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A Human Settlement Demand Study in the Western Cape

Housing market segment report

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pdg
Committed to Development

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1 Introduction

Background

This housing market segment analysis report was compiled as the third deliverable for the Western Cape Human Settlement Demand Study. Building on evidence gathered through literature and available statistics, this report presents an analysis of the housing market in South Africa and more specifically, the Western Cape. The main purpose of this analysis is to propose a rational list of housing sub-markets which takes cognisance of the income, tenure and qualification dimensions to these sub-markets.

At the project's scoping phase Steering Committee meeting, the team consulted the Western Cape Government: Department of Human Settlements (WCG: DHS) on the tentatively identified housing market sub-markets. These helped to frame and articulate the sub-markets which the team then reshaped based on a review of existing literature and data on these sub-markets as well as engagements with sector experts.

Scope of the report

Much has been made of the 'gap housing market', but this is often a coarse understanding of those earning too much to qualify for a subsidy, but not enough to afford a bond. However, the demand is far more nuanced than this: it needs to address other dimensions of affordability, desirability of different housing products in specific locations, and whether these people would prefer to own or rent. Non-qualifiers for housing subsidies also need to be factored in as a distinct market segment. The market segmentation reviews the whole housing market including its lower segments, the gap market and the higher income groups.

While the broader Western Cape Human Settlement Demand Study is intended as a review of human settlements in the Western Cape, this phase of the study (and this report) are only meant to analyse the housing markets in the province. In the next phase of the study, a complete human settlements demand profiling exercise will be done to capture the status of all the components of human settlements in the province and its municipalities, thereby providing a more detailed picture of housing demand in each municipality than is presented here.

Market segment framework

The definition of a 'market' is a place where the forces of supply and demand interact. There are a number of dynamics at play on the supply- and demand-side of the housing market in South Africa and the following two sections discuss these dynamics in the current context of the Western Cape. Section 4 then uses these dynamics as informants to define the different market segments, which are consolidated into a framework for market segment analysis in the concluding section.

2 Supply dynamics

2.1 State housing assistance through capital subsidies

One of the key commitments laid out by South Africa's first democratic government in 1994 was a promise to ensure housing access which was constitutionally mandated in terms of Section 26 of the Constitution. Over time, the housing sector has evolved to comprise a combination of open market forces, private sector firms, government policies, financing and facilitative interventions, as well as inputs and investments by the households (Financial and Fiscal Commission (FFC), 2013).

The South African government housing assistance takes the form of a capital subsidy driven programme that is differentiated into different housing programmes. Middle and higher income households tend to have their housing needs met through the private sector. However the supply of housing stock to the low income market has been dominated by the units delivered through the State housing programmes.

In terms of housing delivery, the General Household Survey (2013) evidenced that the change in the percentage of households that received housing subsidies in the Western Cape was 10.7% between 2002 and 2013. This is surpassed only by the Free State province where this figure was 17.1% (Figure 1). In aggregate, as Figure 2 shows, the total number of houses built between 2009 and 2014 in the Western Cape amounted to 64 489 (including those which were built through the Individual Subsidy and other State Housing Programme) (Figure 2). The number of sites serviced during this time amounted to 42 936 units. Viewed at a municipal level as in Figure 3, it is notable that all municipalities have built homes and serviced sites during this time period. The reason for the relatively smaller number of homes built and sites serviced in Laingsburg seems to have to do with the rollout of such delivery only setting in in late 2013. Note that this figure excludes the City of Cape Town only because it distorts the comparability of the municipalities. The City built 34 881 during this period and serviced 16 614 sites.

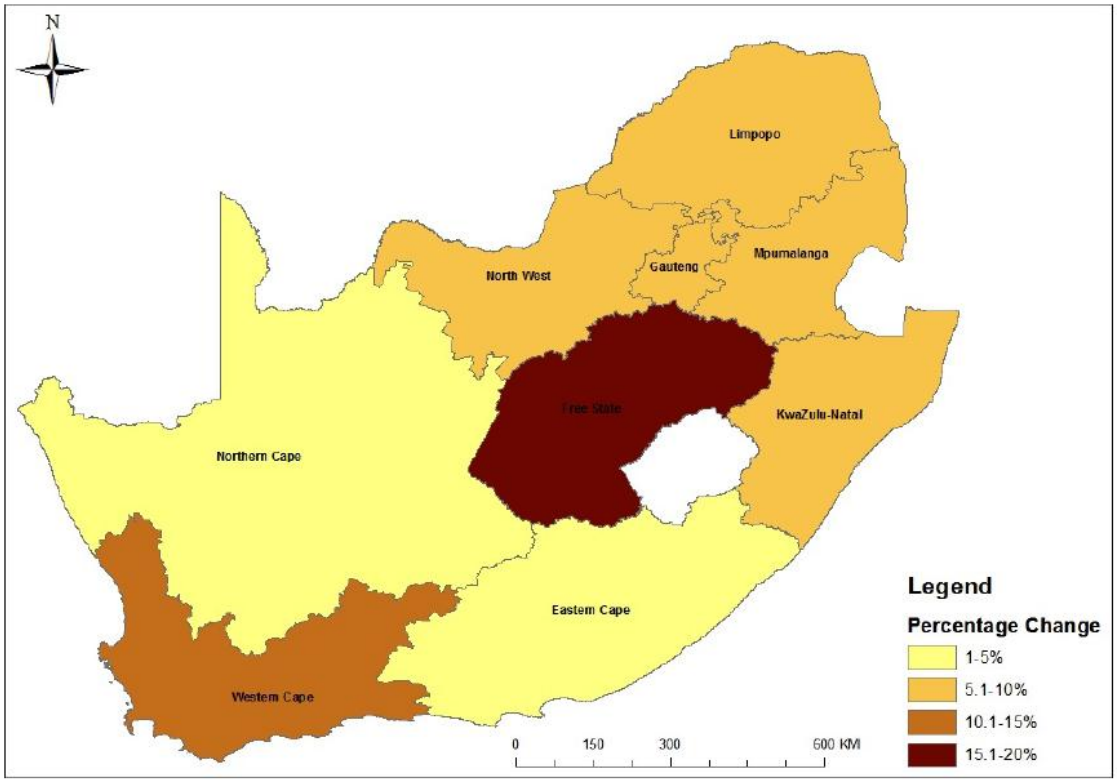


Figure 1: Provincial percentage of households receiving housing subsidies

Source: Statistics South Africa, General Household Survey, 2013

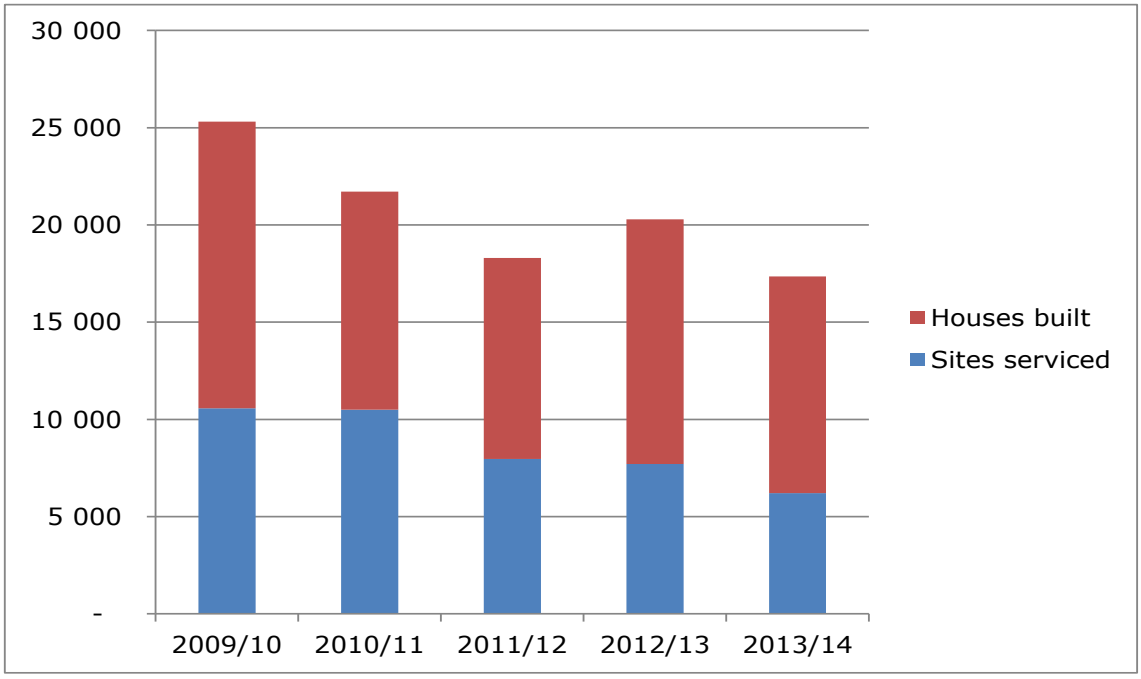


Figure 2: Number of houses built and sites serviced in the Western Cape between 2009 and 2014

Source: Western Cape Government: Department of Human Settlements, 2015

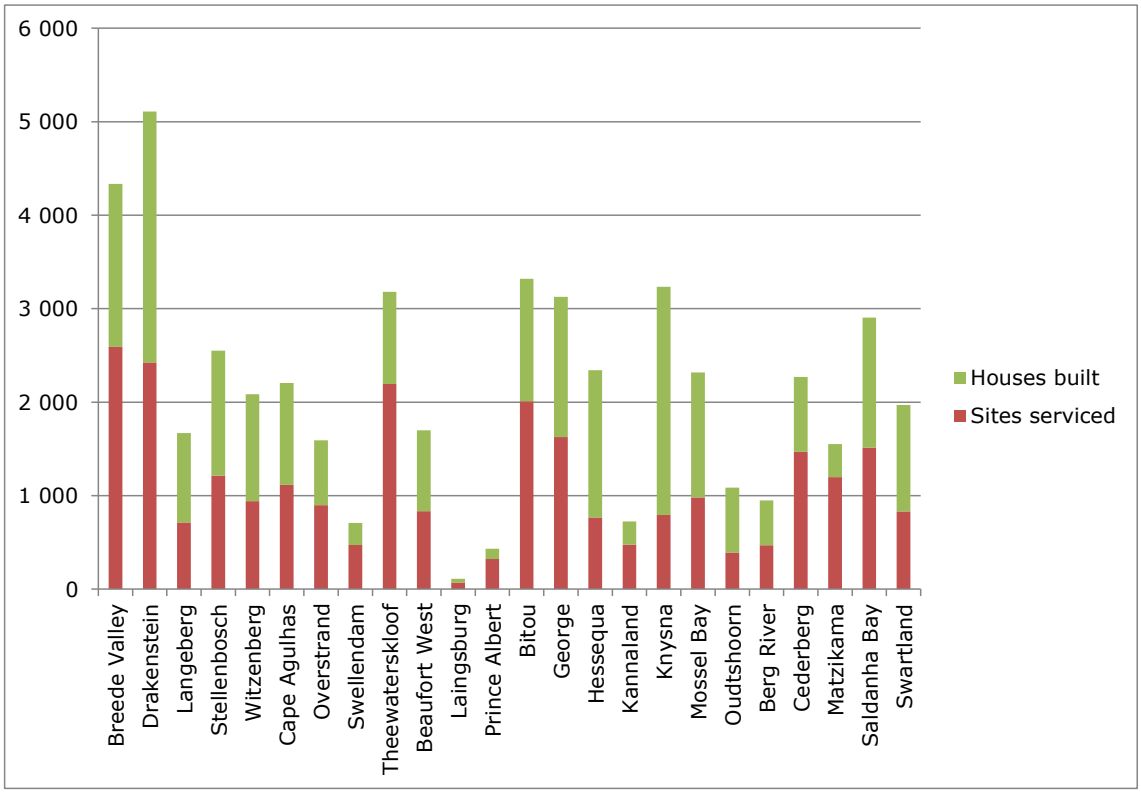


Figure 3: Number of houses built and sites serviced in the Western Cape municipalities (**excluding the City of Cape Town)** between 2009 and 2014

Source: Western Cape Government: Department of Human Settlements, 2015

The low income segment of the market that is not catered for through the government housing programmes, whether through non-qualification or through supply not matching demand, and is not housed in existing formal housing stock, finds shelter in the 'informal' housing market. This indicates failure of the housing market at the lower end and a disjuncture between the lower end of the formal market and the state-assisted housing market.

2.2 Housing stock for middle and low income households

The supply of housing for income brackets below R15 000 is very limited. This is in part because there is limited resale potential on properties linked to housing programmes (which comprise a notable share of this segment's property options) due to the moratorium on selling of state-funded housing. This is also constrained by the limited capacity of households in the lower income segments to access private finance. The high standards of subsidised housing create a lower limit to the type of housing product that the private sector is willing to supply to the market just above the subsidy level (Cross, 2010). The value of this lowest viable private sector unit is too high for the target market to access mortgage finance, and supply is therefore constrained. Cross-subsidisation of the cheapest housing product in an integrated development may provide a potential solution to this problem, but examples of this are only known to off-set the cost of subsidised units in excess of the subsidy (see PDG, 2011), not for private sale units.

The Affordable Land and Housing Data Centre (AL+HDC, 2013) notes limitations to the housing supply in the gap market because developers are wary of:

- Market distortions caused by state subsidies which crowds out affordable housing;
- Administrative and procedural delays which undermine the margin;
- Failed housing developments which undermine enthusiasm: affordability ceiling narrows the space for success and demands greater market precision; and,
- Lack of credit for low income earners depresses effective demand.

While there is limited new housing stock being provided to the gap market for the reasons provided above, there is also introduction of secondary stock through houses in the gap market buying up stock occupied by lower income groups – so-called 'downward raiding'. While much evidence of downward raiding is anecdotal, the increase in the value of Breaking New Ground (BNG) houses suggests that these are being sold on to households with higher incomes (Lemanski, 2014). Rising prices expose poorer houses to displacement through down-market raiding (Cross, 2010). The moratorium placed on the sale of subsidised housing for eight years was intended to prevent downward raiding. This will have less impact over time as the restriction expires on the significant amount of units delivered in the last five years, meaning that the shortage of housing stock may shift from the gap to the subsidised market over time.

Information available to low income market segments about the availability of cheaper housing stock on the market is also a barrier to entry. Information channels to poor households are weak which inhibits their capacity to access such housing (McGaffin, 2011). In spite of these challenges, some research suggests the formal housing market is starting to work better. There is increased bank finance for historically disadvantaged households as well as rising property prices (ibid).

Evidence of affordability in the City of Cape Town[1]

To profile the affordability of housing, the Centre for Affordable Housing Finance in Africa (CAHFA) and the South African Cities Network (SACN) (2014) developed an affordability gap indicator. Given the average household in the City of Cape Town earns R13 164/month the CAHFA and SACN (2014) suggest such a household can afford a home to the value of R336 000. However, in the metro the average sales price of a property is just over R1 million presenting an affordability gap. As Figure 4 shows, a notable share of properties in the City are valued above R500 000 (shown by the red bubbles) compared to a fairly smaller pool of more affordable properties (i.e. between R250 000 and R500 000).

[1] Data on affordability for other municipalities in the Western Cape was not available at the time of the study.

