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Centre for Affordable
Housing Finance
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Department of Environmental Affairs and Development Planning

Housing Market Studies for Intermediate Cities/ Larger Towns in the Western Cape

Paarl/ Wellington/ Mbekwini Area Report

FINAL REPORT. 2 August 2022

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This report was produced by the
Centre for Affordable Housing Finance in Africa (CAHF)

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Project background and purpose

● Problem statement

Developed in 2021, the draft Western Cape Inclusionary Housing Policy Framework provides a guide for municipalities to develop local policies which harness inclusionary housing as a mechanism to promote better located affordable housing in towns and cities, in partnership with the private sector. As a first step to determining if inclusionary housing has the potential to be an effective policy tool in the local municipal context, it's necessary to have a clear understanding of the residential property market in the municipality.

Given that many local governments do not have the means to undertake this detailed analysis themselves, the Western Cape Department of Environmental Affairs and Development Planning (DEADP) in partnership with the Department of Human Settlements appointed the Centre for Affordable Housing Finance in Africa (CAHF) to deliver housing market studies for identified urban areas of George, Stellenbosch, Mossel Bay and Drakenstein municipalities.

● Project objectives

The overall aim of the project is to underpin and support each of the municipalities to decide on the applicability of an inclusionary housing policy for their municipality and then to assist with the design and development of that policy, by providing key data to inform the design and parameters.

The reports include: analysis of the residential property markets; housing supply and demand assessments; and analysis of the affordability gap in each area, and are intended to provide the intelligence needed to ensure an evidence-led understanding of the housing markets in these urban areas.

Key research questions

In order to inform the potential development of a local inclusionary housing policy, the analysis of the residential property market must address the following questions:

- What is the profile of housing in the city? – by market segment, property type, neighbourhood
- What is the state of the residential market currently? – in terms of market performance, activity, key players, government and private sector delivery
- What is the affordability gap? – where is affordable housing needed, how much and what type? what is the target market for the affordable housing market?
- Is there an active property development market that would make the application of an inclusionary housing policy viable?

Data sources

● Deeds data from Lightstone Pty.

Deeds data was purchased from Lightstone Pty for the study areas in each of the local municipalities, covering the period 1 January 2017 – 31 December 2021. Record-level data is aggregated over time by calendar year, at subplace level, using StatsSA boundary delineations.

NB: The data purchased from Lightstone, and detailed in the Supply and Market Activity sections of this report, reflects only the Census sub-places contained within the study area—see **Appendix A** for a detailed explanation. The deeds data therefore reflects the study area, and not the entire municipality.

● TPN Credit Bureau data on rental market

Given that the deeds data from Lightstone does not allow sight of the rental market, we obtained rental market data from TPN Credit Bureau, who produce and sell Investor Reports for specific areas. The reports provide data on rental prices by size of unit (no. of bedrooms) for last three years, low, average and high monthly rental. The drawback of the TPN data is that a) it only includes formal properties, and b) only includes data from landlords and companies that voluntarily provide the data to TPN. The lack of updated municipal or sub-place level data on the rental market is critical gap impacting on municipal planning.

● Stats SA sources

Demographic data and data on housing circumstances was sourced from Stats SA sources, including the: 2011 Census, 2016 Community Survey, 2019 General Household Survey, and Labour Force Survey Q4 2021. For many key indicators, the most updated data is not available at municipal level, forcing a trade-off between how recent the data is, and whether it is too high level to be useful to a study of the city area.

● DEADP and other Western Cape provincial sources

Population estimates were provided by the WC Department of Social Development and DEADP. Quantec data (2021) published in the Municipal Economic Review and

Outlook was provided by Provincial Treasury. Additional data was obtained from DHS on: housing project pipeline status per municipality; FLISP and social housing delivery; Restructuring Zones; and demand information acquired through public Open Day events in municipalities.

● Income segments

Apart from more outdated income data from Stats SA sources, recent data on income at municipal and subplace level was difficult to obtain. In addition to Quantec data acquired from Provincial Treasury, the WC Department of Economic Development and Tourism also provided municipal-level income data for 2021. GeoTerralmage provided income data at subplace level for the four municipalities, which allowed us to isolate the data for the Paarl/Wellington area.

● Data from Drakenstein municipality

The municipality provided a wealth of information, including: valuations data; zoning maps, spatial files showing Restructuring Zones, PHSIDA, and Priority Development areas. We also received data on housing pipeline projects, development applications and emergency housing sites. This data was overlayed with deeds data from Lightstone to get a spatial understanding of market activity.

● Key respondent interviews

A limited number of key respondent interviews were undertaken to supplement the quantitative data sources. In Drakenstein, we spoke to three private developers and one estate agent. The interviews explored: trends in the market; the nature of demand and the target market; the level of activity and growth in the rental and ownership markets; and market prices (rental and ownership).

● Additional sources

Additional sources included: the Social Housing Regulatory Authority (SHRA), Consumer Credit Market Reports, and other sector reports and publications.

Study area

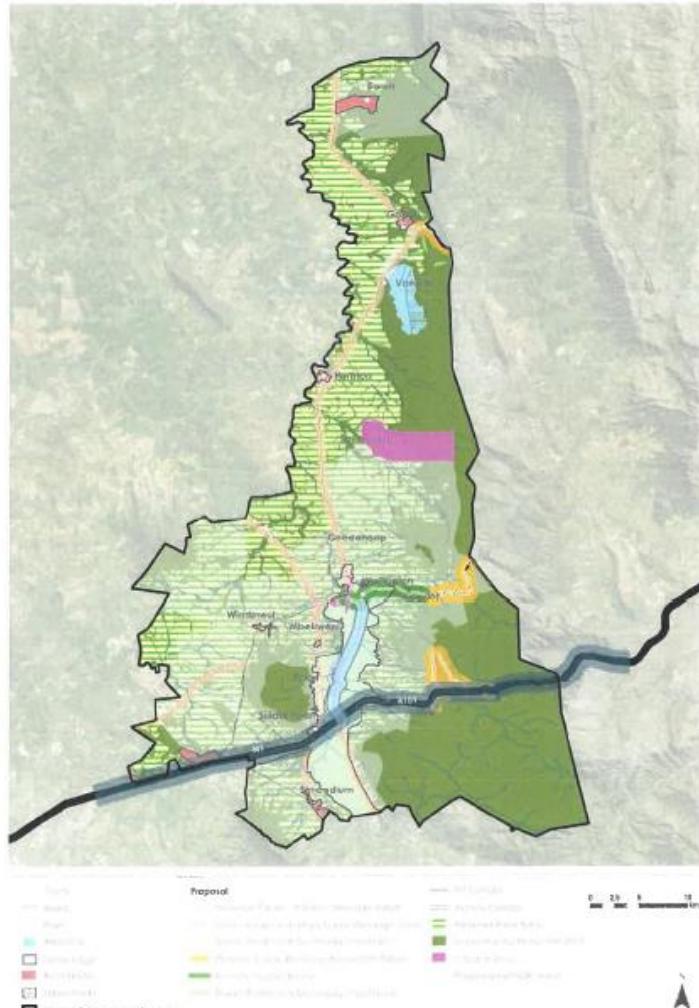
Because this study is mainly intended to inform a potential inclusionary housing policy which would focus on the main urban area of the municipality, this study covers the Paarl/Wellington/Mbekwini area only—and not the entire Drakenstein municipality.

The area identified for this study is the Paarl/Wellington area inside the urban edge, as defined in the Drakenstein MSDF. The urban edge boundary around the Paarl/Wellington area is shown very faintly in black in the map to the immediate right.

The map to the far right shows the Paarl/Wellington area within the urban edge, shaded in red. This study excludes the separate areas of Windmeul and Simondium.

