,254,185</b>	<b>1,188,776,042</b>	<b>1,210,833,072</b>	<b>1,226,822,071</b>	<b>1,266,556,164</b>	<b>100.00%</b>	<b>3.24%</b>	<b>8.51%</b>



## Understanding the gap

A growing population with affordability for credit,



Insufficient housing supply in the subsidy, gap and affordable spaces to meet this affordability



Increased access to unsecured credit  
(and few incentives to save)



Rising indebtedness, decreasing effective demand for mortgage finance, and the persistence of inadequate housing

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Government's response  
Zones of opportunity  
Long term considerations

## NAVIGATING THE GAP

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## Government responses

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- 2010 Outcome 8 promises:
  - Informal settlement upgrading: 400 000 households with access to basic services and secure tenure
  - Affordable rental housing
  - Infrastructure: access to basic services
  - Mobilise well-located land
  - Gap market: financing 600 000 accommodation units within the gap market for people earning R3500-R12 800 – new policy deliberations on the “Finance Linked Individual Subsidy Programme” - FLISP
- 2011-2012 Budget: “Investment will be increased in housing and residential infrastructure and services”
- Hints at policy change
  - “Subsidy won’t last forever”
  - Each one settle one campaign
  - FFC Hearings
  - National Planning Commission
  - Provincial and municipal impatience

### 2012/13 Budget speech:

- Financial Sector Charter code: Gazetted 2 March 2012 – R48 billion targeted investment
- Infrastructure focus: substantial state investment
- Finance Linked Individual Subsidy Programme – available only for houses under R300 000
- Mortgage Support Facility is under consideration
- Tax incentives promote housing development under R300 000



## President Zuma’s State of the Nation Address, 9 February 2012

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*“...from April, people earning between three thousand five hundred rand and R15 000, will be able to obtain a subsidy of up to R83 000 from Provinces, to enable them to obtain housing finance from an accredited Bank.”*

(coupled with (1) a Mortgage Guarantee instrument to begin operations in April, managed by the National Housing Finance Corporation; and (2) a tax incentive to encourage the development of affordable housing costing <R300 000)

**87,4% of the population is included in the subsidy net to varying degrees – this is back to 1994 levels**



## Zones of opportunity

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- Emerging policy focus on housing supply in the gap
  - Ownership <R300 000 product price
  - R3500 – R15 000 household income
  - Project-led
  - Guarantee & subsidy administration by NHFC
  
- Financial Sector Charter Code imperative on housing investment
  
- Credit indebtedness in the target market
  
- Basel III

Government's housing supply focus on <R300,000  
 Social housing on hh earning R1500 – R7500  
 No significant attention on R300,00 – R500,000

Bank participation expected and critical

Mortgage divisions reticent in current market, and affordability in R300,000 – R500,000 market is constrained.

Ownership / sell-out: <R300 000  
 Rental / installment sale / ownership: R300,000 – R500,000



## Zones of opportunity: ownership

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- Substantial policy support for <R300,000
  - FLISP subsidy
  - Tax incentive
  - Mortgage guarantee
  
- FLISP subsidy constrained by product price at R300 000, but available for households earning up to R15 000
  
- This means that upper range may be seeking housing for less they can afford
  - Better, more sustainable income to installment
  - Accommodates credit indebtedness of some
  - Therefore even greater demand for houses in this market

**Finance-linked Individual Subsidy Programme:  
 3 November 2011**

Subsidy parameters	
Upper limit	R 87 000
Lower Limit	R 10 000
Subsidy increment	R 675

Step Number	Increment Band		Amount
	Lower	Higher	
1	R 3 501	R 3 600	R 87 000
11	R 4 501	R 4 600	R 80 250
21	R 5 501	R 5 600	R 73 500
31	R 6 501	R 6 600	R 66 750
41	R 7 501	R 7 600	R 60 000
51	R 8 501	R 8 600	R 53 250
61	R 9 501	R 9 600	R 46 500
71	R 10 501	R 10 600	R 39 750
81	R 11 501	R 11 600	R 33 000
91	R 12 501	R 12 600	R 26 250
101	R 13 501	R 13 600	R 19 500
115	R 14 901	R 15 000	R 10 050

And growing experience to do this well...



## Zones of opportunity: shift to rental

- South Africa has had an under-supply of rental housing – new construction and a growing supply is critical for a functioning housing market
  - Various funds targeting rental: HIFSA, I H S, Futuregrowth, TUHF, others
  - Innovative landlords / developers: Afhco, City Properties, Calgro, others
  - Target:
    - Young families or single-person households
    - Newly urbanised, employed – formal or informal
    - Gap market (R3500 – R15 000) in some cases with credit indebtedness that precludes ownership
    - Limited or no savings
  - Sometimes, conversions to ownership through sectional title or installment sale / rent-to-buy on freehold
  - Growing experience with institutional management requirements
- 



## Zones of opportunity: shift to rental

### For the clients

- Tenure choice is critical: not all clients are the same
- For new entrants to the property market, rental offers a useful first step & training ground
- An entrance to the City for the newly urbanised
- Supportive of labour market mobility
- A solid risk management strategy while the vision for home ownership is nurtured

### For the bank

- Long term funding on the development side is still shorter term than mortgages on the end-user side
  - Rental clients can be grown into mortgage clients as market conditions improve
  - Ongoing rental annuities smooth out the bumps in the property cycle and manage risk of government programmes
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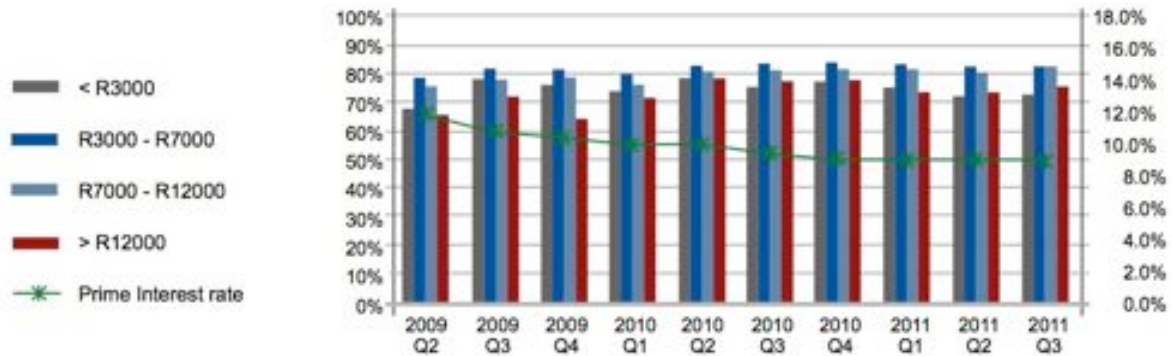




## Zones of opportunity: rental

25

### Percent of tenants in good standing



Source: Tenant Profile Network: Rental Payment Monitor, Q3 2011



## Zones of opportunity

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- Better, more experienced developers
  - In affordable housing
  - In rental housing
  - .... But there is still a gap
- More focused government and better targeted incentives
- A level of impatience for appropriate delivery
- Acceptance of wider tenure choices and diversity of demand



Thank you!

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