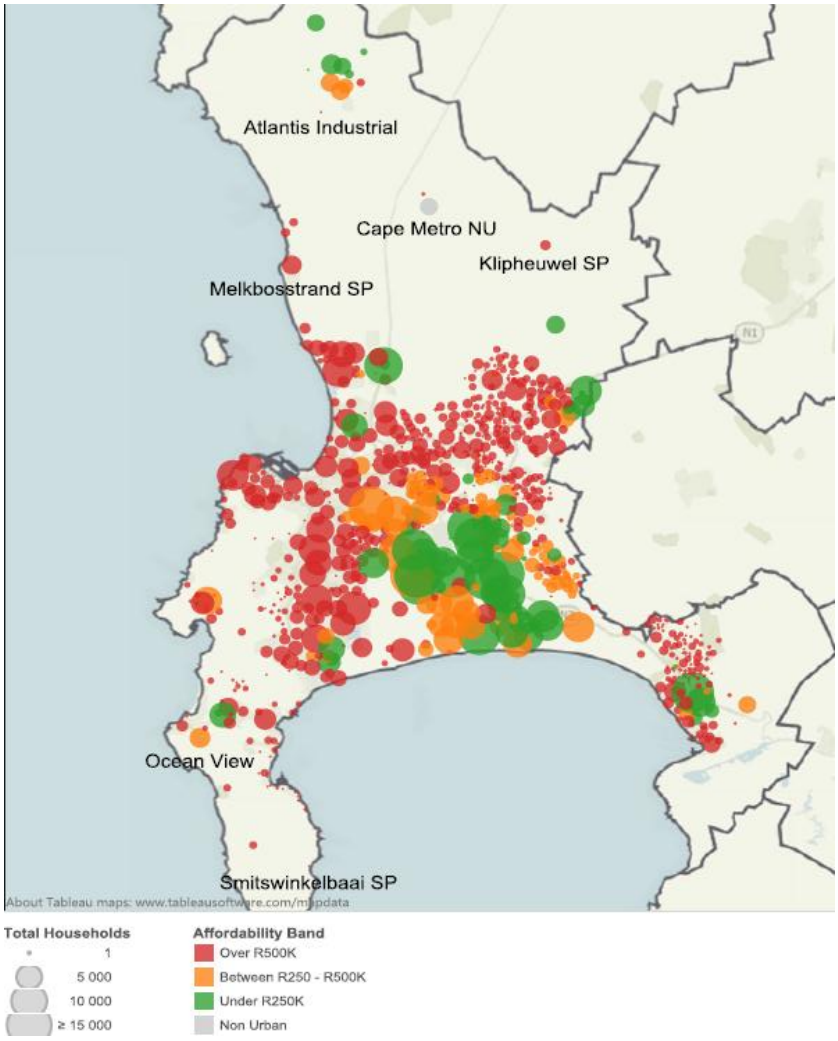


Figure 4: Affordable suburbs by property value in the City of Cape Town

Source: Centre for Affordable Housing Finance in Africa (CAHFA) and the South African Cities Network (SACN) (2014)

Illustrating affordability in terms of the affordability ratio (average house price divided by average income), Figure 5 shows that there are a significant number of areas in the metro which are less affordable (i.e. have a high affordability ratio).

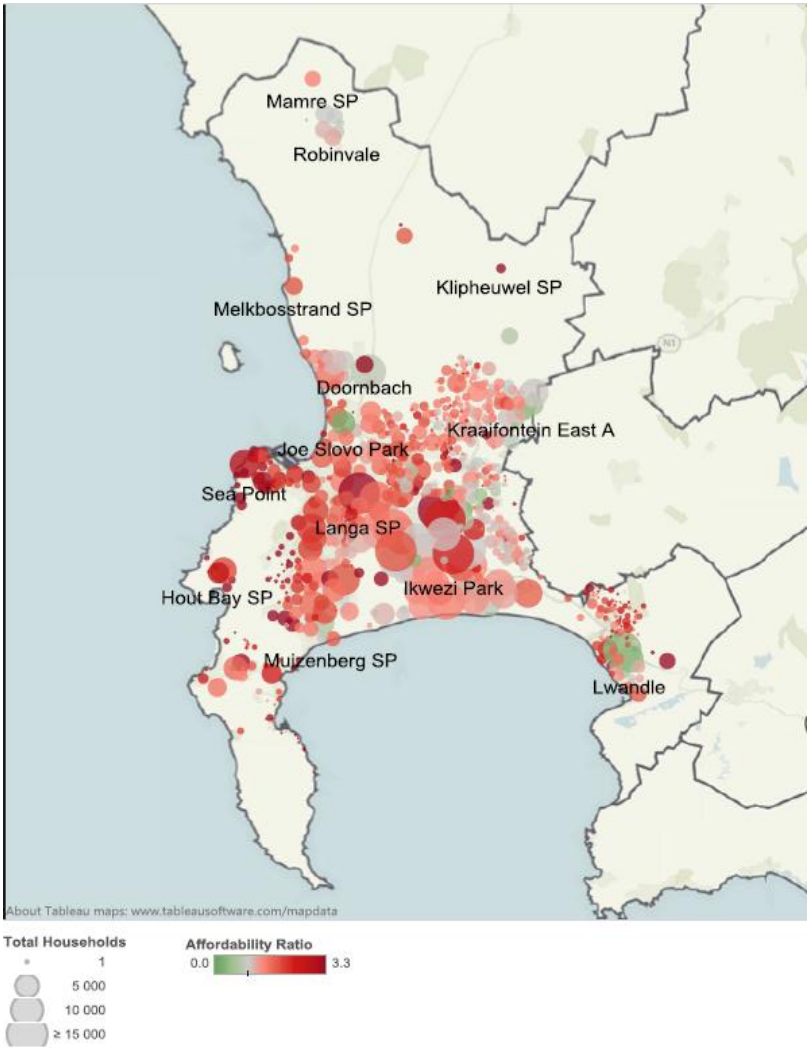


Figure 5: Affordable suburbs by affordability ratio in the City of Cape Town

Source: Centre for Affordable Housing Finance in Africa (CAHFA) and the South African Cities Network (SACN) (2014)

Compared to the other metros in the country, the City of Cape Town has an affordability ratio of 3.1 (meaning it takes on average 3.1 times the average income to afford the average house). This, despite an above average sales price in Cape Town, is below the national average across all the cities reviewed. This is due to the higher income earning potential of households in Cape Town. However, when considering affordability in terms of property value, it was found that only 44% of properties in the metropolitan area can be classified as affordable. This is substantially less than in the Manguang and Msunduzi metros which represented ratios of 73% and 58% respectively. In effect, these affordability constraints affect the availability of housing stock to households.

This finding was echoed by a study recently completed by the City of Cape Town on the status of the Housing Market in the City which identified numerous shortages in the stock of housing to households earning less than R12 800/month in 2011 (Figure 6). In contrast, for households earning in the upper end of the monthly income spectrum, the housing stock appears more readily available.

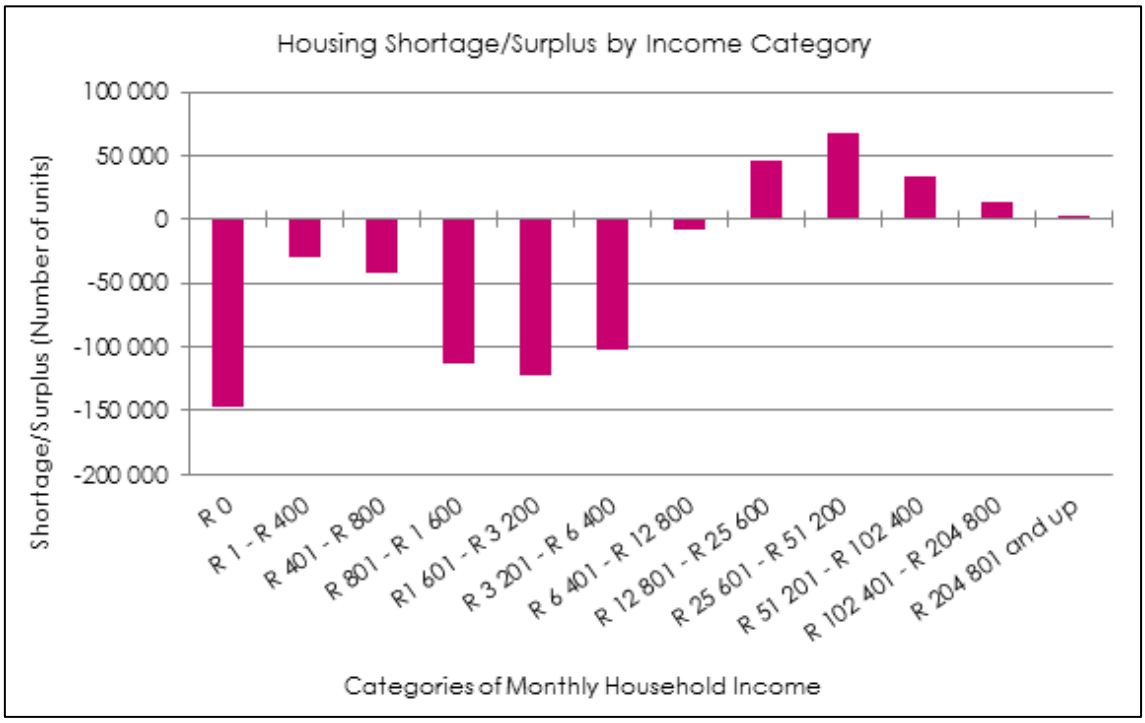


Figure 6: Housing shortage/surplus by monthly income band in the City of Cape Town (2011)

Source: Hogarth (2015)

House price index in the Western Cape

The First National Bank (FNB) Western Cape House Price Index records that the average house price of homes sold in the 4th quarter of 2014 was R1 273 303, with an average house price inflation of 14.9% in the province in 2014 (the fastest rate of the major provinces). FNB suggest that this house price inflation has inevitably contributed to the deterioration in affordability of housing in the province.

Reflecting on the historical house price index in the province shows that in real terms, the house price index in the 4th quarter of 2014 was 12% higher than that in the 4th quarter of 2004. An estate agent survey conducted by FNB showed that there are a number of factors determining property sales activities in the Western Cape (Figure 7). These include, but are not limited to a shortage of housing stock (29%), seasonality (64%) as well as investor/purchaser confidence ('consumer positive sentiment', 'economic stress/general pessimism, etc.).

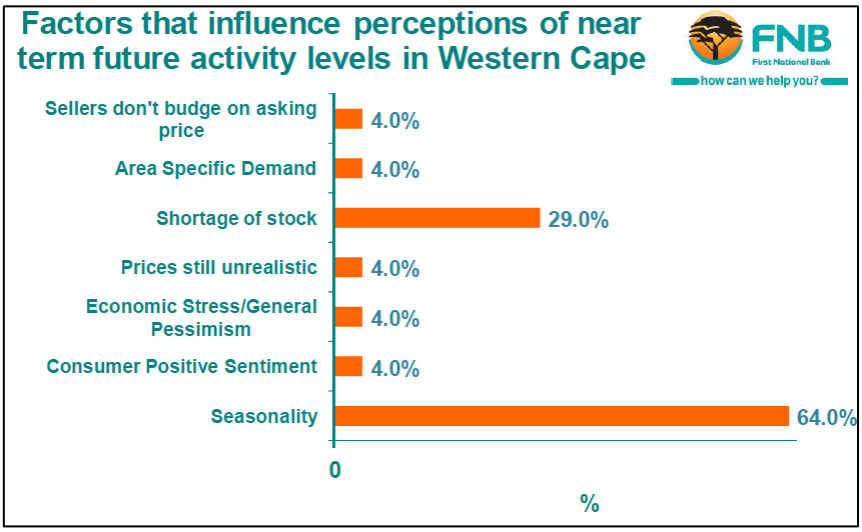


Figure 7: Factors influencing perceptions of property sales activities in the Western Cape in early 2015

Source: First National Bank, 2015

3 Demand dynamics

Demand in the context of housing segments can be understood both in terms of the quantum or magnitude of need as well as the profile of this need, i.e. the type of housing product demanded.

3.1 Quantum of demand: who needs a house?

3.1.1 Housing adequacy

All households in the province are housed in some form of shelter. This shelter may or may not be considered 'adequate'. The City of Cape Town, in its Integrated Human Settlement Framework demand modelling (2014), used the definition of 'inadequate' to include households in informal settlements, households in informal backyard shacks, and overcrowded households[2]. This definition is consistent with that used by Gardner (2015). In addition to inadequacy, some adequately housed households may aspire to another type or location of housing, as their current housing is 'undesirable'. This type of demand, for one formal, or adequate, housing type is what drives movement up the conventional housing ladder, discussed later in this report.

While significant progress has been made in housing delivery since 1994, there are still challenges to providing universal access to adequate housing. While the number of households living in brick or concrete houses, as a percentage of all types of main dwellings in South Africa, increased from 48% to 65%, there were 200 000 more households were living in informal dwellings in 2011 than in 1996 (FFC, 2013: 12). As Figure 8 shows, the Western Cape housing profile mirrored the

[2] Defined as households with more than 2 people per room, which roughly equates to the U.S. Department of Housing and Urban Development (2007) definition of overcrowding as 2.5 people per habitable room. In this definition, traditional dwellings and other dwelling types (caravans, tents and other) are classified as adequate. There dwelling types form a very small proportion of the total in the Western Cape.

national housing profile in 2011 closely with the exception of slightly higher shares of households living in informal dwellings other than in backyards, blocks of flats and townhouse dwellings.

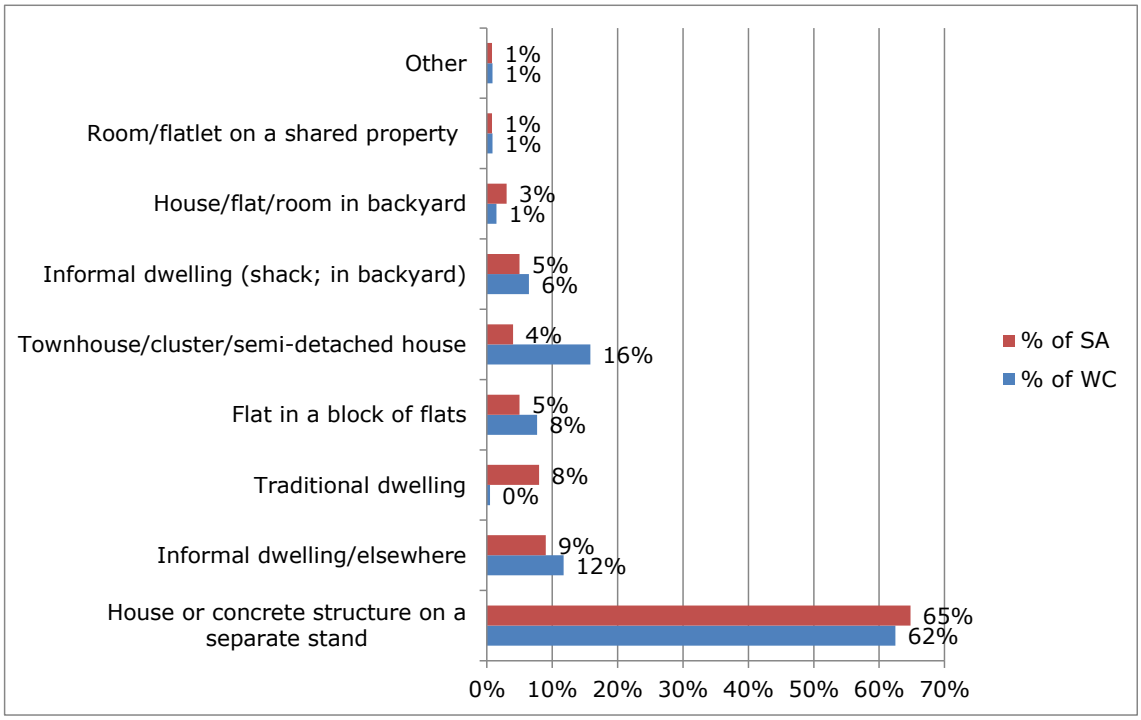


Figure 8: Housing profile of households in South Africa and the Western Cape (2011)

Source: Financial and Fiscal Commission, 2013 and Statistics South Africa, 2011

Figure 9 shows the split of dwelling types occupied by households in the various monthly income bands for Western Cape households in 2011. It particularly illustrates the relationship between lower income bands and housing deprivation and it shows the impact of state housing programmes through the maintenance of the majority of households in formal housing even in the lowest income bands.