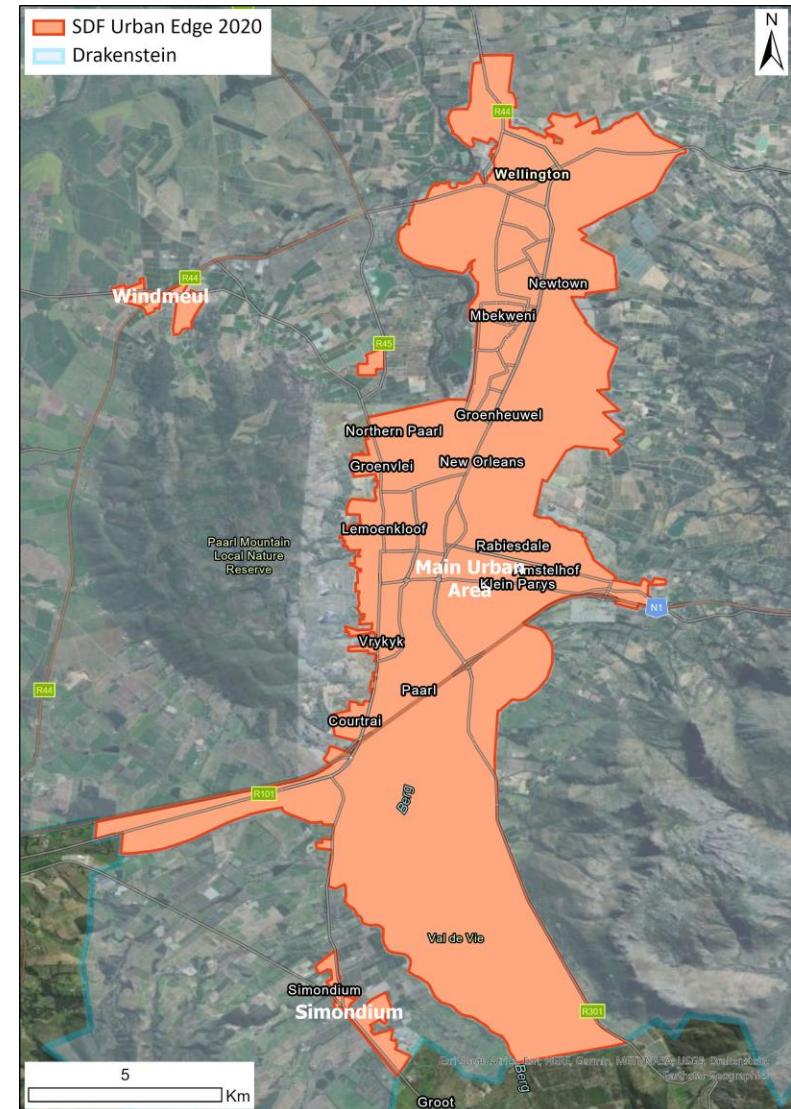
Drakenstein Municipality boundary

Urban node as defined by the urban edge, as presented in Map 6.1 of the Drakenstein Municipal Spatial Development Framework (pg 62)



Source: W C Department of Environmental Affairs and Development Planning. Appendix to Terms of Reference for the study.

Paarl/Wellington area (study area)



Data sources: Drakenstein Municipality, Municipal Demarcation Board (MDB), ESRI South Africa.

Methodology

● Deeds data analysis

The indicators obtained from Lightstone were organized into five market segments according to property value, according to Lightstone's own valuation method (see box on pg 18):

- **Entry level market** – Properties valued under R300 000
- **Affordable market** – Properties valued R300 000 – R600 000
- **Conventional market** – Properties valued R600 000 – R900 000
- **High end market** – Properties valued R900 000 – R1.2m
- **Luxury market** - Over R1.2m

By lumping all properties valued over R1.2 million into one market segment, instead of setting up market segments with equal intervals, this classification is notably biased towards the lower end of the market. These market segments were identified with the aim of providing detail on segments within range of the affordable housing market, and therefore do not prioritise detailed stratification in the market over R1.2 million. Visually, this distorts the size of the segment above R1.2 million, as many smaller segments are collapsed into one. This is an acknowledged limitation in the report, as a more detailed understanding of the market above R1.2 million, particularly below R3 million, would enhance understanding of the ecosystem impacting on affordable housing.

A second key point of note is that the deeds data—by definition—only includes those residential properties which are recorded in the Deeds Office, and therefore excludes informal settlements and backyard dwellings, and units that may be occupied but not transferred. Census 2011 data includes these areas, but it obviously outdated, and must either be used to model and estimate the current population in informal dwellings, or municipalities must undertake specific surveys, which is not feasible and affordable in most cases. In this report, we have used data from the WC Department of Social Development and GeoTerralimage, as well as data from the municipality itself.

Third, government-subsidised houses are not explicitly recognised or marked on the title deed. Therefore its necessary to use a proxy to identify these properties on the deeds registry—our proxy is based on common programme characteristics of BNG/RDP houses, including the year, first registration price and buyer type, maximum prices, and proximity to other similar housing types. Further detail is provided at **Appendix B**.

Although not in the form of records-level data, the Lightstone data indicators enable analysis of: housing stock by market segment and property type; new and resale transactions; bonded and non-bonded transactions; housing typologies (freehold, estate, sectional title); first-time home buyers; and government-subsidised properties. Analysis of these indicators enables improved understanding of market depth and scope, affordability and inclusion.

The deeds data obtained from Lightstone is not an exact match to the boundaries of the study area / urban edge, but it is very close. **Appendix A** provides detail on the geographic areas included in the deeds data for the Stellenbosch town area obtained from Lightstone. The data covers: the 16 Census subplaces within the urban edge of the town, and one specific populated area which is located within the urban edge, but part of the larger Stellenbosch NU subplace which surrounds the city area and covers rural lands. Thus all the deeds data obtained from Lightstone which is presented in this report does not encompass the entire municipality, but only the Stellenbosch town which is the focus of this study.

● Mapping

The mapping data received from the municipality and province (CSV, databases and Excels) was stored in a SQL data base where applicable to allow for connections to Power BI and Tableau software. A connection to Tableau was required as our purchased deeds data is geolocated to the Stats SA Census boundaries at the lowest level of subplace and we have pre-customized the mapping on our license in line with the Stats SA Census boundaries.

Furthermore, Tableau was also utilized to conduct analysis of the municipal data, survey data and purchased data as well as the output of graphical report charts and generic maps for the study places and the lowest level of subplace.

Additionally, for the mapping outputs, ArcGIS was utilized to produce shape files with analyzed deeds data as well as the province and municipal data where applicable, overlayed in the study focused areas.

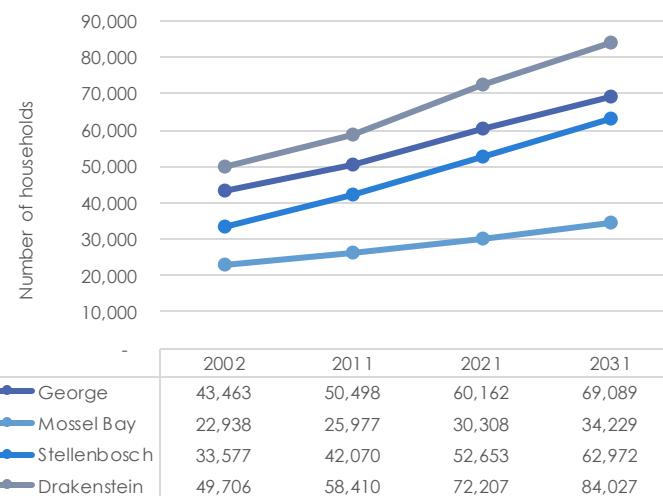
Demand side assessment

Key demographics

● Population

With an estimated municipal population of 294 310 in 2021, Drakenstein has a total of 72 207 households,* of which 84% are estimated to have access to basic services, as well as live in a formal dwelling. Population estimates by WC DSD are shown below, alongside figures for Mossel Bay, George and Stellenbosch municipalities. The municipal 2022/2027 IDP has slightly higher numbers of 205 281 population and 76 195 households.

Number of households per municipality



Source: W C Department of Social Development, Population and Household Estimates created for Inclusionary Housing Project /Study, 2022. Excel file:

According to earlier DEADP estimates, having increased relatively faster at 2.6% per annum between 2001 and 2011, Drakenstein municipality's population growth is estimated to slow to 2.2% per annum up to 2023, at which point the population growth rate is expected to further increase slightly to 2.3% per annum up to 2028. The municipality's own projections put the growth rate lower, at 1.6% over the next 10 years.

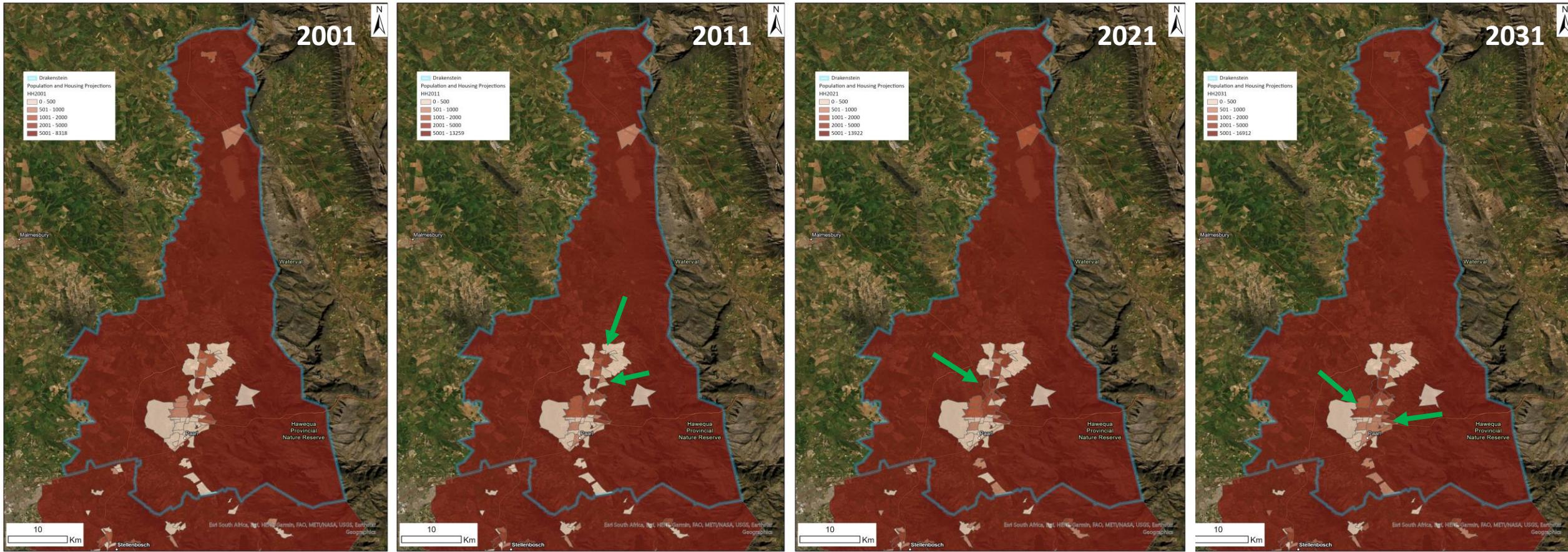
* Source is W C Department of Social Development, Population and Household Estimates created for Inclusionary Housing Project/Study, 2022. This figure for the household total differs from that sourced from GTI for 2021 (see pg. 13 below). The DSD figures were used here as shapefiles were available at sub place level to do a spatial analysis (next page).

Household size in the municipality has been declining slightly, from 4.2 in 2001, to 3.9 in 2016. According to the 2016 CS, approximately 34.5% of Drakenstein's population were adults, 35% were youth (15-34) and 5% elderly persons (65 or over). As of 2021, the municipal population was 50.8% female (2021), while the 2016 Community Survey puts the number of women-headed households at just 34%.

● Settlements in the broader Drakenstein municipality

Drakenstein's population density is 191 persons per km², less than neighbouring Stellenbosch municipality at 236 person/km². Paarl, Wellington and Mbekweni are the main residential conglomeration, and serve as the urban centre of the municipality. Over recent years, the three areas have grown into one, as the area along the N1 is developed. Paarl East has a number of informal settlements while Mbekweni also has dense informal settlements alongside the railway line.

The allotment areas of Simondium, Val De Vie and Pearl Valley are situated south of Paarl (N1). While Val De Vie and Pearl Valley are high-income, low density private developments, Simondium is a rural settlement with an informal settlement. Saron and Gouda are two rural residential towns connected to Wellington in the south by the R44.



Data sources: W.C. Department of Social Development. Population and Household Estimates created for Inclusionary Housing Project /Study. 2022.

• Population trends 2001 to 2031

The overall trend in the municipality is increased densification between the two towns of Wellington and Paarl to the south. Between 2001 and 2011, there was considerable densification in Wellington North, Mbekweni, Dalvale and Klein Nederburg. In the next ten years (2011-2021), Wellington, Mbekweni, and Dalvale saw considerable growth in the number of households, as the area between northern Paarl and Wellington, along Jan Van Reibeeck Drive filled in. In 2021, these were the areas with the highest number of households, as well as Charleston Hill, Groenheuwel, Klein Nederburg and Amstelhof.

Between 2021 and 2031, it is forecasted that the area between Wellington and Paarl will continue to densify, with Dalvale seeing the largest number of additional households. In total, the municipality will see a 24% increase before 2031, with a total of approximately 17250 new households added between 2021 and 2031—according to WC DSD estimates.

Housing context

Dwelling type and tenure

The data from the 2016 Community Survey shows that 90% of households in Drakenstein municipality stayed in formal dwellings and 9% in informal dwellings—see pie graph. According to more recent figures from the 2021 MERO, 57 112 households in Drakenstein reside in formal dwellings, or 84% of total households.

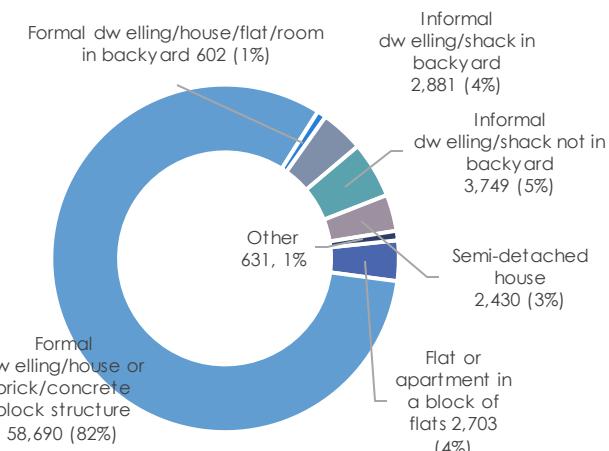
As per the 2022/2027 IDP, there are a total of 41 informal settlements in the municipality—most of these settlements are in Mbekweni and Paarl East. Furthermore, the 2016 Integrated Human Settlements Plan reported that approximately 4 000 households live in backyard dwellings.

The 2016 CS contains the most recent data at municipal level on tenure status—see table to the right. Over half of Drakenstein's households own their property (54.8%) while 23.5% rent. Between the 2011 Census and 2016 Community Survey, the proportion of households who own their properties increased by 8 percentage points, while the percentage of households who rent dropped by 10.5 percentage points. Drakenstein has a lower ownership rate than the national average (65.1%) and a lower rental rate than the national average (25.9)—according to the 2019 GHS.

Housing demand estimates

According to the 2020 Integrated Human Settlements Plan for Drakenstein, the official municipal housing waiting list exceeded 40 000 applicants in 2019. The portion of the list which is categorized as 'active demand' was approximately 20 000 individuals (figures as of November 2018). The majority of these (approximately 18 300) fall into the low income group earning R0 – R3 501 per month and thus would theoretically qualify for fully-subsidized housing, 3 200 applicants would qualify for social housing, and about 1 380 would fall into FLISP category with a monthly income of R3 501-R7 000. Nearly 85% of these applicants stay in Paarl and Dal Josephat or Wellington and Van Wyksvlei.

Number of households per dwelling type
Drakenstein (2016)



Source: 2016 Community Survey.

Number of households by tenure status
Drakenstein (2016)

	Number of households	Percent of total
Do not know	793	1.11%
Occupied rent-free	11,895	16.59%
Other	2,885	4.02%
Owned and fully paid off	29,644	41.35%
Owned; but not yet paid off	9,608	13.40%
Rented from other (incl. municipality and social housing ins)	6,364	8.88%
Rented from private individual	10,482	14.62%
Unspecified	15	0.02%
Grand Total	71,686	100.00%

Source: 2016 Community Survey.

In the Paarl and Wellington area, evictions pose another serious housing issue, particularly evictions from farms. According to the 2020 IHSP, approximately 870 households in total are affected by farm evictions in terms of ESTA and evictions in urban areas, in terms of the PIE Act.

Employment

As a tourist area, Drakenstein's primary employment sectors are wholesale, retail trade, catering and accommodation, and finance, insurance, real estate and business services. The municipality was therefore hard hit by the pandemic. Job losses and reduced income in both the formal and informal sectors contributed to increased poverty. In 2020 Drakenstein's GDP per capita was R76 561, less than Stellenbosch (R89 378).

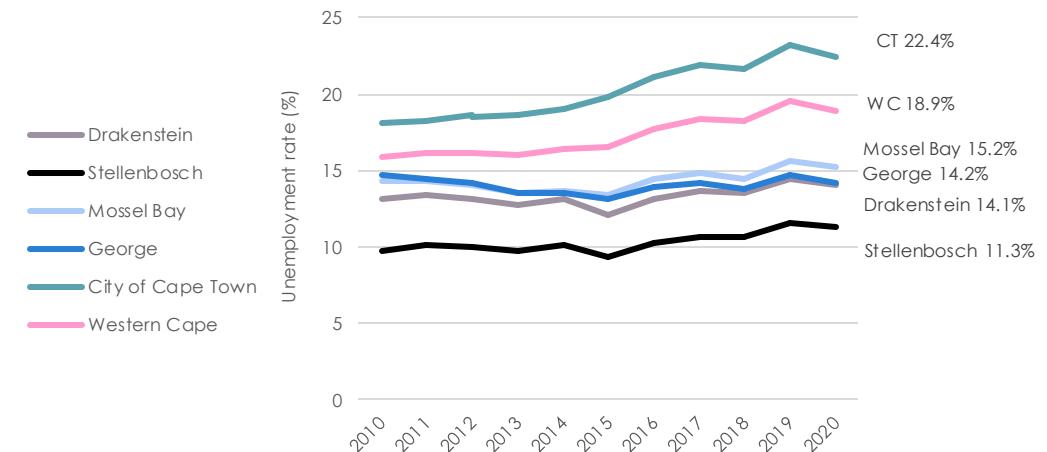
• Employment

According to the 2021 MERO, despite the onset of the pandemic, unemployment in Drakenstein municipality actually dropped from 14.5% in 2019, to 14.1% in 2020. The 2022/2027 IDP has the absolute number of lost jobs in the municipality between 2019/20 and 2020/21 at approximately 6 500.