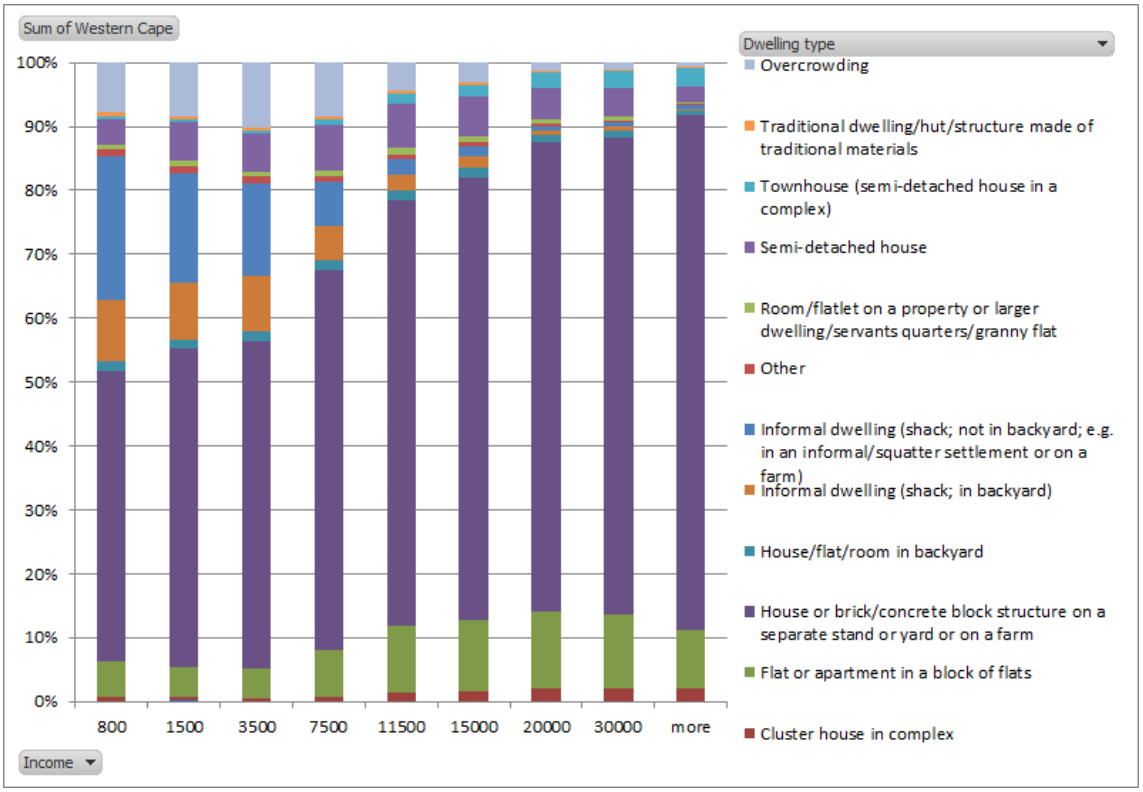
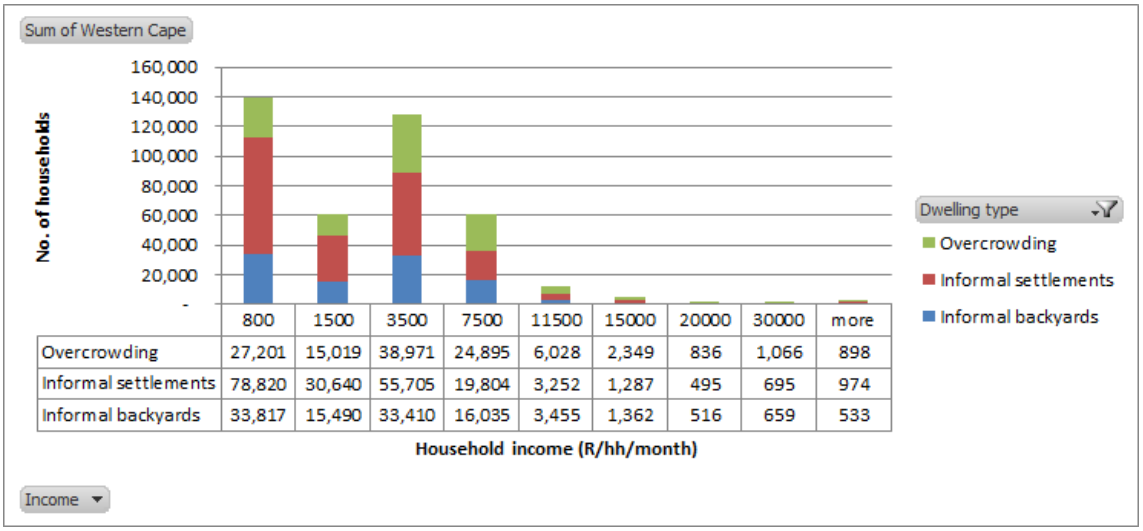


Figure 9: Split of Western Cape households by monthly income band and dwelling type (2011)

Source: Own analysis using Census 2011

In Figure 10 the definition of 'inadequate' has been used to illustrate the extent of the 'backlog' that exists in each of the income categories[3], clearly showing a concentration at the lower levels with informal settlements housing the greatest portion of the demand in the lowest income brackets, but with a fairly even split between informal settlements, informal backyard dwelling and overcrowding in the R1 500 - R3 500 income group. The total extent of the 'backlog' when calculated in this manner, for all income groups, is 414 212 households (for 2011).

[3] Income brackets have been revised using a linear interpolation according to the proposed divisions of the market segments in the conclusion of this report.

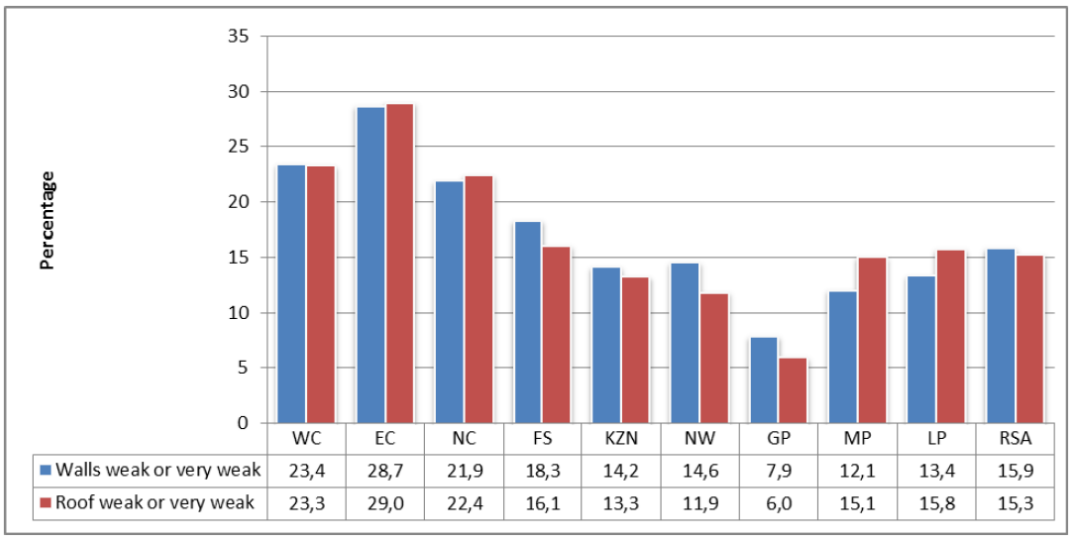


	800	1500	3500	7500	11500	15000	20000	30000	more
Overcrowding	27,201	15,019	38,971	24,895	6,028	2,349	836	1,066	898
Informal settlements	78,820	30,640	55,705	19,804	3,252	1,287	495	695	974
Informal backyards	33,817	15,490	33,410	16,035	3,455	1,362	516	659	533

Figure 10: Split of inadequate housing situations in the Western Cape by monthly income band and dwelling type (2011)

Source: Own analysis using Census 2011

In terms of the adequacy of existing subsidised housing, statistics from the General Household Survey (2013) show that a notable share (23%) of subsidised households in the Western Cape have concerns about the quality of their housing in terms of poor building construction (Figure 11).



	WC	EC	NC	FS	KZN	NW	GP	MP	LP	RSA
Walls weak or very weak	23,4	28,7	21,9	18,3	14,2	14,6	7,9	12,1	13,4	15,9
Roof weak or very weak	23,3	29,0	22,4	16,1	13,3	11,9	6,0	15,1	15,8	15,3

Figure 11: Percentage of households who deem their 'RDP' or state-subsidised house to have weak or very weak walls and/or roof by province, 2013

Source: Statistics South Africa, General Household Survey, 2013

3.2 Profile of demand: who needs what product?

The housing demand profile is understood to be related to: i. the affordability of a household (i.e. its income level and thus eligibility for housing finance), and ii. a household's preferred tenure status (i.e. owning versus renting).

3.2.1 Affordability/access to finance

A household's ability to demand a level of housing in the formal housing market and to move through the housing ladder is dependent on its ability to pay for it. The housing finance options available to households are thus primarily a function of their monthly income.

In general, state housing finance caters for the lower end of household income groups (earning between R0-R15 000/month) whereas the private sector tends to cater for those in the upper end (earning above R15 000/month). Evidence from the Financial and Fiscal Commission suggests that a household's capacity to move up the housing ladder is a direct function of its ability to access credit. In general, households earning under R3 500/month find it hard to access credit and therefore very difficult to move up the housing ladder (FFC, 2013: 38). It is for this reason that such households are highly dependent on state-funded programmes to move into the formal housing sector. Households earning below R3 500/month who cannot access the bond market and are not served by a government housing programme operate in the informal housing market. Property sales under R50 000, which might occur in this income range, tend to be informal (Cross, 2010). Those who cannot access the bond market are likely to either take part in a land invasion or join a waiting list for a subsidy (McGaffin, 2011). It is also possible that such households' access unsecured loans as the FFC reports. However, waiting for a subsidy is both a time consuming process and may move the household away from a geographical area that meets its needs.

Of all South African households in the R3 500 to R7 000 monthly income bracket, 50% have access to some kind of formal credit but, only 3.4% have bonds (ibid). Households in the R7 000 to R15 000 monthly income bracket, have better, but still not complete, access to the bond market, particularly at the upper end of this income bracket. This bracket is also supported by the Finance Linked Individual Subsidy Programme (FLISP) subsidy in accessing credit.

For households earning above R15 000/month, much of the housing finance needs are met by private sector banking institutions but even with this relatively high income, households need to meet other criteria to be eligible for finance. Private sector lending institutions are required to comply with the National Credit Act of South Africa which necessitates they assess an applicant's full credit situation as well as ensuring applicants have declared all debt. Generally, banks are not permitted to lend to households whose total bond repayments exceed 30% of their proven income. Altogether, the Act seeks to avoid households overextending themselves with debt.

The City of Cape Town has recently undertaken housing market analysis that uses the following assumptions to calculate the theoretical value of the housing product that is affordable to households based on their income as shown in Table 1 (Hogarth, 2015:8).

Table 1: Assumptions to inform the theoretical value of an affordable housing product

Indicator	Assumed value
% of household income (on loan payments)	25%
Annual interest rate	10%
Home loan period (years)	20
Loan to Value (LTV)	90%

Source: Hogarth (2015)

Based on these assumptions, the theoretical affordability curve (ignoring ability to access credit) is presented in Figure 12.

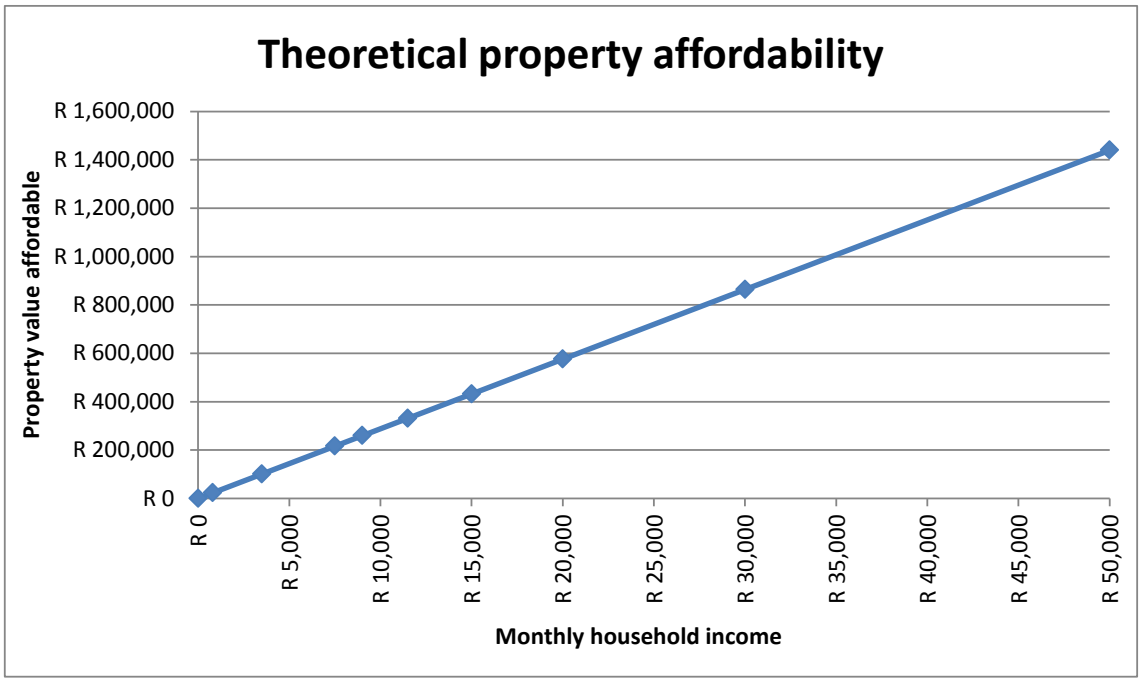


Figure 12: Theoretical property affordability

Source: Hogarth (2015)

Characterising the gap market

Rust (2012) defines the 'gap' or affordable housing market in South Africa as represented by those households falling within the R3 500 and R15 000 income groups. Households within this segment are generally eligible for the FLISP (about 15% of this segment's population). Households earning below R15 000 monthly are in part accessing private-finance through the bonded market, but this is on a smaller scale than those earning above R15 000 (FFC, 2013). Because this market relies on supplementing existing credit and approximately two thirds of these households are unlikely to be able to access credit, they are therefore not able to access the subsidy. This creates a 'lower gap' market. In the new FLISP there is mention of the provision of serviced sites available to these households, who fail to

qualify for a bond, under the Integrated Residential Development Programme (IRDP).

The Affordable Land & Housing Data Centre (AL+HDC) (2013) recognises the 'gap' market as those households who cannot easily access affordable housing. The gap market is defined by limits to the affordability of loans granted to households in different income groups and limits to the supply of affordable units that are demanded by this income band (Figure 13).