In terms of formal employment, 24% of workers in 2020 were skilled, 38% semi-skilled, and 38% low-skilled, with the number of skilled workers growing slightly in the last four years. Approximately 22% of the work force in the municipality were in informal employment in 2020.

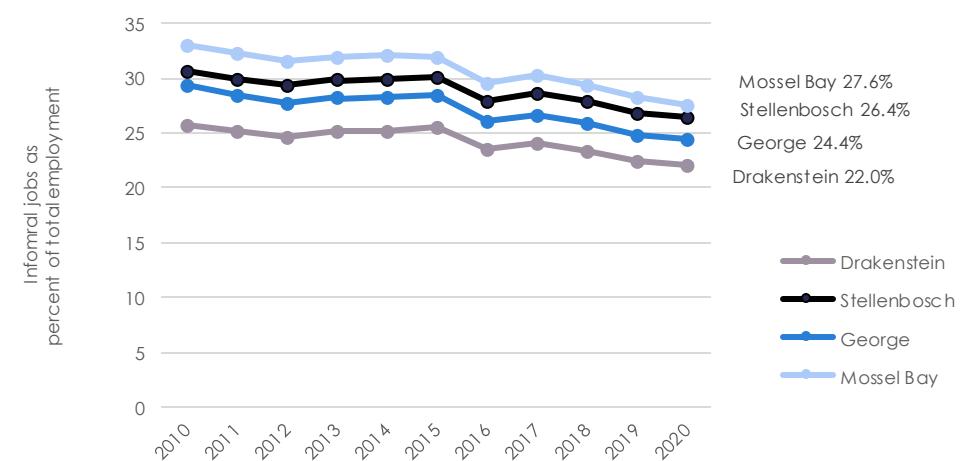
Apart from those who are unemployed, the large number of persons in informal employment creates a challenge for accessing finance to support their housing. Mortgage finance is likely unavailable to these households as banks require evidence of formal employment with a regular income.

Unemployment rates (2010-2020)



Source: 2021 Quantec, calculations by Urban Economics.

Informal employment (2010-2020)



Source: 2021 Quantec, calculations by Urban Economics.

Household income

• Household income

At R19 999 in 2019, average monthly household income in Drakenstein exceeded the average for the country and the province, but fell below that of the Cape Town metro. Drakenstein's average monthly household income in 2019 was also marginally higher than its neighbour Stellenbosch.

Similar to the average household income in the metro and the province which declined from 2015 to 2019, the average household income for Drakenstein dropped by 0.2% over the same period.

Average monthly household income (current prices), 2019

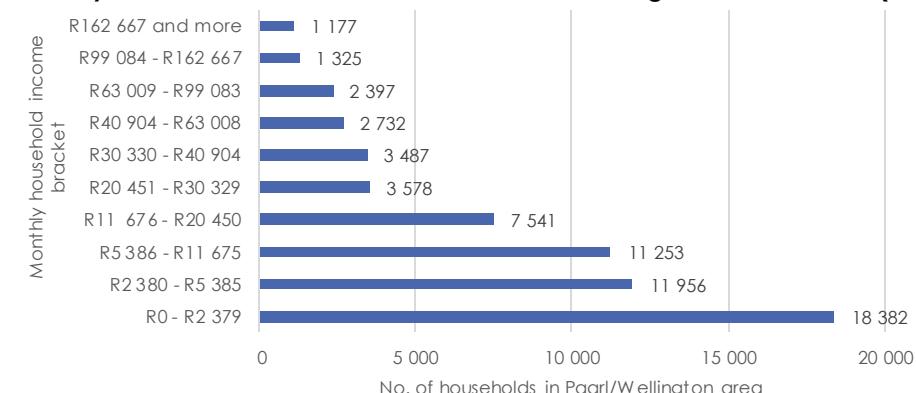


Source: 2021 Quantec, calculations by Urban Economics.

• Income distribution

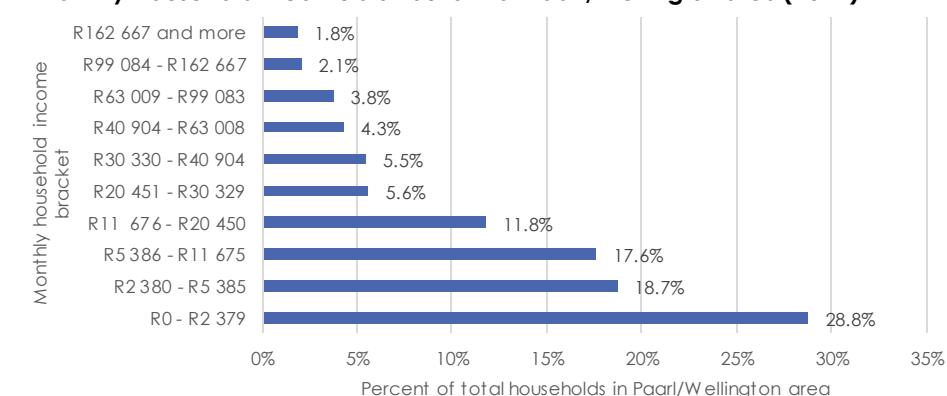
Income data obtained from GeoTerralmage (GTI) for 2021 at subplace level allowed analysis of the income profile of households in the George study area, instead of the entire municipality.* The graphs above display the income distribution. In the Paarl/Wellington area, 29% of total household earn R2 379 or less / month, while 65% earn approximately R12 000 or less per month. Only 12% of households in Paarl/Wellington earn over R41 000 per month.

Monthly household income distribution for Paarl/Wellington area; n=63 829 (2021) **



Source: ©GEOTERRALM AGE – Neighbourhood Lifestyle Index™© (NLU™©) Release 2021.

Monthly household income distribution for Paarl/Wellington area (2021) **



Source: ©GEOTERRALM AGE – Neighbourhood Lifestyle Index™© (NLU™©) Release 2021.

However, as noted earlier, the nature of income, as well as quantum, impact on access to housing finance. Households with irregular, and/or informal income will be unable to access formal credit from a bank.

* The W C Department of Economic Development and Tourism also provided municipal level data for 2021. A comparison of the DEDT and GTI data shows that the overall number of households at municipal level is close, but the GTI data has considerably more households at the bottom income segment. A comparison of the two data sources is provided in Appendix C. The GTI data is used in this report because it was available at subplace level.

**Includes data from Paarl/Wellington area only. See Appendix A.

Rental market

Rental rates

As noted above, the 2016 CS put the overall rental rate for Drakenstein municipality at 23.5%. However subplace-level data on the percentage of households who rent is scarce.

The most recent data on the percent of households renting by sub place is only available from the 2011 Census, and indicated—at that time—overall 34% of households in the entire municipality rented their accommodation. In Paarl/Wellington alone, that percentage was higher at 37%. At that time, subplaces with the highest percentages of households renting were Paarl SP3, Esterville, and Victor Verster.

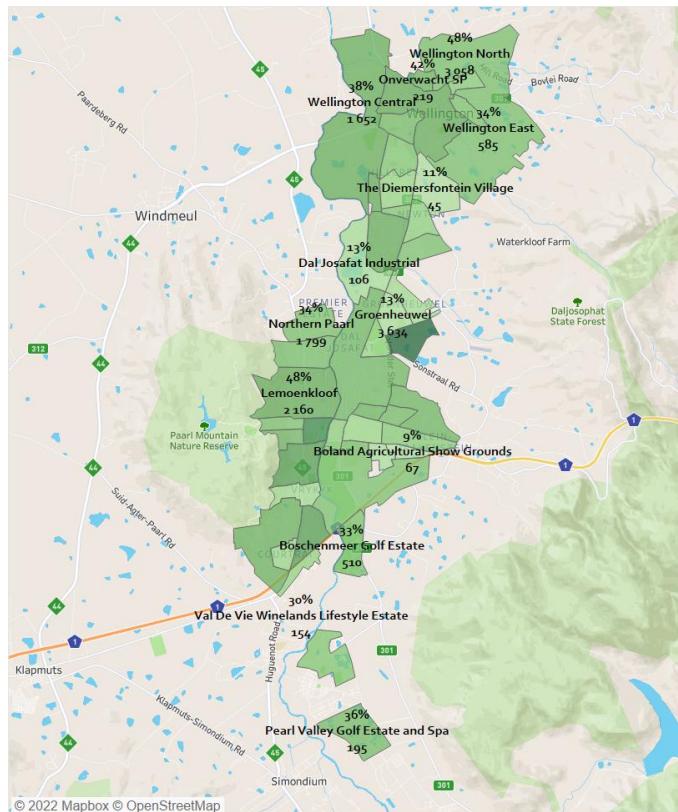
In Paarl, the areas with highest rental rates were Esterville, closer into town (72%) and Paarl SP3, near Dalvale and Groenheuwel.