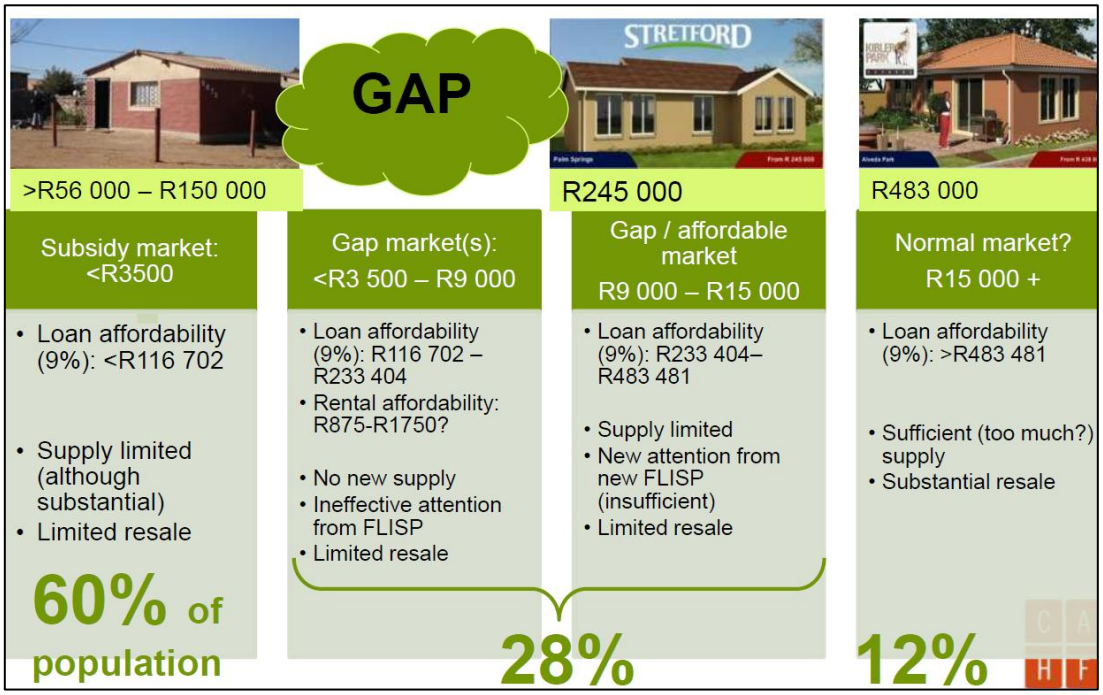


Figure 13: Limits to the South African housing finance framework

Source: Centre for Affordable Housing Finance in Africa (2012)

Households in the gap market are heavily indebted, not only by mortgage debt. The FFC (2013: 20) notes that:

> *"Low-income groups account for a significant proportion of total unsecured lending (NCR, 2012), accounting for 60 per cent of the value of unsecured credit in 2007, declining to 40 per cent in 2012. However, the extent to which low-income households, especially those not eligible for fully subsidised houses, use unsecured lending to contribute to their housing needs is unclear."*

Defaulting is therefore high. The Financial Sector Charter originated loans between January 2004 and December 2008 to households with a monthly income of between R1 500 and R7 500 (in 2004). The FSC faces notable arrears (with arrears of 90 days or more) on loans undertaken through this facility (AL+HDC, 2013). Further to this, the AL+HDC (2013) shows that potential private-sector investors in the gap market are wary for a number of reasons including:

- New markets are without track records meaning there's an increasing sense of risk associated with them;

- Gap market households have different credit and financial management patterns than the typical bonded household segment; and,
- Market shifts elevate the risk of loan default.

There are however also significant opportunities being revealed by the gap market. Financial Sector Charter (FSC) loans in the affordable market performed on par if not better, than that of the higher end market (Affordable Land & Housing Data Centre, 2013). This study by the AL+HDC (2013) also showed that 8% of FSC and 8.4% of non-FSC mortgages were in arrears in February 2012, indicating that defaulting in the lower markets was lower than in the higher markets. Further to this, mid-range loans (R100 000 – R200 000) tend to perform better than very high or very low sized loans. At the end of 2014, Lightstone Property reported that the low end affordable sector was a 'winner' in the housing market as most mortgage lenders and estate agents are trying to penetrate this market (Lightstone Property, 2015).

While access to credit is fundamental to supporting a household's movement through the housing ladder, research suggests that increased credit increases effective demand, which, without a requisite increase in supply, will simply increase prices (FFC, 2013). Cross subsidisation in integrated developments can also increase prices particularly in the medium income market (PDG, 2011).

The transaction costs of buying property, such as conveyancing and transfer duties, are also disproportionately high for low income households relative to high income households, at 27% for property costing R20 000 and 8% for property costing R5 million (Downing (2011) in McGaffin (2011)). In his recent budget speech however, the Minister of Finance has begun to address this issue by promising to eliminate transfer duties on properties below R750 000.

3.2.2 Tenure preference

While secure tenure is considered necessary for housing 'adequacy', the type of tenure (ownership or rental) is an aspect of housing 'desirability' and therefore is another dimension of housing demand. Outcome 8, which is one of 12 National Outcomes of the Presidency's National Outcomes Approach dealing with 'sustainable human settlements with an improved quality of household life' recognises tenure as a range of options for secure tenure including permission to occupy, recognition through town planning scheme or by-law as well as traditional forms of secure tenure, such as lease holding or the transfer of title deeds. The latter of these, through the housing programmes, has been the standard means of the provision of tenure in South Africa.

Tenure indicates the distribution of physical assets and can be understood in two main ways. The first being that tenure relates to the legal ownership rights attached to a property. In South Africa, securing such tenure is a long and complex process. The second core form of tenure is as relates to tenure security which does not equate to ownership but rather reflects on how tenure security in informal settlements can develop through numerous factors (such as administrative recognition or local community witnessing) and situations (Urban LandMark, 2010).

Data on tenure status is limited to formal tenure in terms of ownership or rental, as recorded by the Census, which includes an indication of whether houses are bonded or not. Figure 14 shows tenure across the different income groups the Census measures. It is noticeable that a greater share of higher income households (earning above R12 800 a month), own (fully paid or being paid off) as compared

to those below this threshold. The rapid increase in households in houses owned but not yet paid off between R6 400-R12 800 a month indicates that this is the income bracket at which housing finance becomes available. There is a consistent share of low income households owning property which could possibly be a result of inheritance or state housing provision.

Rent-free occupation is a significant part of the lower income markets, and only a very small percentage of the higher income markets. Evidence from the Western Cape Government: Department of Human Settlements (WCG: DHS) shows that of households residing on farms, 57% of households earning between R1 – R38 200/annum classify themselves as residing in 'rent-free' accommodation (WCG: DHS, 2013). Rental is greater than 20% across all income groups, suggesting the decision to rent is often influenced by factors other than income. Experience from the City of Cape Town's analysis of the Census data indicates that the Census data around tenure of informal dwelling types (back yards and informal backyard shacks) is unreliable[4]. It is surmised that there is often uncertainty on the part of the occupant of the shack as to whether they own the dwelling or the land on which it is located. A household may have paid for the materials, but still pay rental for their 'space' in the settlement and have no formal tenure.

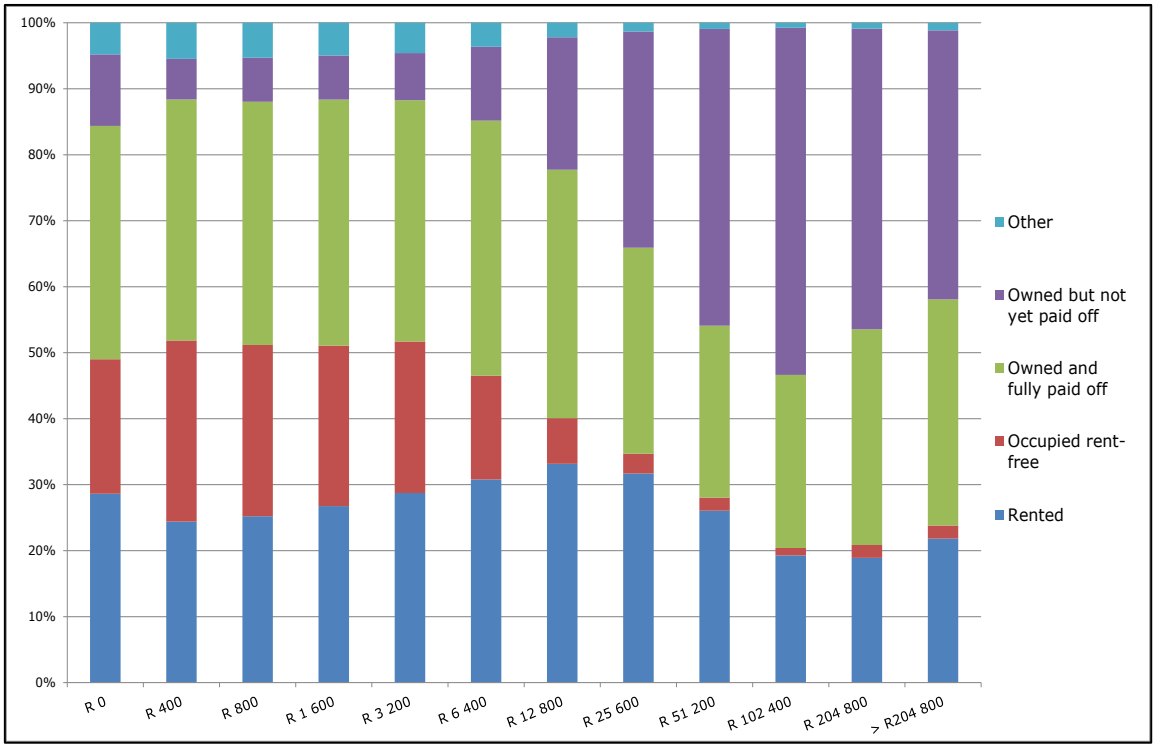


Figure 14: Tenure status by income group across *all households* in the Western Cape (2011)

Source: Own analysis using Census 2011

On investigating tenure status by inadequately housed households (i.e. household dwelling types including 'traditional dwelling', 'informal dwelling', informal dwelling

[4] Karen Small, City of Cape Town Development Information and Geographic Information Systems Department, Personal Communication.

(shack)'), as shown in Figure 15, it is evident that a fairly similar story can be told. While the rental tenure again represents a notable feature of inadequately housed households, ownership is an equally dominant feature across all income groups.

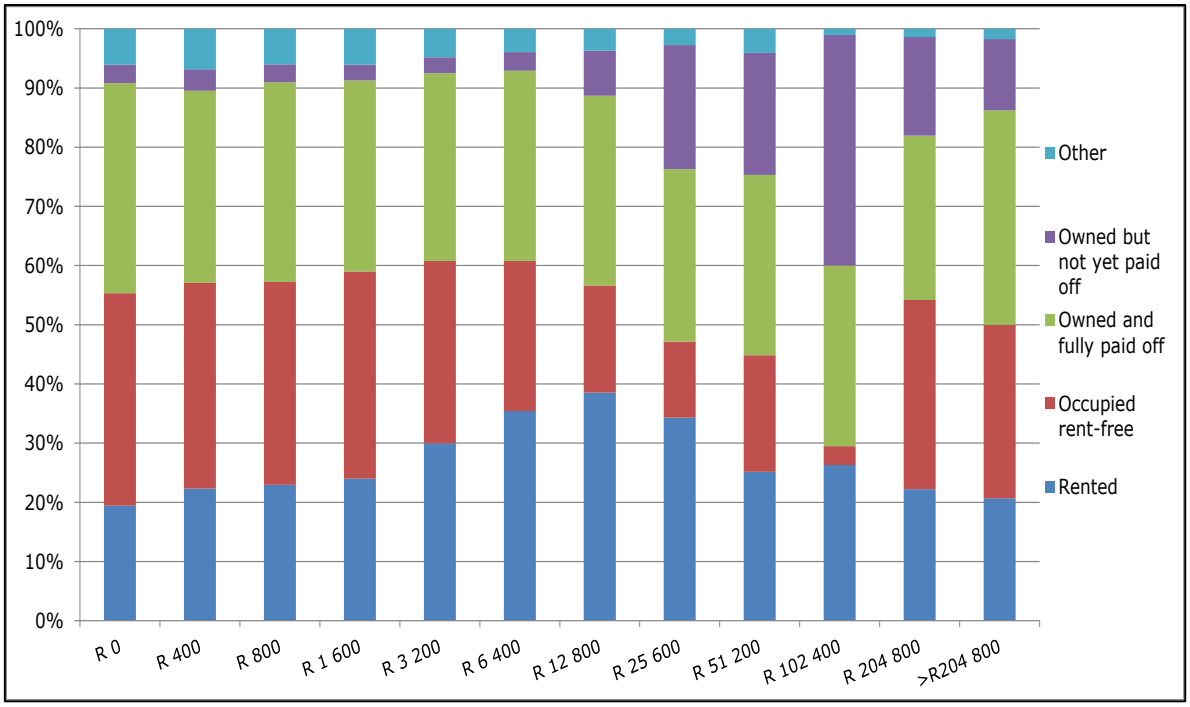


Figure 15: Tenure status by *inadequately* housed income group in the Western Cape (2011)

Source: Own analysis using Census 2011

The dynamic between income level, housing type and tenure type provides some insights into the housing market. Firstly, it indicates where formal housing credit starts to become available. Secondly, it indicates that a large portion of low income households, particularly those inadequately housed, occupy their shelter rent free, which indicates an inability to pay rent and a strong dependence on social networks as a survival mechanism[5]. Thirdly, the impact of the State housing programme, providing low income households (<R3 200 per month) with debt-free freehold title of formal property is evident.

It is important to distinguish between what formal and informal rental accommodation comprises as there is perhaps a fine line between these. Gardner (2011) suggests that small-scale private rental units include formally constructed units (houses, flats, or rooms) whereas informally constructed units would include shacks in backyards and informal settlements. This study thus proposes using a definition of *formal* rental being the rental of a legally-owned formal structure or room and *informal* rental being the rental of illegal or informal structures. As shown in Figure 16, observing household tenure choices by dwelling type provides interesting insights as households predominantly reside in formal structures in the

[5] As mentioned earlier, this grouping also includes farm worker households, 57% of who classify their dwelling type as 'rent free' accommodation.

province (at least 50% of households) relative to those residing in informal structures.