The pie graph displays Census 2011 figures for Paarl/Wellington only. In terms of the size of rental units, approximately 19.5% were 1-2 bedroom units, 17% were 3 rooms, and 20% had 4 rooms back in 2011.

However clearly these areas, and the rest of the Paarl and Wellington, have changed significantly in the last eleven years, with the amount of rental in the central areas of both towns likely increasing. The 2020 IHSP reported that the municipal portfolio of 3 772 residential rental units provided housing to 15 000 – 20 000 households. A private developer working in the area who we interviewed reported that there are some more affordable rental flats in the CBD area, but over recent years, there has been a growing demand for rental properties that has driven rental prices higher.

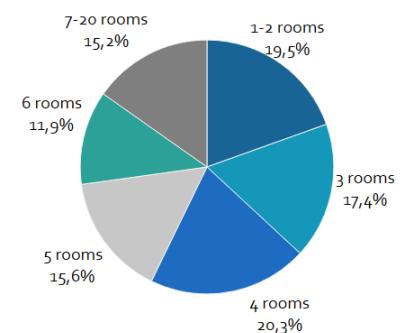
Percent households renting

Drakenstein, 2011



Source: Stats SA Census 2011

Paarl/Wellington area: Rental dwellings by number of room (2011)



Source: Stats SA Census 2011

Summary of demand side assessment

Demand for affordable housing

As per 2021 estimates, Drakenstein municipality has approximately 72 000 – 76 000 households, depending on WC DSD or municipal source. In recent years, the area between Wellington and Paarl has been filling up, with increased densification along the Jan Van Riebeek corridor, effectively joining the two towns. Looking forward, it is forecasted that the area between Wellington and Paarl will continue to densify, with a total of 17 256 new households added between 2021 and 2031.

With around 90% of households in formal dwellings, over half of Drakenstein's households own their property (54.8%) while 23.5% rent (2016 CS). The municipality has 41 informal settlements, housing approximately 2 500 households, with another 4 000 households residing in backyard dwellings. Evictions from farms and urban areas affects another 870 households.

In 2019, the municipal waiting list exceeded 40 000 applicants, of which around 18 300 earn R0 – R 3501 per month and another 1 380 earn between R3 501 and R7 000 per month.

Affordability

According to the 2021 MERO, unemployment in Drakenstein municipality was 14.1% in 2020, and approximately 22% of the work force was in the informal sector. Calculated at R19 999 in 2019, average monthly household income in Drakenstein municipality exceeded the average for the country and the province, but fell below that of the Cape Town metro.

Income data from GTI indicates that 36% of municipal households earn R3500/month or less, and 19% earn between R3 501 and R8 000 per month. As shown in the table to the right, approximately 11% of households in the Paarl/Wellington area earn R16 001 – R30 000, the income needed to purchase a R650 000 house with a bond. Only 18% of households in the Paarl/Wellington area earn over R30 000 per month, the approximate amount needed to purchase a R1.2 house with mortgage finance.

The following section explores whether there is a sufficient supply of houses in the price bracket which is affordable to these households.

Paarl/Wellington household income brackets and affordable housing purchase price (2021)

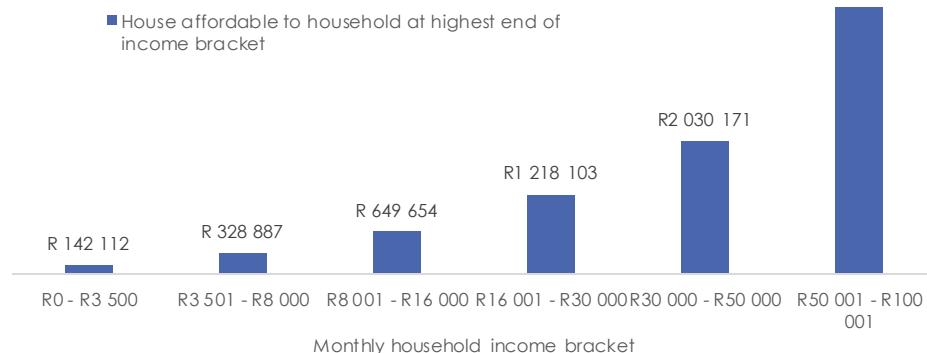
Monthly household income bracket **	No. of households	Percent of total households	House affordable to household at lowest end of the bracket*	House affordable to household at top end of bracket
R0 - R3 500	22 838	35.8%	---	R142 112
R3 501 - R8 000	12 173	19.1%	R142 112	R328 887
R8 001 - R16 000	10 291	16.1%	R328 887	R649 654
R16 001 - R30 000	7 283	11.4%	R649 654	R1 218 103
R30 000 - R50 000	4 730	7.4%	R1 218 103	R2 030 171
R50 001 - R100 001	4 024	6.3%	R2 030 171	R4 060 343
> R100 000	2 483	3.9%	R4 060 343	---
Total	63 822	100.0%		

Source: ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™ (NLI™) Release 2021. Own calculations.

*Assuming a 7.75% interest rate, loan tenor of 20 years, 10% deposit, 30% housing premium to income ratio, and no FLISP. Also assuming the household has a regular formal income and is not accessing other finance. See cautionary notes of methodology on pg 29 below.

** The GTI income brackets shown on pg 13 have been converted here to standard income brackets. The conversion assumes the number of households is evenly spread across the income bracket, which may not be true. The total number of households in this table differs slightly from the total on pg 13 because of the conversion.

Paarl/Wellington household income brackets and affordable housing purchase price (2021)*



Source: Own calculations.

*Assuming a 7.75% interest rate, loan tenor of 20 years, 10% deposit, 30% housing premium to income ratio, and no FLISP. Also assuming the household has a regular formal income and is not accessing other finance. See cautionary notes of methodology on pg 29 below.

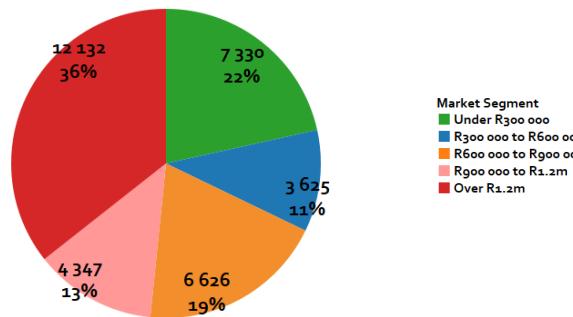
Supply side assessment

Total residential market – Housing stock by market segment

Market segmentation allows for analysis of how categories of properties have performed differently over time. Most properties under R300 000 were developed through government intervention with resale restrictions for houses under eight years old. Properties between R300 000 and R1.2 million are of current interest to government, investors and developers keen on providing more affordable housing, while houses valued over R1.2 million typically trade in more formal and established ways.

Number of residential properties by market segment

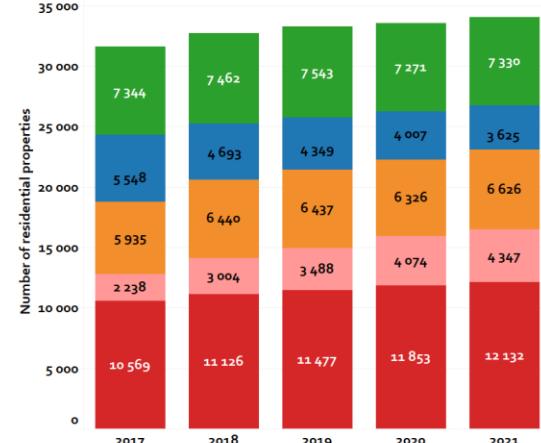
Drakenstein, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

Number of residential properties by market segment

Drakenstein, 2017 to 2021



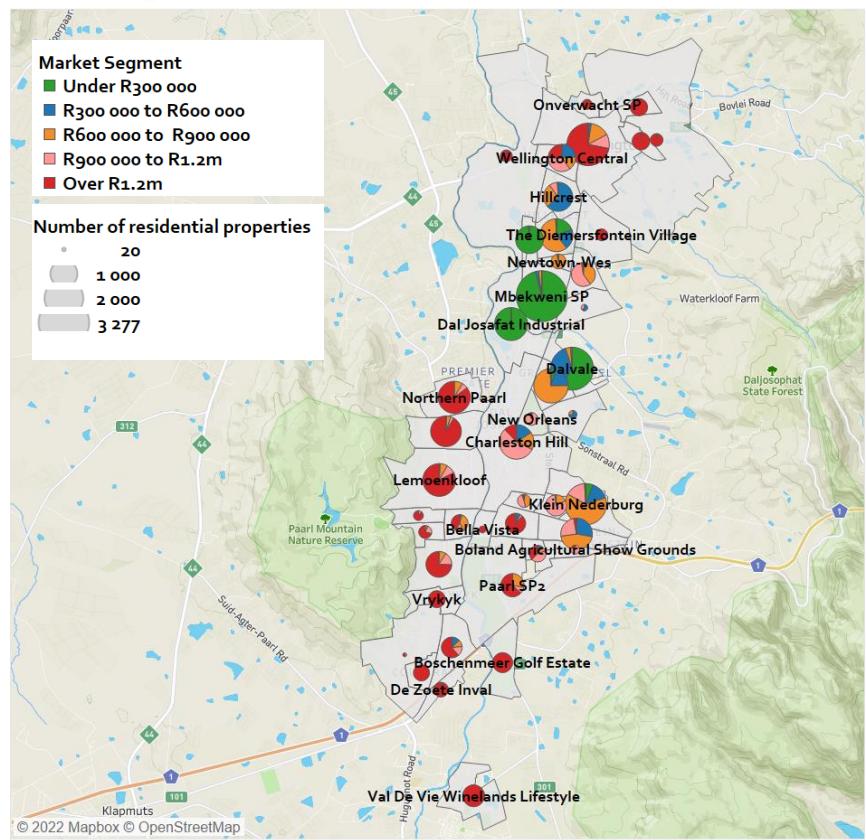
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

Market segmentation

The total value of the residential property market of Paarl/Wellington was R48.7 billion in 2021, an increase of 5% from 2020. Just under a quarter (22%) of residential properties in the Paarl/Wellington area are in the **entry** market, valued R300 000 or less, 11% are in the **affordable** market (R300 000 to R600 000) and 19% are in the **conventional** market (R600 000 to R900 000). The remaining properties account for just about half the properties in the municipality valued over R900 000 (49%), and thus would require a monthly household income of approximately R22 200 in order to purchase with a mortgage. (This calculation—and others in this report—assume a 7.75% interest rate, 20-year loan tenor, 10% deposit, 30% housing premium to income ratio, and no FLISP subsidy.) Just over half (52%) the properties in the Paarl/Wellington area are valued R900 000 or less. Of the properties in the **entry** market, 87% are government subsidised properties (GSP).

Distribution of residential properties by market segment

Drakenstein, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Entry level and **affordable** housing is centred in Mbekweni, Dal Josafat Industrial and surrounding areas. Higher value properties are located in the north around the Wellington area and south along the R45/Main Road and Berg River Boulevard corridors, stretching from Northern Paarl to Boschenmeer Golf Estate.

Comparing Lightstone deeds data to the Drakenstein Valuation Roll

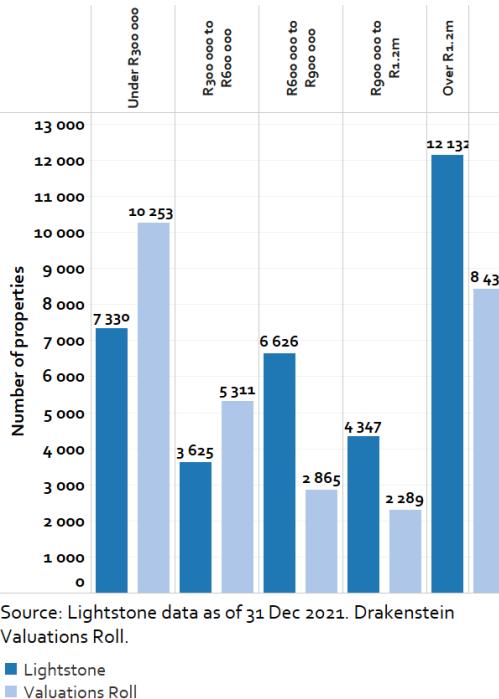
The Lightstone data for the study area as of 31 December 2021 includes 34 060 residential properties in total, while the Drakenstein Valuation Roll (January 2022) contains 29 150 residential properties or a difference of 16.8%.

The difference between the total residential stock counts of Lightstone and the municipal valuation roll are to be expected, for a number of reasons. Firstly, there may be a difference in timing between the date that the municipality published their roll, and the updated data from the Deeds Office and Surveyor General which Lightstone uses for its count at any point in time.* Second, the municipality may categorise residential properties differently than Lightstone. Finally, municipalities may undervalue properties in order to avoid widespread disputes over rates.

Having acknowledged these differences in methodology, a comparison of the two datasets is still valuable as it provides a more detailed picture of the market. Furthermore, the municipal valuation roll permits sight into the market segment above R1.2 million.

The graph compares the data from the two sources and shows that the number of properties in each market segment is lower as per the Drakenstein VR for the top three market segments. For the bottom two market segments, there are more records on the VR than the Lightstone data.

Number of properties by market segments: Drakenstein and Lightstone data (2021)



Lightstone's valuation methodology

Lightstone's valuation approach is broadly based on three methodologies and uses a combination of these methodologies to estimate the value of a property at a given point in time:

1. Repeat sale valuation of the property: A previous sale price is inflated to current value using the Lightstone Residential Property Price Indices. Properties may have an extremely low purchase prices and as such these prices are often not used to generate a repeat sale valuation, but may sometimes be utilised where it appears that there are volumes that carried similar sale prices in the area.
2. Comparable sales valuation: This methodology uses comparable sales in the area in recent times inflated to current value using the Lightstone Residential Property Price Index. If low value sales occurred in the area, these values will affect the comparable sale valuation downwards.
3. Third party valuations: These are valuations completed by third parties such as municipalities and physical valuers which Lightstone uses as input at a property level in valuing a particular property. The Lightstone Residential Repeat Sale Indices is then used to bring historic valuations to current value.

Comparing Lightstone deeds data to the Drakenstein Valuation Roll

The graph below further segments the properties valued over R1.2 million, as per the Drakenstein VR, and shows that many of the properties are grouped at the bottom end of the **luxury** segment—R1.2 million to R1.8 million.

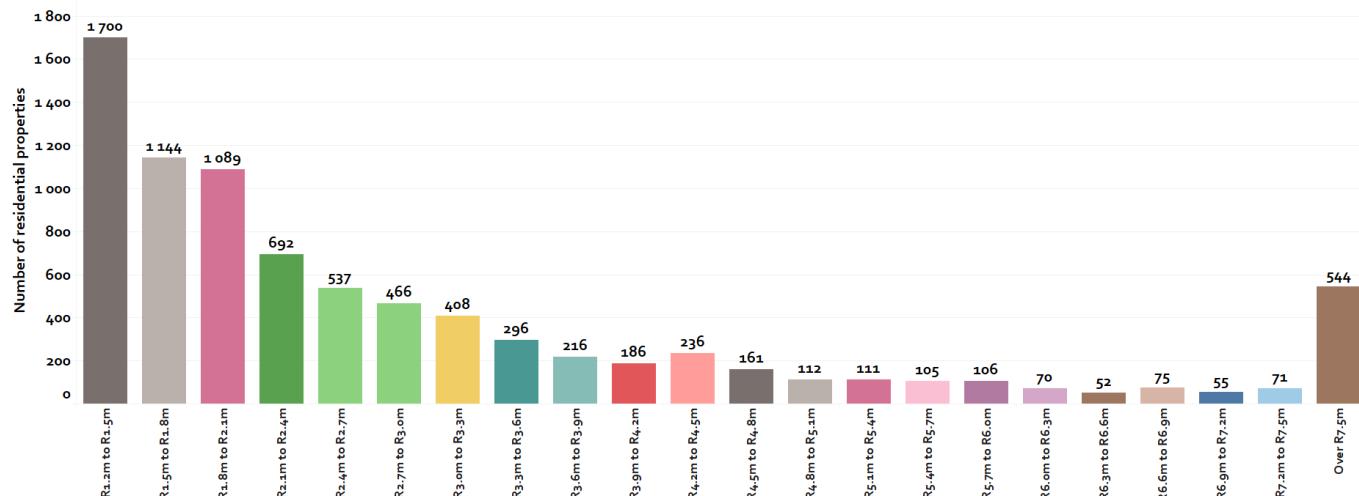
Properties over R1.2 million

A critical drawback of the five market segments we use to analyse the Lightstone data is that all properties valued above R1.2 million are grouped together. Properties over R1.2 million are not separated into segments of R300 000 increments, which would allow for more detailed and nuanced understanding of the upper end of the property market.

The graph directly below shows the number of residential properties valued over R1.2 million, as per the Drakenstein VR, separated into increments of R300 000, up to R7.5 million. There are fewer properties in each segment as the values rise. Of the properties valued over R1.2 million, 19% are valued R1.2 - R1.5 million. The next two market segments (R1.5m – R1.8m; and R1.8m – R2.1m) each constitute 13% of the number of residential properties valued over R1.2 million.