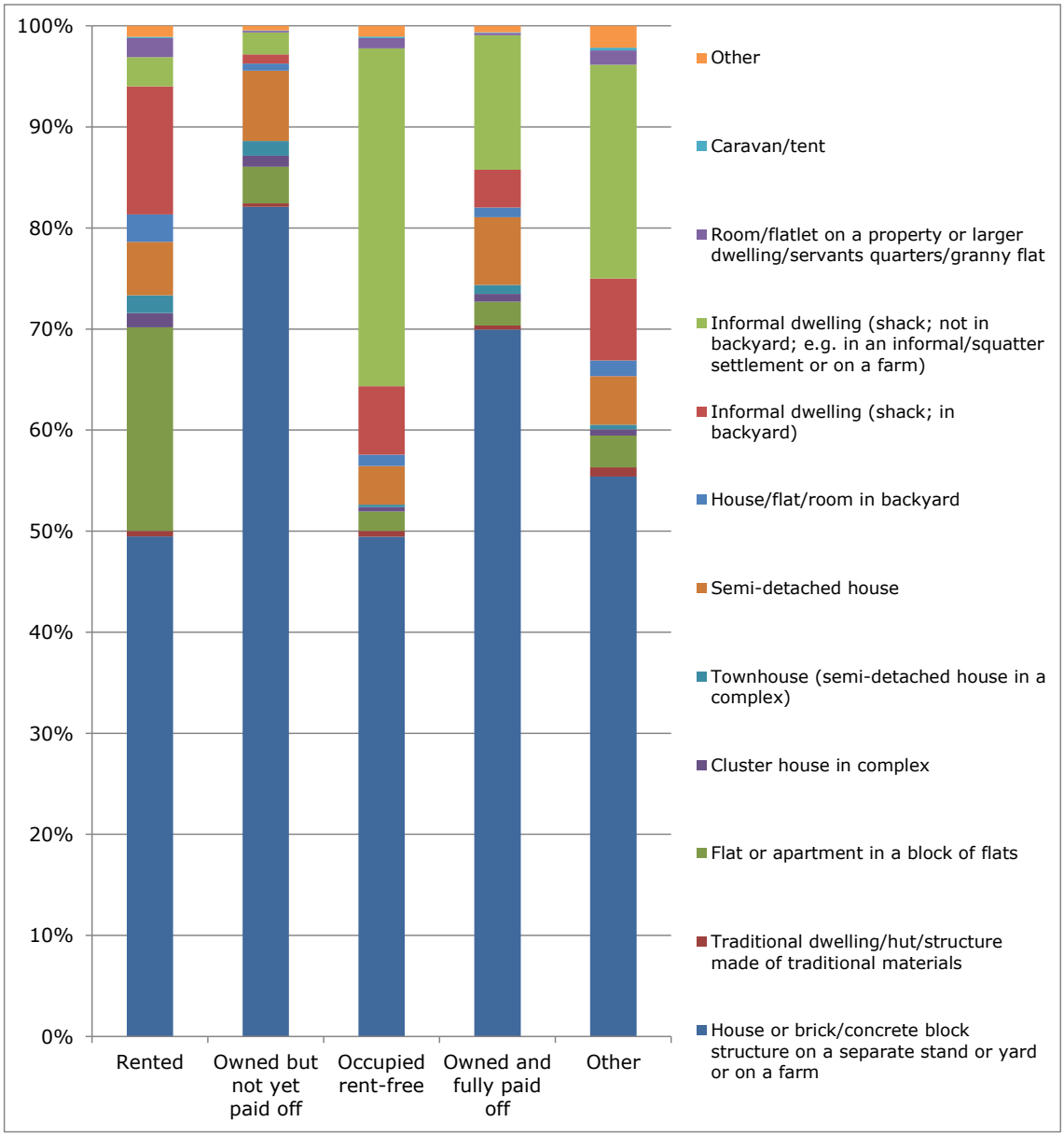


Figure 16: Tenure by dwelling type

Source: Own analysis using Census 2011

In terms of tenure preferences in the formal sector, research by Eighty 20 (2008) showed that with the changes to credit law, the global financial crisis and increasing interest rates, the ability of households to finance home ownership was expected to decline. With the South African economy shifting towards the construction and transport sectors and thereby requiring more mobility from employees in elementary occupations, it is foreseen that more flexible and affordable housing solutions in the rental market will be needed. This is particularly the case given that the growing market of employees in these sectors are young adults for whom rental tenure is likely more suitable than ownership.

In PayProp's 2014 Annual Report it showed that the fastest growing rental price band in South Africa is for that of a rental price above R15 000/month (the so-called 'luxury' rental price band).[6] This is shown in Figure 17 where the percentage growth in rental price bands across the four quarters of 2014 is shown. Viewing this at a provincial scale as in Figure 18, it is evident that the Northern Cape is the largest contributor to this trend. Interestingly, in the Western Cape, there has been growth in rental price bands above R5 000/month and a decline in those below R5 000/month.

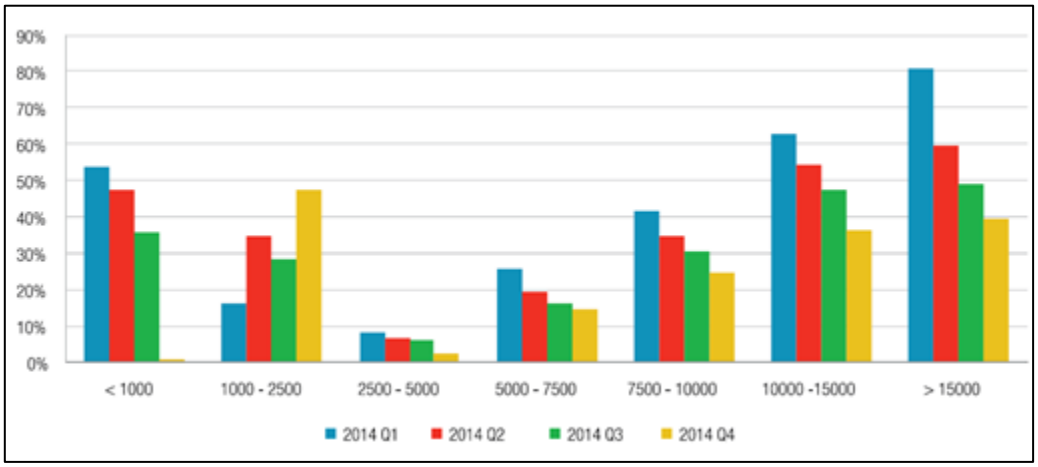
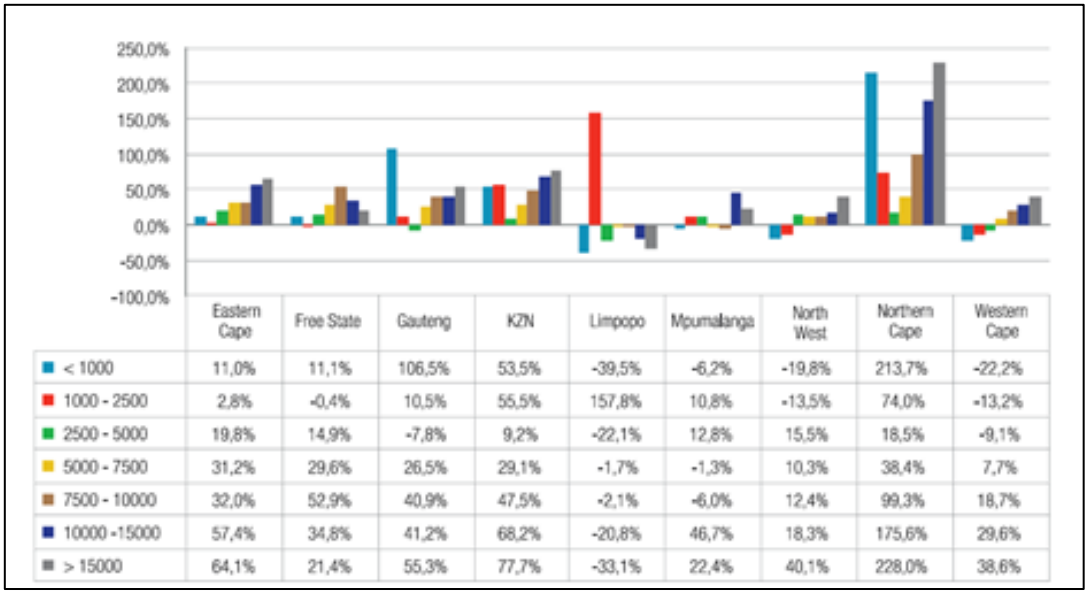


Figure 17: Percentage growth in rental price bands in South Africa in 2014

Source: PayProp, 2014



	Eastern Cape	Free State	Gauteng	KZN	Limpopo	Mpumalanga	North West	Northern Cape	Western Cape
< 1000	11,0%	11,1%	106,5%	53,5%	-39,5%	-6,2%	-19,8%	213,7%	-22,2%
1000 - 2500	2,8%	-0,4%	10,5%	55,5%	157,8%	10,8%	-13,5%	74,0%	-13,2%
2500 - 5000	19,8%	14,9%	-7,8%	9,2%	-22,1%	12,8%	15,5%	18,5%	-9,1%
5000 - 7500	31,2%	29,6%	26,5%	29,1%	-1,7%	-1,3%	10,3%	38,4%	7,7%
7500 - 10000	32,0%	52,9%	40,9%	47,5%	-2,1%	-6,0%	12,4%	99,3%	18,7%
10000 -15000	57,4%	34,8%	41,2%	68,2%	-20,8%	46,7%	18,3%	175,6%	29,6%
> 15000	64,1%	21,4%	55,3%	77,7%	-33,1%	22,4%	40,1%	228,0%	38,6%

Figure 18: Percentage growth in provincial rental price bands in South Africa in 2014

Source: Payprop, 2014

[6] Note that Payprop only deals with the formal rental market managed by estate agencies.

In terms of the small-scale private rental market, Gardner (2011) reports that the sub-sector is worth stimulation in South Africa because:

- There is notable demand for housing from single people to small family units for whom the Reconstruction and Development Programme (RDP) solution is not appropriate;
- Many people have sufficient disposable income to afford low-end rentals which are offered privately;
- In many residential areas, infrastructure already exists which means additional small-scale private rental in such areas would not come at a significant cost to the state;
- Accommodation within existing residential areas gives many locational advantages (e.g. access, transport, or amenities).

Gardner (2011) also recognizes the importance of the small-scale private rental market to addressing the major 'gap' market in terms of:

- Single people;
- People economically between subsidized housing and the private market;
- Those who are waiting for state subsidized housing;
- Those who are in the gap between the state rental market and the private rental market.

Evidently, the rental market is an important form of tenure for households across income bands in South Africa but is of particular importance in delivering housing of an affordable and acceptable quality. Gardner (2011) thus recommends that the state's human settlement's policy recognizes the importance of small-scale private rentals to the provision of affordable accommodation in South Africa.

3.3 Changes in demand over time

Dawson and McLaren (2014: 24), note that "…the growing demand for housing is the result of a complex set of demographic realities and shifts including changes in household structures – in particular a rise in single person households - rapid urbanisation, migration to cities, structural unemployment, and more households falling into the subsidy income band and less access to housing finance". The magnitude of the change in demand for housing is understood to be driven by 4 main indicators:

i. demographic growth;

ii. reduction in functional household size;

iii. migration; and

iv. economic growth.

In terms of *demographic growth*, population projections for the Western Cape show an expectation of a growth in population from approximately 5.82 million individuals in 2011 to approximately 7.36 million individuals in 2040 (Price Waterhouse Coopers (PWC), 2014: 6). This implies an average increase in the population of about 0.81% a year and by approximately 1.54 million individuals over the whole period. Further, these projections show an expected aging of the province's population by 2040 with the share of the population aged above 65 years increasing from 5.88% to 11.57%.

Household size has decreased, on average in the Western Cape as was shown through an inter-Census household size comparison done for the Western Cape Infrastructure Framework (WCIF). The average household size in 2001 was 3.7 people per household which decreased to 3.4 people in 2011. The maximum decrease in average household size was 20% in Beaufort West, while in Cape Town the average household size decreased by 6%. In 2011, 60% of households had 3 or less people living in them (Figure 19). This evidences that there are a large number of small households in the province.

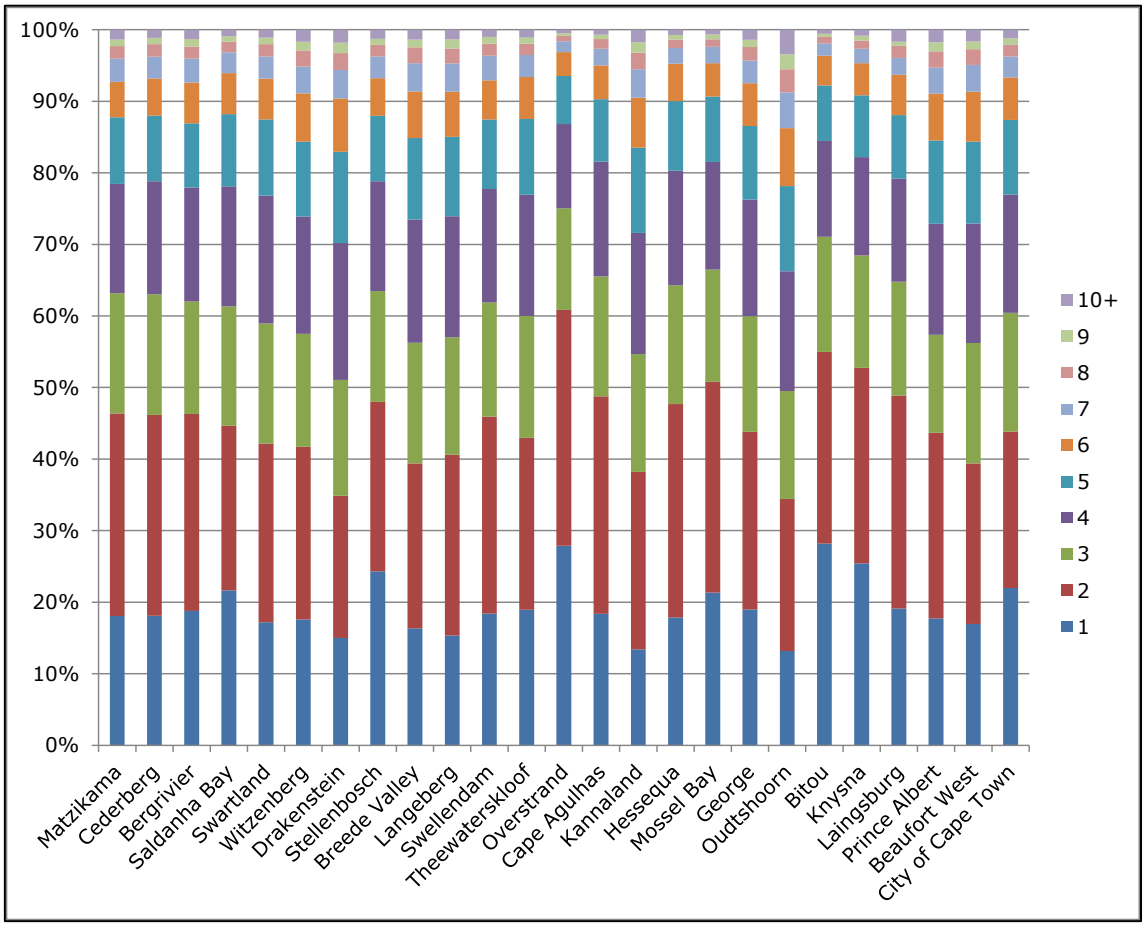


Figure 19: Household size distribution across Western Cape Municipalities

Source: Own analysis using Census 2011

The mismatch between the location of employment and the location of housing may also influence the breakup of multigenerational households and the rise of single person households. There is debate around the extent to which household fragmentation is encouraged through the provision of subsidised housing. Although this may be the case, the reverse is also true, and the constrained supply in housing may increase household sizes (i.e. promoting overcrowding) in some instances.

In terms of *migration*, there are three different types of migration: net in-migration, intra-migration and temporary migration. Net in-migration refers to people or households moving permanently to a new place in the province from outside, less households moving out. The Western Cape receives significantly more in-migrants than out migrants leave, with an excess of 55 000 in-migrants within

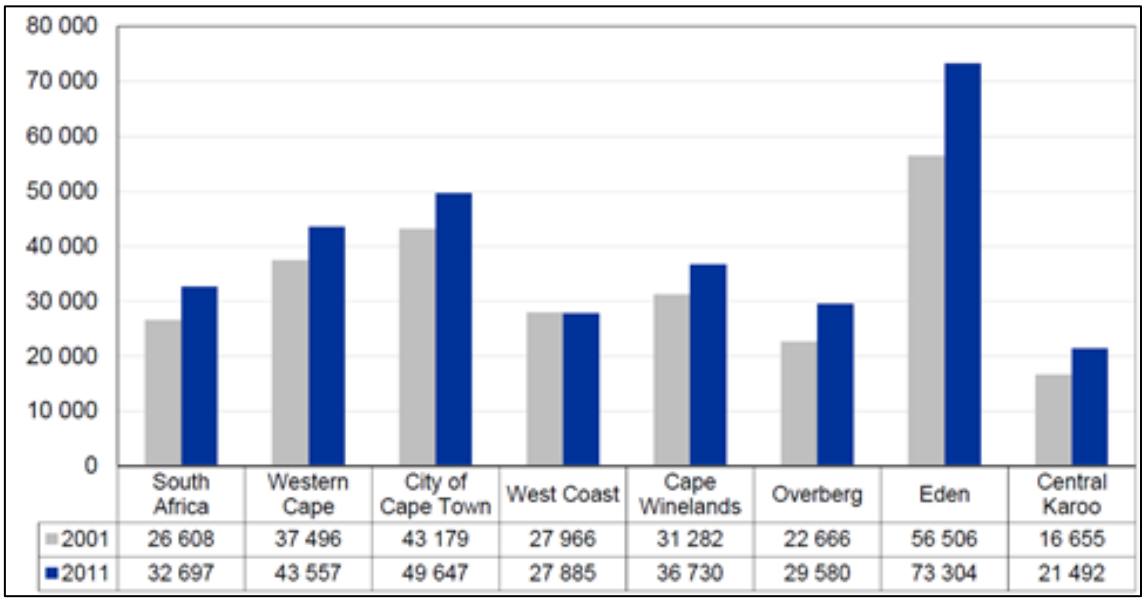
2011 and less than 15 000 out-migrants resulting in a net in-migration of around 40 000 (Price Waterhouse Coopers (PWC), 2014). Both these numbers have increased significantly since 2001, but in-migration at a far higher rate. The age profile of migrants suggests that they are overwhelmingly between the ages of 15 and 39, and particularly between 20 and 30. This migration is mainly to urban centres. Education and healthcare are also important drivers of migration to the Western Cape (PWC, 2014), as well as high unemployment in neighbouring provinces compared to the Western Cape.

Intra-migration refers to the permanent migration within the Western Cape. According to PWC's 2011-2040 Western Cape Population Projections there is a migration trend from rural areas within the Western Cape into the City of Cape Town Metropolitan Area.

Temporary migration, where migrants move into an area while retaining another property elsewhere, adds another dynamic to the housing market. The primary driver of temporary migration is employment seeking, with employment status and the sufficiency of income to make a decent living in the future (in their place of origin) determining their decision to return (Poswa and Levy, 2006). This, combined with the evidence shown in Figure 24 in the following section suggests that temporary migrants will most likely tend towards informal and central housing opportunities, with some choosing to live in informal peripheral settlements or, if it is affordable, in the formal and informal rental sectors.

Economic growth can also play a role in the income mobility of households, shifting households upwards (or downwards in the case of economic contraction) between income brackets. The 2014 Western Cape Provincial Economic Review Outlook (PERO) showed that the provincial economy grew between 2001 and 2011 such that population Regional Gross Domestic Product (GDPR) increased accordingly from R37 496 in 2001 to R43 557 in 2011 (Figure 20).

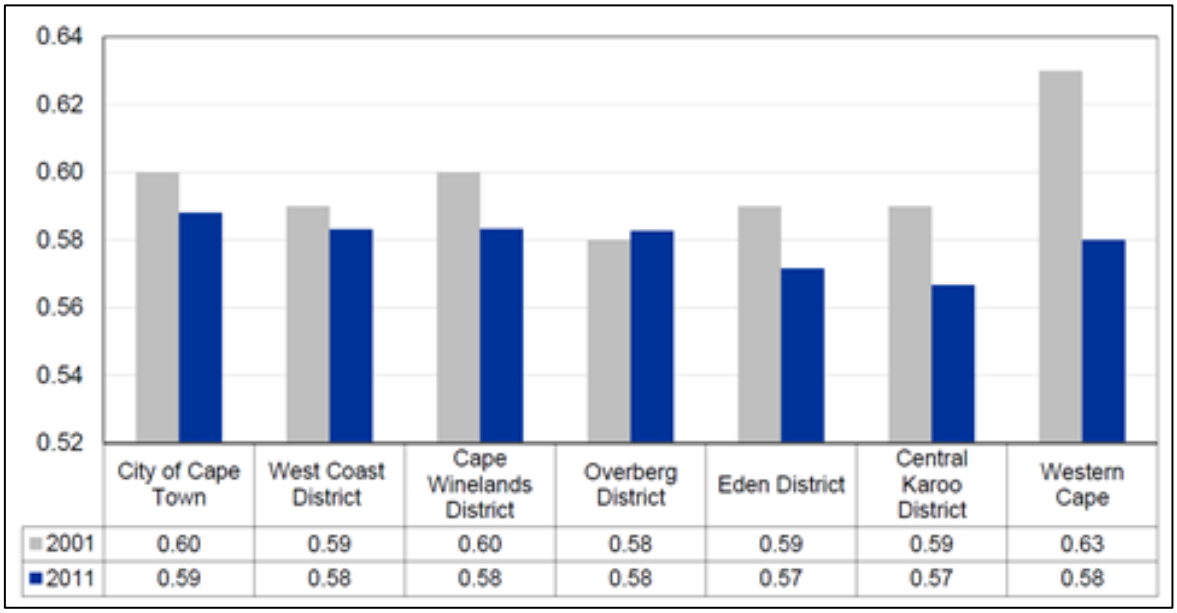
This trend was observed across all districts with the exception of the West Coast where this ratio remained constant. This measure does not provide an explicit indication of household well-being but on review of the Gini coefficient in the province over this same time, it was evident that income inequality declined from 0.63 to 0.58 in the Western Cape between 2001 and 2011 (Figure 21). This downward trend was much the same across the province's districts. Assuming this improved income inequality was a result of enhanced economic activity in the province, it potentially suggests an upward income mobility of households in the province. The PERO 2014 also forecasts that GDPR will continue to expand in the Western Cape with an average growth of 3% predicted between 2014 and 2019.



	South Africa	Western Cape	City of Cape Town	West Coast	Cape Winelands	Overberg	Eden	Central Karoo
2001	26 608	37 496	43 179	27 966	31 282	22 666	56 506	16 655
2011	32 697	43 557	49 647	27 885	36 730	29 580	73 304	21 492

Figure 20: Regional Gross Domestic Product growth per capita (2001 versus 2011)

Source: Western Cape Provincial Treasury (2014: 122)



	City of Cape Town	West Coast District	Cape Winelands District	Overberg District	Eden District	Central Karoo District	Western Cape
2001	0.60	0.59	0.60	0.58	0.59	0.59	0.63
2011	0.59	0.58	0.58	0.58	0.57	0.57	0.58

Figure 21: Gini coefficients per district (2001 versus 2011)

Source: Western Cape Provincial Treasury (2014: 124)

4 Housing Market Segments

The intersection of housing demand and supply defines the housing market. The elements of supply and demand that have been discussed above can therefore be used to define the housing market segments, and are discussed in this section in relation to the data sources that are available for this purpose. The core dimensions of the housing market segments are income (how a household's income relates to

its affordability for different housing products) and tenure preference (what tenure options are most suitable to serve a particular household's needs). However, there are 3 additional factors that can be used to further differentiate the market segments:

- **Employment**: Do households require permanent or flexible housing and tenure arrangements to facilitate job seeking?
- **Age**: What are the dwellings options opted for by households of different age groups?
- **Qualification:** What defines a household's ability to access State housing assistance?

Each of these dimensions is discussed below to characterise the market segments.

4.1 Income

4.1.1 Income bands that define the gap market

The two significant issues that define the gap market, and therefore define the gap market 'segment' are the lower limit of prudent lending by banks (the 'lending limit') and the lower limit of the value of a housing product that can be supplied by the private sector, yet be sufficiently different to state-subsidised housing to generate demand (the 'supply limit'). While the supply limit is defined by a housing product value, it is related through loan affordability to a corresponding income level.

There is limited research which establishes the lending ceiling and floor which banks impose on households in the gap market. This is possibly because the eligibility of any household for a bond is dependent not only on income but on a combination of household characteristics including: disposable income after expenses; a household's credit record; the ability it has to finance loan repayments (which depends on the type of employment – permanent or temporary); as well as demographic features which, based on historical trends, define a household's risk profile. It is thus a case by case analysis of a household's bond eligibility.

Statistics from the National Credit Regulator (Quantec, 2015) show a downturn in the granting of bonds to household income groups below R15 000 in the Western Cape. By the end of 2014, 91% of mortgages granted to households were granted to households earning an income above R15 000/month (Figure 22).

This suggests more stringent eligibility criteria being imposed by banks and that much of this seems to be driven by a household's income earning potential. While in 2007 there appeared to be relatively mixed allocation of bonds across all income groups, by 2014, bond approval was granted predominantly to households earning above R5 500/month. The use of real values (i.e. excluding inflationary adjustments) for the income bands may explain part of the upward shift in the lending patterns.

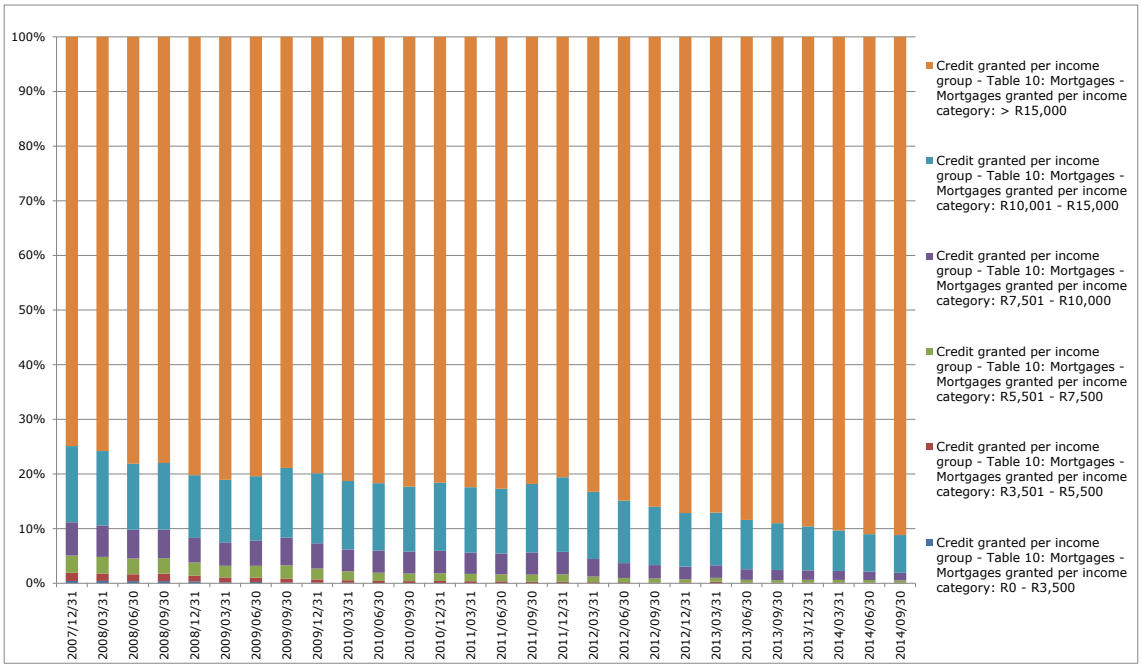


Figure 22: Percentage of households granted bonds, by income group (2007-2014) at constant 2012 prices

Source: Own analysis using Quantec statistics from National Credit Regulator

Ascertaining a tangible/numerical indicator of the lending floor (here referred to as the 'lending limit') is thus reliant on some level of inference.

The FFC (2013:19) note that:

> *"Mortgage finance is granted predominantly to households earning more than R15 000 per month … This income group accounts for just over 80 per cent of private housing finance, with the remainder going to those earning between R7 500 and R10 000 per month. Mortgage finance to households with a monthly income below R7 500 is almost nonexistent. According to the household credit access frontier, households with a monthly income of between R3 500 and R7 500 can qualify for a mortgage bond of between R140 000 and R300 000 depending on the interest rate and credit-worthiness. The National Credit Regulator (NCR, 2012) found that, of the total value of mortgage bonds granted, less than 10 per cent are below R350 000."*

Further to this, The Banking Association of South Africa (2015: 15) finds that within the gap market where many housing developments are taking place:

> *"Due to urbanisation and delivery, despite the rate over the last five years not being what it should have, we're probably still looking at similar figures in the gap market. The problem is that a typical unit that can be produced in the gap market would have a selling price of around R350 000. In order to afford that, your household income would have to be around* ***R11 500 per month****."* (emphasis added)

This is a significant finding as it suggests that there is potentially a lending limit implemented by banks at a household income level of R11 500 a month. Rust

(2012) indicates the cheapest newly built house costs approximately R249 000. If one applies the affordability curve indicated in Figure 12, this equates to a monthly household income of R9 612. However, given the increase in house prices since 2012 and the recent increase in subsidy quantum and minimum standards, the cost of a newly built house is likely to be closer to the affordability equivalent of R11 500 per month, which is R297 921. This would suggest that there is little, if any difference between the supply and the lending limits and these need not be differentiated from one another.

4.1.2 Income groups targeted by housing programmes

The fact that the state housing programmes are defined by income qualification criteria means that, although they are a supply intervention, they also define a category of demand. These programmes are documented in the National Housing Code. These relate primarily to the lower end of the housing market, i.e. households earning between R0-R15 000/month. The programmes are targeted at different income segments to ensure the specific nature of housing demand in these segments is met. The market segments at the lower end of the income spectrum are therefore defined by the income limits to the various housing programmes.

Two key housing programmes are the IRDP and Upgrading Informal Settlements Programme (UISP). The IRDP promotes mixed used, mixed income projects involving the private sector in low income and affordable housing provision. It provides for a range of incomes and housing types and other non-IRDP subsidy instruments such as FLISP. This Upgrading Informal Settlements Programme provides for in situ upgrading of informal settlements and, as a last resort, relocations. Grants are made available to municipalities to enable them to upgrade informal settlements. This programme makes use of the Consolidation Grant, the People's Housing Process Consolidation and the FLISP for the provision of top structures.

Household monthly income: <R3 500

Institutional subsidies: This is a subsidy given to approved housing institutions to acquire residential property and manage it. The value per unit is linked to the top structure subsidy, at approximately R110 947. The institution then provides rental or rent-to-buy to households earning below R3 500. Beneficiaries of rent-to-buy projects must rent for at least four years. If the beneficiary declines to buy in a rent-to-buy project the beneficiary may apply for a housing subsidy in another project, and another beneficiary take up their vacant space. It provides rental housing accommodation to the lower end of the market and grant funding to social housing institutions. It also provides affordable rental within or outside restructuring zones.

Community Residential Units: This programme provides rental housing in publicly and grey (public and private components) owned hostels, and in publicly owned rental stock for households earning below R3 500 per month (though in the Western Cape it is targeted at income groups between R800 and R3 500/month).

Individual subsidy programme: Credit linked individual subsidies allow beneficiaries to purchase existing houses, linked to credit from a financial institution. The financial institution applies for the subsidy on behalf of the beneficiary. Non-credit linked subsidies allow beneficiaries to acquire property entirely from the subsidy. The subsidy is paid to the seller. These subsidies are targeted at household earning less than R3 500 per month, and have a value of

R160 573. Parties benefitting from the Individual subsidy programme are also permitted to purchase houses built through the National Housing Programme if the sale is legally compliant.

Consolidation subsidy: The consolidation subsidy is targeted at owners of serviced sites, earning under R3 500, for the construction of a top structure. It is targeted at beneficiaries who have already received state assistance to acquire a serviced residential site under pre-1994 state housing schemes.

Enhanced People's Housing Process: The Enhanced People's Housing Process provides a subsidy to build a top structure on serviced and owned sites, with the subsidy set at R110 947. This programme allows active participation by the beneficiaries over both the housing process and product and targets households with an income under R3 500.

Farm Residents Housing Assistance Programme: This programme makes provision for either rental or owned housing for farmworkers where it is not feasible for these workers to commute daily from the nearest town to the farm where they work. This programme supports households with an income of under R3 500.

Household monthly income: R1 500 - R7 500

Social housing programme: The social housing programme provides rental accommodation to low to medium income persons through accredited social housing institutions. This programme only provides housing in approved "Restructuring Zones", aimed at increasing densities on well-located land. The value of the grant differs depending on the number of units in a project for households earning between R1 500 and R7 500/month.