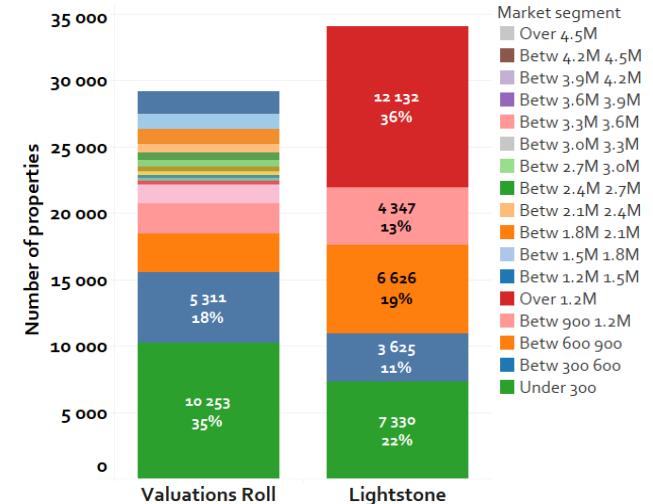
The graph to the far right displays the Lightstone market segmentation, alongside the detailed market segmentation possible with the VR data.

Number of residential properties over R1.2 m by market segment: Drakenstein VR



Source: Drakenstein Valuation Roll, January 2022.

Percentage of properties by market segments:
Drakenstein VR and Lightstone data (2021)



Source: Lightstone data as of 31 December 2021. Drakenstein Valuation Roll, January 2022.

Total residential property – Housing stock by property type

Property type categorization is particularly relevant because of its implications for affordability. Often estate properties are higher value, while sectional title—in some, but not all cases—offer a more affordable option. However, both properties in private estates and those in sectional title schemes would be charged levies, which creates an additional expense to the mortgage repayment, rates and service charges.

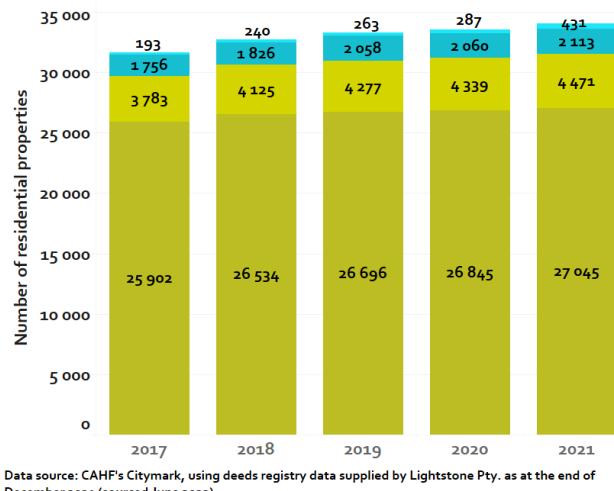
Second, the property type is particularly relevant to an inclusionary housing policy as typically estate properties are located outside the main urban areas, while sectional title units may be better located in relation to economic opportunities.

Property type by market segment

As shown in the graph to the right, within the Paarl/Wellington area, most properties are freehold outside estates (79.4%). All 7 330 properties in the **entry** market are freehold outside an estate, due to the GSP in that market below R300 000 (87%). In the **luxury** market, 4 128 or 34% of the properties are freehold within an estate while the **conventional** market has most sectional title properties outside an estate (980 or 14.8%).

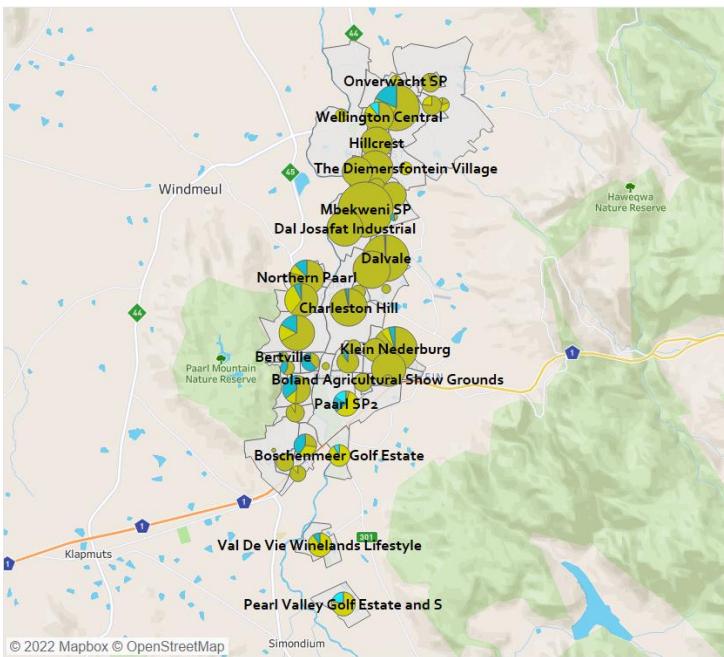
Number of residential properties by property type

Drakenstein, 2017 - 2021



Distribution of residential properties by title type

Drakenstein, 2021



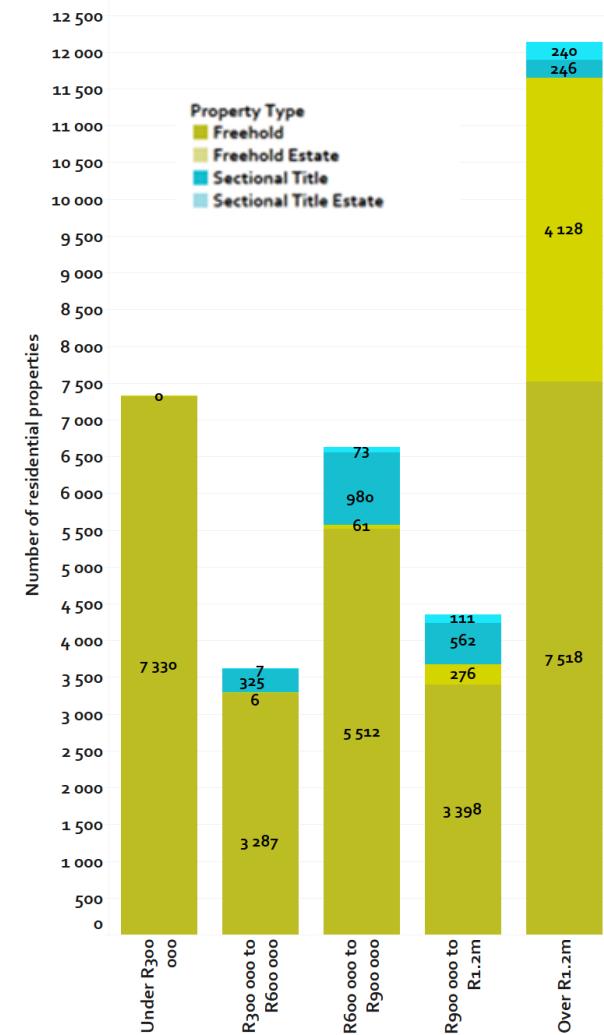
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

Number of residential properties

Property Type Description	Number of residential properties
Freehold	20
Freehold Estate	1 000
Sectional Title	2 000
Sectional Title Estate	3 277

Total number of properties by title type by market segment

Drakenstein, 2021



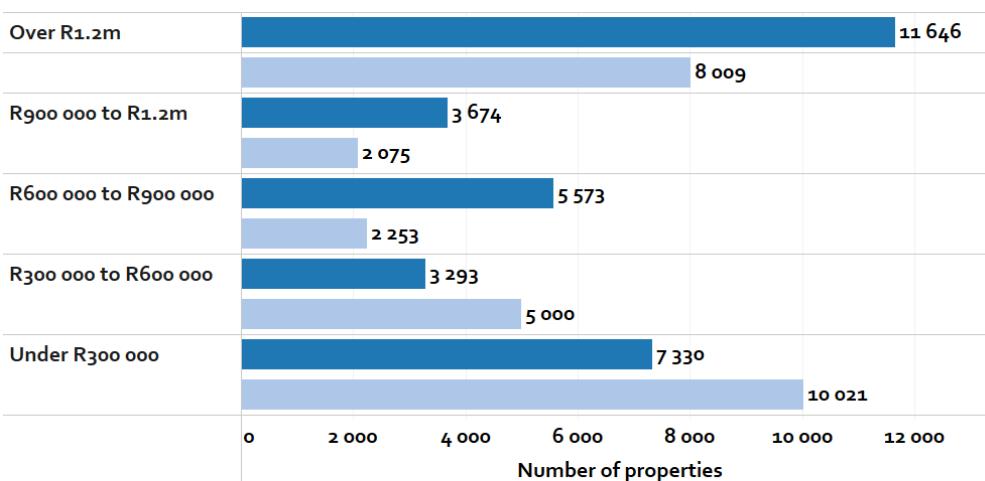
Comparing Lightstone deeds data to the Drakenstein Valuation Roll - Property types

The graphs below compare the data on the number of freehold and sectional title properties from the two data sources: the Drakenstein Valuation Roll and the Lightstone deeds data.