Household monthly income: R3 501 - R7 000

Finance Linked Individual Housing Subsidy Programme: The Finance Linked Subsidy Programme (FLISP) assists beneficiaries to acquire improved residential property or to obtain vacant serviced residential stands linked to home building contracts with home builders registered with the National Home Builders Registration Council, or the construction of a residential dwelling assisted by a homebuilder registers with the NHBRC on a serviced stand that is already owned by the beneficiary. Households in the income group R3 501 to R7 000 can apply for FLISP or to be allocated a free serviced stand under the re-adjusted IRDP.

Enhanced Extended Discount Benefit Scheme: This programme is available to beneficiaries who took occupation of a house before 15 March 1994. These units can now be bought at a discount to the maximum of the top structure subsidy for the under R3 500 household income category or R7 500 for the R3 500 to R7 000 household income category. Existing debtors can also use the programme to pay the balance owed on properties they purchased from the state or on rental arrears. The aim is to extend home ownership and transform home ownership profiles.

Household monthly income: R7 001 - R15 000

Finance Linked Individual Housing Subsidy Programme: The Finance Linked Subsidy Programme (FLISP) assists beneficiaries to acquire improved residential property, obtain vacant serviced residential stands, or construct residential dwelling. Qualifying households earning between R7 000 and R15 000 qualify for financial assistance linked to the repayment of a bond. This subsidy is attached to the beneficiary and is used to decrease the mortgage bond.

4.2 Tenure

From the literature referenced earlier, it is clear that there are a wide range of tenure options. However, for the purposes of defining market 'segments' it is possible to simplify the range into insecure and secure tenure, and ownership and rental. As insecure tenure is not a desirable situation, it is not included as a dimension of the 'market'. For ownership to be secure, it should through necessity be formal, but for rental, a range of informal and formal rental options may be acceptable.[7] 'Rent to buy' is classified primarily as a rental option (although as a means to achieve ownership). As for the income bands, the demand for either ownership or rental are also influenced through the supply of these tenure options through the State housing programmes and within the affordable and bonded market segments.

The housing programmes that deliver formal ownership[8] to the lower end of the income spectrum are:

- Integrated Residential Development Programme;
- Upgrading Informal Settlements Programme (where a range of alternative tenure options may be appropriate);
- Enhanced People's Housing Process;
- Individual subsidies;
- Finance Linked Subsidy Programme;
- Farm Residents Programme.

Those housing programmes that deliver rental tenure comprise:

- Institutional Subsidy Programme;
- Community Residential Units (CRU);
- Social Housing Programme;
- Farm Residents Programme.

Those households within the income bands covered by the above programmes, but that do not qualify; will have a preference for ownership or rental, although evidence suggests that rental is far more common through the inability of low income households to purchase serviced land, even if they are able to afford to construct their own top structure.

Affordability is a key challenge, as 60% of South Africans earn less than R3 500/month with a rental affordability of less than R1 000/month. There is little formal stock available in this segment. As Section 3.2.2 showed, rental tenure is a significant proportion of the market across all income groups but appears to be more of a default option for those in the lower end of the market due potentially to the unaffordability of ownership.

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[7] As mentioned earlier, this study thus proposes using a definition of *formal* rental being the rental of a legally-owned formal structure or room and *informal* rental being the rental of illegal or informal structures.

[8] There are a range of housing programmes that presuppose ownership, such as the consolidation subsidy and the extended discount benefit scheme, which are ignored in this discussion.

In terms of the formal rental market, communications with PayProp suggest that the formal rental market may begin from household incomes of R30 000[9]. PayProp also indicated that there are households who would otherwise be eligible for access to housing finance through the bonded market, who have to revert to the formal rental market because of non-compliance with lending institution requirements under the National Credit Act. As an example, if a household earning enough to access mortgage finance does not pass the credit clearance undertaken by a lending institution, it cannot be granted housing finance.

In terms of the small-scale private rental market, Gardner (2011: 4) suggests that:

> *"Of the 2.4-million South African households that rent their primary accommodation, 850 000 (35%) occupy small-scale private rental units. This equates to approximately 10% of all South African households."*

Rentals within this market were estimated to be around R147/month for informal small-scale private dwellings in 2006 relative to rentals of R291/month for formal dwellings. The small-scale private rental market represents an important form of accommodation to households in South Africa. It provides flexible accommodation opportunities for households waiting for subsidised houses. It is also a means of a safety net for many marginalised households that cannot access better accommodation, because it might be unavailable or too costly (ibid: 6).

Representing the key programmes and/or housing segments in a more simplified fashion shows the income groups covered through the various programmes/segments relative to those which are perhaps less represented (Table 2).

Table 2: Housing programmes by tenure status and income group

Tenure status and related housing programmes	**Monthly income (Rands)**					
	0-800	801 - 1 500	1 501 -3 500	3 501 - 7 500	7 501 - 15 000	>15 000
Owned						
Subsidised	x	x	x			
FLISP				x	x	
GAP				x	x	x
Non-qualifiers	x	x	x	x	x	
Bonded						x
Rental						
Non Qualifiers	x	x	x	x	x	
Informal Rental	x	x	x	x		
CRU		x	x			
Social Housing			x	x	x	
Formal Rental				x	x	x

Source: Own representation

There do not appear to be any data sources that allow one to differentiate tenure preference from current tenure arrangement, and therefore the statistics around

[9] Caution should be exercised in interpreting this as a firm income limit however as Payprop only deals with the formal rental market managed through estate agencies. It thus excludes privately rented housing which may have a different minimum income band. In theory, there is no minimum limit to formal rental, as landlords may charge as little as they choose for a formal rental unit.

current tenure arrangements would have to be used as a proxy for tenure preference.

4.3 Differentiation within the market segments

4.3.1 Employment

An additional aspect of housing demand is the impact that employment, more specifically the lack thereof, has on the type and location of housing and the tenure arrangement. While it is not considered as an independent dimension for the sake of the market segmentation undertaken in the next section, it is worth understanding how it correlates to the choice of dwelling. In light of the evidence shown by Cross (2010), a household's choice of housing is often a function of their employment status. Employment status is not only about affordability of housing options, but also which housing options and locations provide the required flexibility and mobility for job-seekers.

In the Western Cape, there is evidence to suggest that the employment status of the household head could be linked to their dwelling options, as approximately 50-60% of household heads residing in formal dwellings are employed (Figure 23). Notably, the share of household heads residing in informal dwellings that are unemployed is larger when contrasted to the unemployed living in other dwelling types. Surprisingly, there is not a noticeably greater share of unemployed household heads residing in traditional dwelling types, but this is a relatively small proportion of the population in the Western Cape.

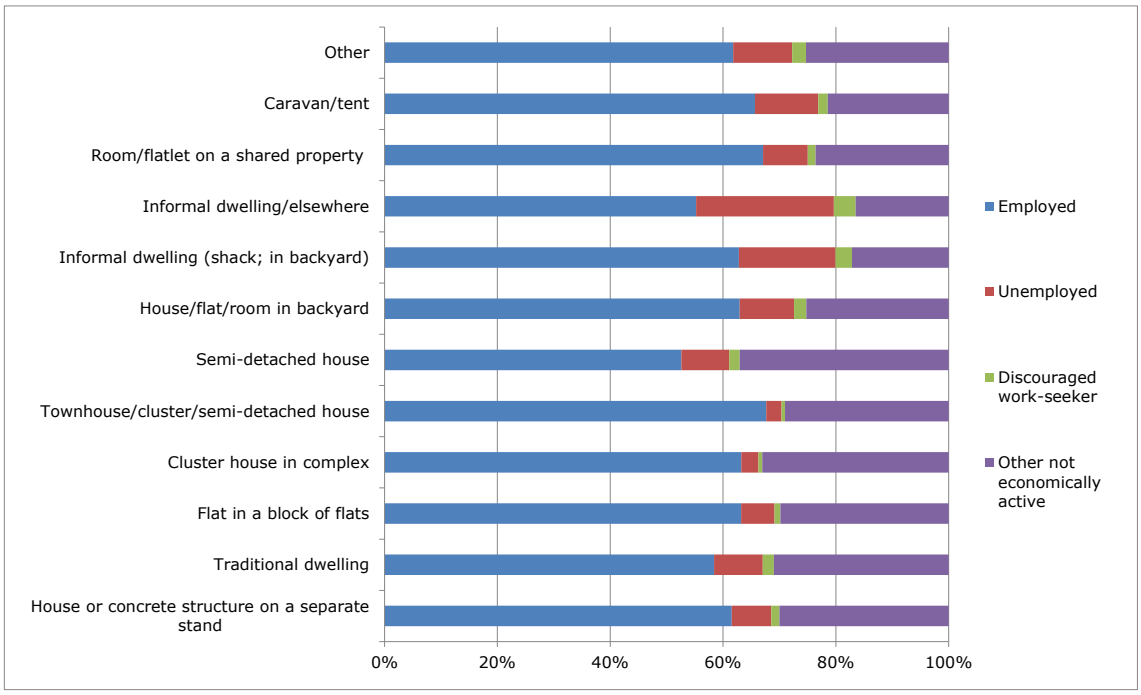

Figure 23: Head of household employment status by dwelling type in the Western Cape (2011)

Source: Own analysis using Census 2011

As there is not a particularly strong differential trend across the choice of dwelling type by the household head's employment status, this dimension is not explored as

part of the housing market segment. It is however an important indicator but is an exogenous factor influencing the housing market.

An alternative view of employment by settlement type shows that only 2% of rural household heads in the Western Cape are unemployed (Figure 24). This indicates that employment status is only relevant in urban areas.

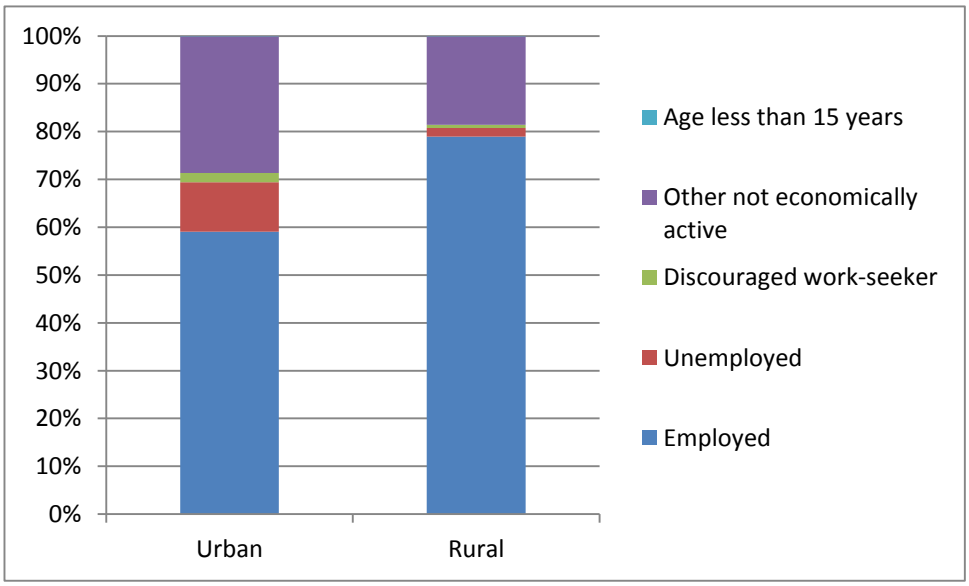

Figure 24: Head of household employment status by location in the Western Cape (2011)

Source: Own analysis using Census 2011

4.3.2 Age

One of the key qualification criteria for state-housing assistance is that an individual must be 18 years or older. Therefore the age profile of households can have important implications for future housing demand. Age is also of interest since the national minister's announcements of the planned prioritization of housing delivery to individuals over the age of 40.

In the Western Cape, there is evidence to suggest that the age group of the household head could be linked to their current housing situation, as approximately 70-80% of household heads aged above 40 years are residing in formal dwellings (Figure 25). The picture is not much different at a national scale however there is a fair proportion of household heads aged above 40 years residing in informal dwellings.

In contrast, for household heads aged between 18-39 years old, the choice of dwelling at the provincial and national level is quite different. Whereas household heads in this age group in the Western Cape appear to reside in a mix of dwelling types, nationally, there is a greater dominance of such household heads living in formal dwellings. There is also evidence to suggest a fairly greater share of household heads in this age group is living in informal dwellings. What Figure 25 indicates is that there is a far greater demand in the age group 18-39 than the age group above 40. 33% of household heads in the 18-39 age group are inadequately housed (excluding overcrowding), while only 10% in the higher age group. The lower age group represents 69% of the backlog in the province.

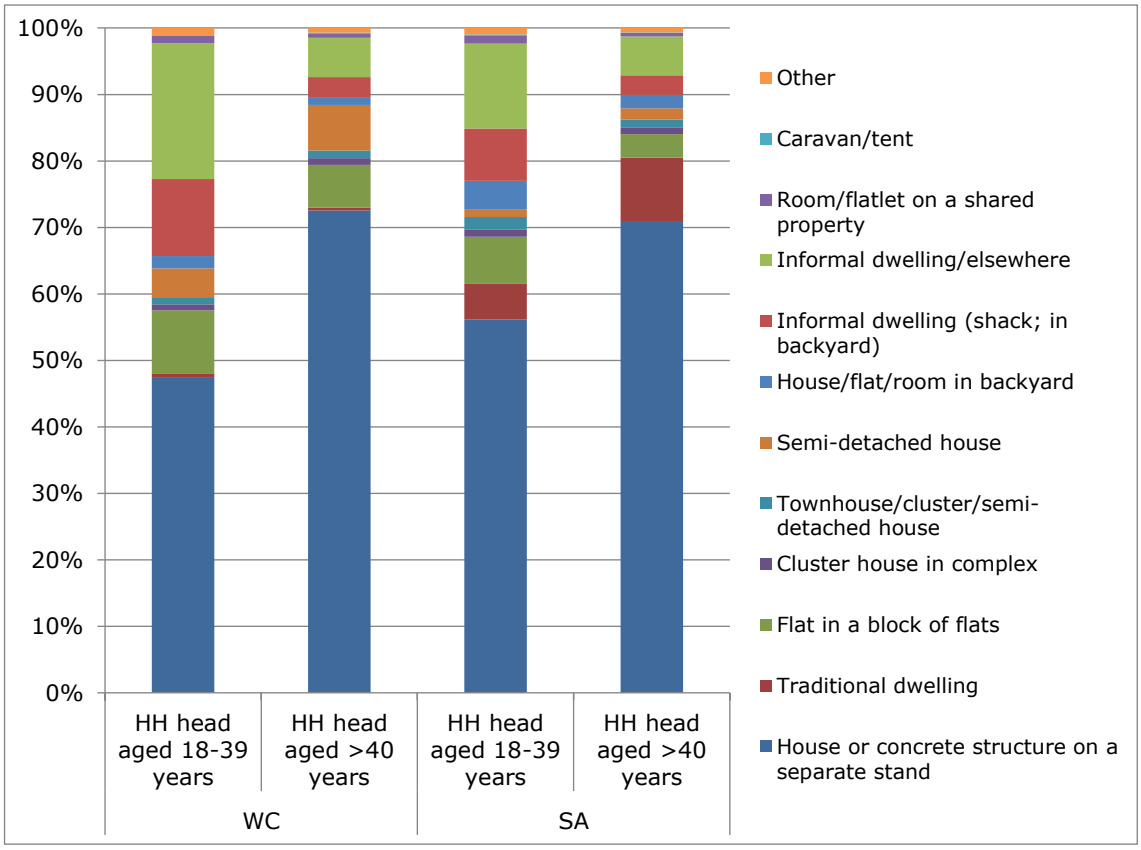

Figure 25: Dwelling type by age group of household head in South Africa and the Western Cape (2011)

Source: Own analysis using Census 2011

Projections by PWC (2014) show that that the Western Cape population aged 65 years and above will rise by 6% between 2011 and 2040 (Figure 26). Further to this, the population is expected to age considerably between 2011 and 2040 as evidenced by the narrowing of the pyramid. This has important implications for housing demand planning going forward as should the national minister enact a policy favouring individuals aged 40 years and above, this may have different policy implications in the Western Cape to that at the national scale.

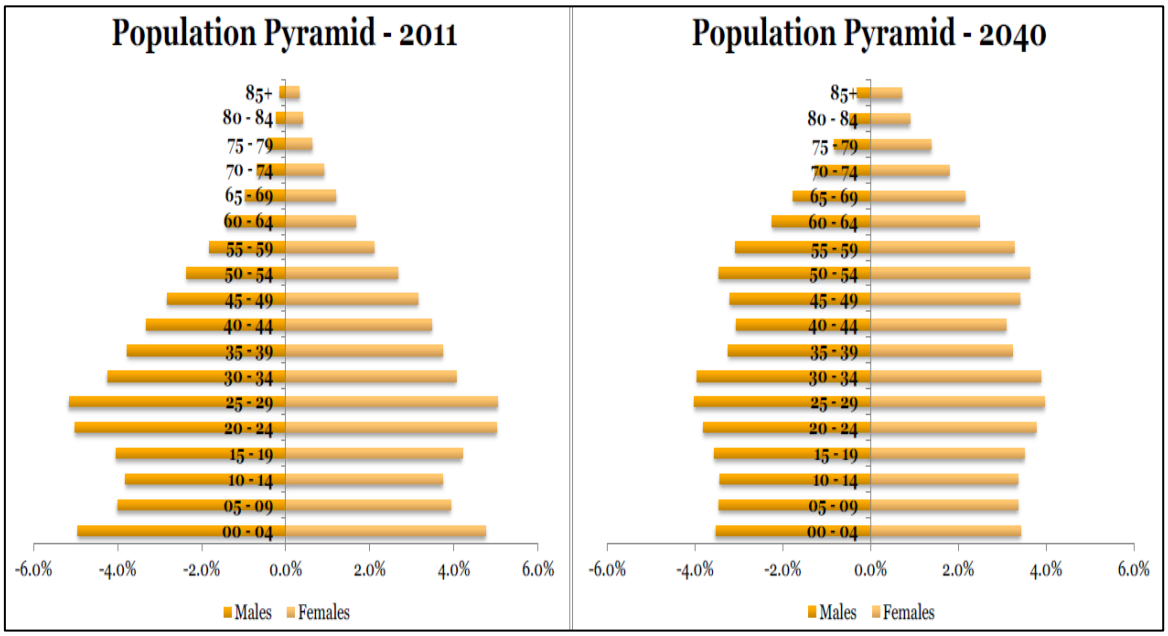

Figure 26: Western Cape population pyramid projection

Source: Price Waterhouse Coopers (2014)

4.3.3 Qualification criteria for state assistance

The eligibility of households in various income groups to access housing finance made available through the State and private sector, is dependent on them meeting certain qualification criteria. In the case of state funding, these criteria are defined by national policy and, as in the Western Cape, have been customised to match the typical demand need/profile of provincial households.

The research has highlighted the need to define those low-income households that do not qualify for State assistance as a distinct market segment. These households are therefore defined by looking at the qualification criteria for the various programmes.

The general qualification criteria for state housing programmes in the R0 - R3 500 household income band in the Western Cape can be distinguished in terms of those which are *essential* for applicants to meet and those which are *preferential*. These are, respectively:

Essential criteria:

1. South African resident(*);
2. 18 years old and above(*);
3. Not have previously benefited from a government housing subsidy assistance;
4. Did not previously own residential property;
5. Married or cohabiting or with financial dependents(*);
6. Household income between R0-3500 per month (*).

The essential criteria which the Census 2011 can provide descriptive information on are those with stars (*) next to them. In contrast, with regards to criteria 3 and 4 however, these can only be established with reference to the Housing Subsidy System (HSS) and Deeds office records on a person-by-person assessment. This would require that an individual's Identification Number is screened through the HSS and Deeds office records to pinpoint their previous qualification for housing assistance or housing ownership status. Given that the study only have access to aggregate information from the HSS, only a high-level assessment can be done to understand the aggregate extent of government housing subsidy assistance by a few selected parameters (such as type of subsidy granted, average age of applying and qualifying applicants as well as the gender of the applicant).

For households falling within the FLISP household income band of R3 500 and R15 000, in addition to the essential criteria, the additional qualifying criteria for FLISP is that on accessing the subsidy it must be attached to a mortgage bond.

Preferential criteria:

7. Military veterans (single without dependents) with household income of less than R125 000 per annum (*income only);
8. Aged and disabled persons[10](with or without financial dependents)(*);
9. Beneficiaries of Land Restitution Programme.

As with the essential criteria, there are limits to the analysis of the preferential criteria in terms of data availability. While the income level of a household, the age and disability status of individuals can be ascertained from Census 2011, the veteran status and Land Restitution beneficiary status would rely on a person-by-person assessment of official government records. It would thus not be possible to analyse these within the demand analysis unless aggregate statistics on the number of such individuals can be obtained for the Western Cape. This would provide at least an overview of the potential housing demand which might arise from these groupings in the province.

In addition to criteria 1-5, applicants for other state housing programmes in the province need to comply to additional *essential* criteria as follows:

- **Social Housing Programme**: Household income between R1 500 and R7 500 per month. Households can apply for individual subsidies if exiting Social Housing Programme.
- **Finance Linked Subsidy Programme**: Household income up to R15 000 per month.
- **Enhanced Extended Discount Benefit Scheme**: Household income up to R7 000.

In all instances, it is possible to review the potential recipients of these programmes through an assessment of the various income bands. However, as mentioned in the previous section, these income bands do not correspond to those in the Census 2011. The Census data has therefore been adjusted to place households into income bands that more closely resemble the housing/human settlement income bands.

[10] In the Western Cape quotas are assigned to these groups as well as for older farm residents' who have resided on their farms for at least 10 of the last 13 years.

Non-Qualifiers

Parties who do not qualify for housing within the aforementioned *essential* criteria, are then classified as 'non-qualifiers'. Non-South African citizens comprise a significant share of non-qualifiers in inadequate housing in South Africa. Non-South African citizens do not qualify for any of the housing programmes, whether they are refugees, asylum seekers or other migrants. This forms a significant gap in the housing supply. According to Landau and Segatti (2009), 70% of non-South African citizen urban migrants live in privately rented inner city flats. 64% of these non-citizens are in sub-tenancy arrangements, much of which is overcrowded (ibid).

Identifying non-qualifiers would presumably entail characterising those households who are not eligible for state-assistance (due to non-compliance with the aforementioned criteria) as well as those households who fall outside of the requisite income bands.

5 A consolidated view of Housing Market Segments in the Western Cape

Supply dynamics

Between 2009 and 2014, 107 425 houses and serviced sites were provided in the Western Cape – an average of 21 485 opportunities per year. When compared to the calculated 'backlog' in 2011 of 329 072 households earning less than R3 500 per month (including non-qualifiers), it is clear that the State-driven supply at the lower end of the market will take some time to catch up to demand and there are still households who are not catered for through these programmes who revert to the 'informal' housing market.

In addition, the affordability of property in the Western Cape is declining and generating a shortage of housing stock in the province particularly as available to those in lower income brackets. Despite the number of state-provided housing supply options to meet the demand of households which are unable to access the bonded market, the shortage of housing stock in the gap market perpetuates a cycle of rising prices and supply shortage.

The formal housing market serving households earning above R15 000 per month appears to be functioning well, although the affordability ratio in Cape Town is high.

Demand dynamics

In terms of the demand for housing, using Census 2011 statistics, this study shows that there is still a notable share of households in the Western Cape residing in inadequate housing, and not all of these are in the lowest income brackets. Approximately 21% of 'inadequately' housed households earn more than R3 500 per month and 6% earn more than R7 500 per month. The lowest (monthly) income households in the province are concentrated in informal settlements but there is a fairly even split of households across informal settlements, informal backyard dwellings and overcrowding in the R1 500-R3 500 monthly income band. The total backlog across all income groups in the province is calculated to be 414 212 households.

This report shows that there is a number of housing demand dimensions which drive the choice of dwelling by household and influence a household's ability to access a specific housing segment. The primary dimensions of demand explored relate to income, qualification criteria and tenure. Further considerations which

influence housing demand are employment status and age. These dimensions in themselves determine a household's placement in the housing ladder.

Tenure

In the case of the Western Cape a greater share of higher income households own (fully paid or being paid off) as compared to lower income brackets. The rapid increase in households in houses owned but not yet paid off between R6 400-R12 800 a month indicates that this is the income bracket at which housing finance becomes available. Rent free occupation is a significant part of the lower income markets, and only a very small percentage of the higher income markets. Rental is a significant proportion of the market across income groups, suggesting the decision to rent is often influenced by factors other than income, and the data suggests that 20% of households across all income groups would prefer to rent than to own.

Qualification criteria

Households that fall into the requisite income categories, but do not qualify for housing subsidies should be considered a separate housing 'market'. While the numbers of households meeting some of the qualification criteria are simple to determine using Census data (e.g. household head ages above 18 years), others are more difficult (e.g. previous access to a subsidy; previous ownership of a property) are more difficult to quantify and would have to be estimated using proxy percentages from the Western Cape Housing Demand Database.

Access to credit is also a qualification for the FLISP programme. Approximately two thirds of households falling within the FLISP income brackets would not qualify for credit required to access the subsidy. This may be improved through the new FLISP provision that allows beneficiaries to access a serviced site instead of a house, thereby reducing the amount of credit required.

Income

The income bands at the lower end of the housing market are determined by the income qualification criteria for the state housing programmes. These are different for each programme and differ in terms of ownership and rental programmes as profiled below. In addition, the evidence suggests that the supply limit and the lending limit coincide at a household income of around R11 500. The market above R15 000 is not eligible for state assistance. Although households in this bracket may struggle with stock availability and credit, the evidence suggests that there is both credit available and a willingness to develop housing in this market. Resale and downward raiding also present supply options in this market. Nevertheless, the data for the demand profiles will be presented for household incomes of R20 000 and R30 000 per month in the event that further evidence suggests that these households require some type of market intervention.

The proposed income brackets for the market segment analysis are therefore:

Ownership

- Monthly household income of less than R3 500: Subsidized market; (qualifiers and non-qualifiers);
- Monthly household income between R3 500 and R11 500: Gap market (Household eligible for FLISP but unable to access stock or credit; non-qualifiers for FLISP because of qualification criteria or inability to access credit);
- Monthly household income between R11 500 and R 15 000: Finance linked subsidy market (Households eligible for FLISP and who can access credit;

Non-qualifiers who can access credit; non-qualifiers who cannot access credit);
- Monthly household income above R15 000: Households who can access mortgage finance in the bonded market.

Rental

- Monthly household income of less than R3 500: Subsidized rental market (CRU rental housing recipients; non-qualifiers)
- Monthly household income between R1 500 and R7 500: Social Housing market (Qualifiers and non-qualifiers)
- Monthly household income above R7 500: Formal rental market (Households who can become eligible for housing in the formal rental market).

Employment status and age

While these two elements are not perceived as 'market segments' they do appear to be exogenous and/or endogenously influencing a household's placement in the housing ladder and their housing preferences. Employment is important in terms of a policy response in that job-seekers prefer cheap, flexible and well-located housing options. Age is relevant in determining the quantum of the backlog if subsidy policy dictates age brackets for qualification or preference. Age is also important in the degree to which the qualifying cohort changes over time. Demographic trends indicate that the growth in household head's aged over 18 years will decrease, but growth in household head's aged above 40 years will increase over time.

Housing market segments in the Western Cape

Combining these demand dimensions visually provides an image of the housing segments operational in the Western Cape (Figure 27).

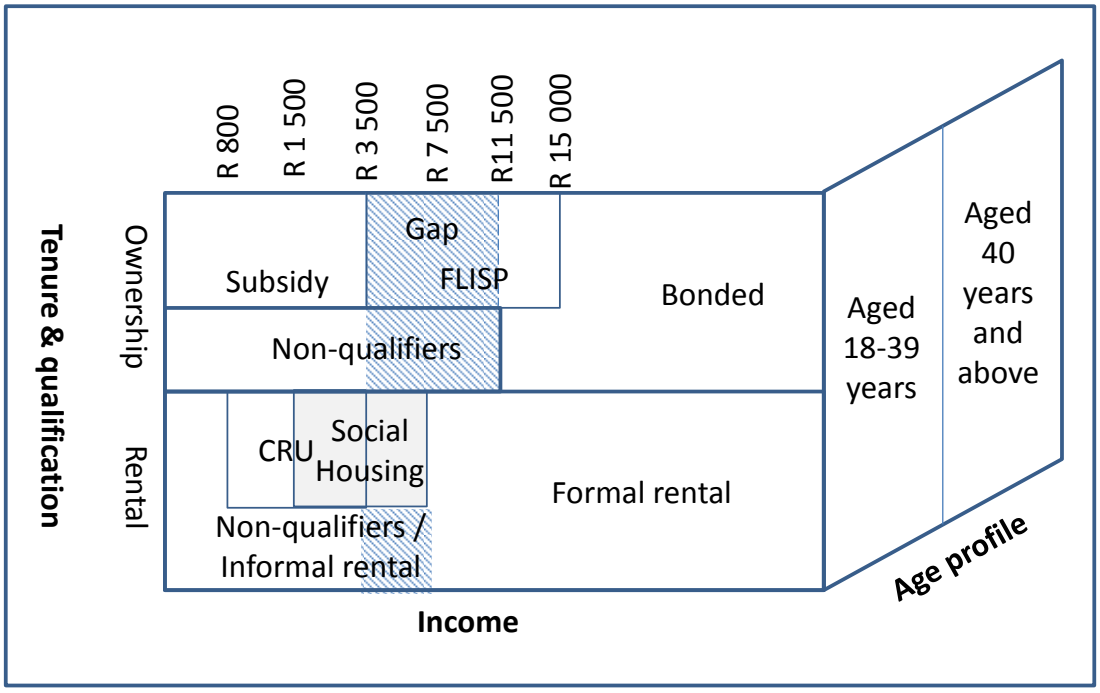

Figure 27: Housing market segments of the Western Cape

Source: Own representation

Given these dimensions, there are a number of State housing finance mechanisms available to households for meeting their housing demand. In the tenure ownership segment of the housing market, a number of housing subsidy programmes are in place for households earning below R3 500/month. For households earning between R3 500 and R15 000/month, the FLISP programme is available and beyond R15 000 households are expected to revert to the bonded market. However, not all households within the FLISP income band are able to access it due to the lending limit (household income of R11 500). Such households then represent part of the 'gap' market whose needs are partially being met through Financial Sector Charter loans.

In terms of the rental market, there are also a number of State housing programmes including CRU which relates to households earning between R800 and R3 500/month and Social Housing which relates to households earning between R1 500-R7 500/month. It is still not fully clear what the income band boundary between the formal and informal rental markets is.

While there are thus a number of programmes which households can access to meet their demand, there are also notable limitations to their capacity to access such opportunities. If a household does not meet the qualification criteria of state-funding or those of lending institutions, they fall into a category of 'non-qualifiers'. It is inferred, on the basis of the literature reviewed, that many of these non-qualifiers are reverting to residence in informal dwellings (such as shacks or traditional housing) to meet their demand. Some such non-qualifiers include, but are not limited to, non-South African citizens or parties who may have previously benefited from state housing programmes.

For the housing demand profile exercise an attempt will be made to populate the above housing market demand 'cube' for each municipality and the province as a whole in order to better inform policy responses.

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