The Drakenstein Valuation Roll does not distinguish between freehold estate and freehold properties (outside private estates). The Lightstone data reflects more freehold properties in the three upper market segments, while the Valuation Roll contains more properties than Lightstone data in the [entry](#) and [affordable](#) markets.

Similarly, with respect to the sectional title properties, Lightstone data reflects more properties than there are on the Drakenstein Valuation Roll. Again, the Lightstone data has more records in the upper market segments, compared to the VR, however Lightstone records fewer sectional title properties valued below R900 000 than the VR.

Number of freehold properties by market segment: Drakenstein VR & Lightstone data (2021)



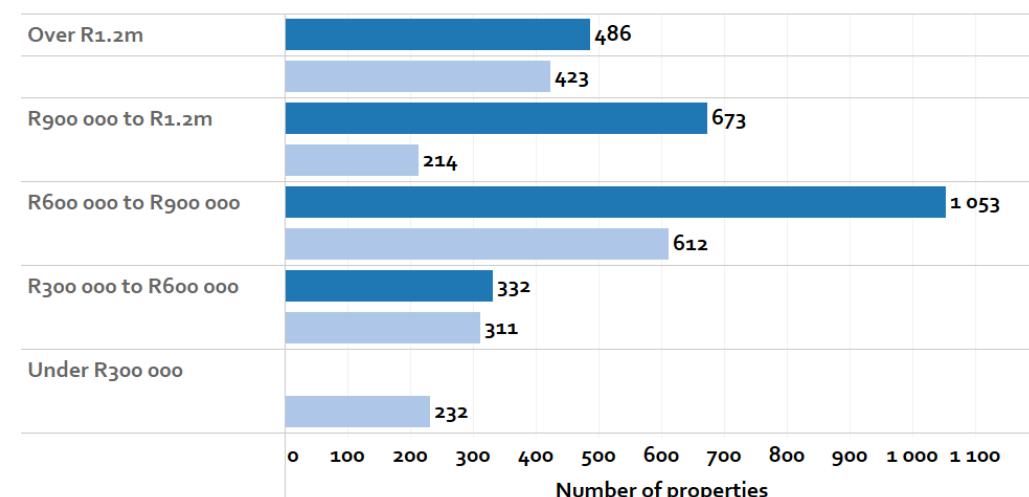
Source: Lightstone data as of 31 Dec 2021. Drakenstein Valuations Roll.

- Lightstone
- Valuations Roll

In the [entry](#) market, there are no sectional title properties valued under R300 000 as per Lightstone data, compared to 232 listed in the Valuation Roll.

In summary, the comparison of the stock data for freehold and sectional title properties from the VR and Lightstone reflects a similar pattern. For both property types, it appears Lightstone has a higher total count. However the Lightstone records contain more higher value properties while the VR has a larger number of low value properties.

Number of sectional title properties by market segment: Drakenstein VR & Lightstone (2021)



Source: Lightstone data as of 31 Dec 2021. Drakenstein Valuations Roll.

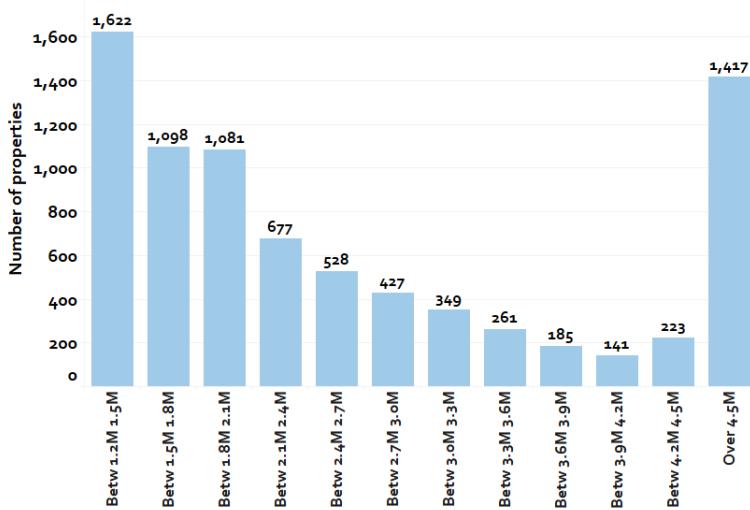
- Lightstone
- Valuations Roll

Drakenstein Valuation Roll - Property types by market segment

The data in the Drakenstein Valuation Roll enables us to look at the properties valued over R1.2 million, in smaller market segments, to get a sense of the distribution.

The graph below shows freehold properties over R1.2 million as per the Drakenstein Valuation Roll. In the Lightstone data, 37% of freehold (inclusive of both within estates and outside estates) properties are in the **luxury** market segment, compared to 29% of freehold properties in the municipal valuation roll.

Number of freehold properties over R1.2 million by market segment: Drakenstein Valuation Roll

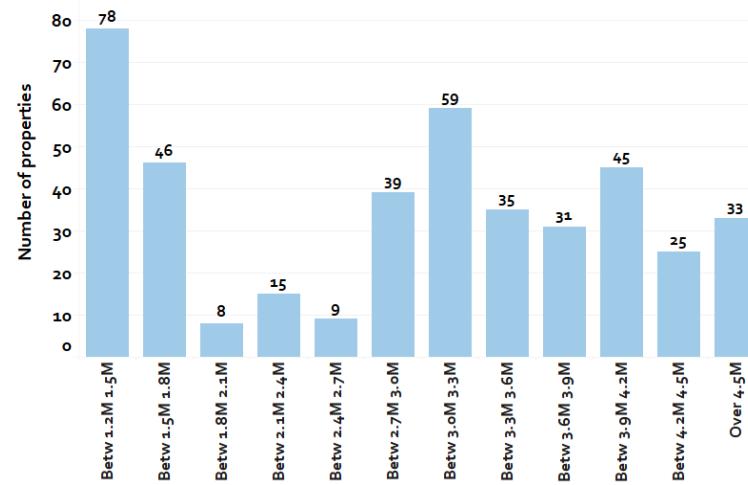


Source: Drakenstein Valuation Roll, January 2022.

The second graph looks at the sectional title properties valued over R1.2 million in the Drakenstein Valuation Roll. While there are a large number of sectional title between R1.2 million and R1.5 million, there are relatively few in the price segment between R1.8 million and R2.7 million.

In the Lightstone data, just 19% of sectional title (inclusive of both sectional title within estates and outside estates) properties are in the **luxury** segment while in the municipal valuation roll, 24% of sectional title properties are valued over R1.2 million.

Number of sectional title properties over R1.2 million by market segment: Drakenstein Valuation Roll



Source: Drakenstein Valuation Roll, January 2022.

Comparing municipalities – By size, market segmentation, GSP and property type

The graph to the right uses the Lightstone data to compare the study areas in George, Mossel Bay, Stellenbosch and Paarl/Wellington, with respect to the number of residential properties by market segment, the share of government-subsidized properties (GSP), and property type.

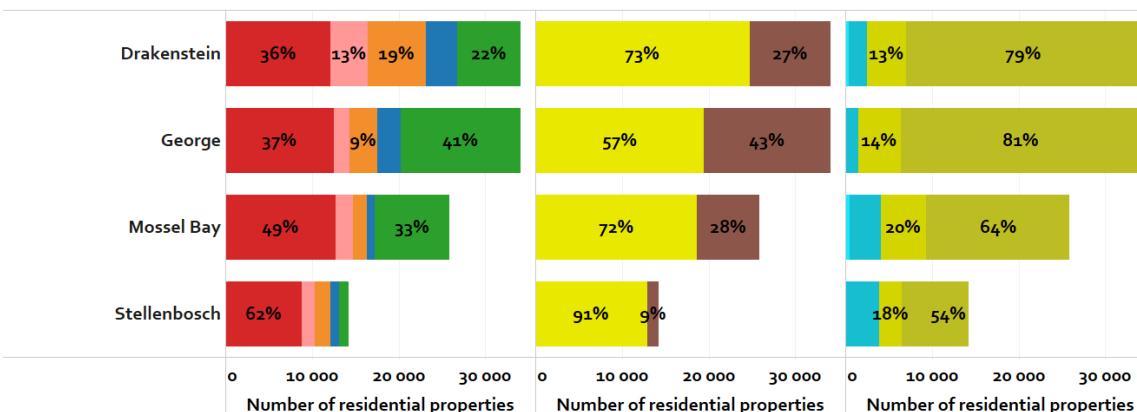
Market segmentation

In terms of the number of residential properties, among the four study areas, Paarl/Wellington has the second largest number of properties behind the George city area. Of the four study areas, Paarl/Wellington also has the widest spread of properties across the five market segments with all segments but one ([affordable](#)) having a portion more than 10%. However, the other three study areas have a higher share of properties in the [luxury](#) market.

Residential market size

Properties by market segment, government -subsidised housing and property type

Western Cape Housing Study Municipalities, 2021

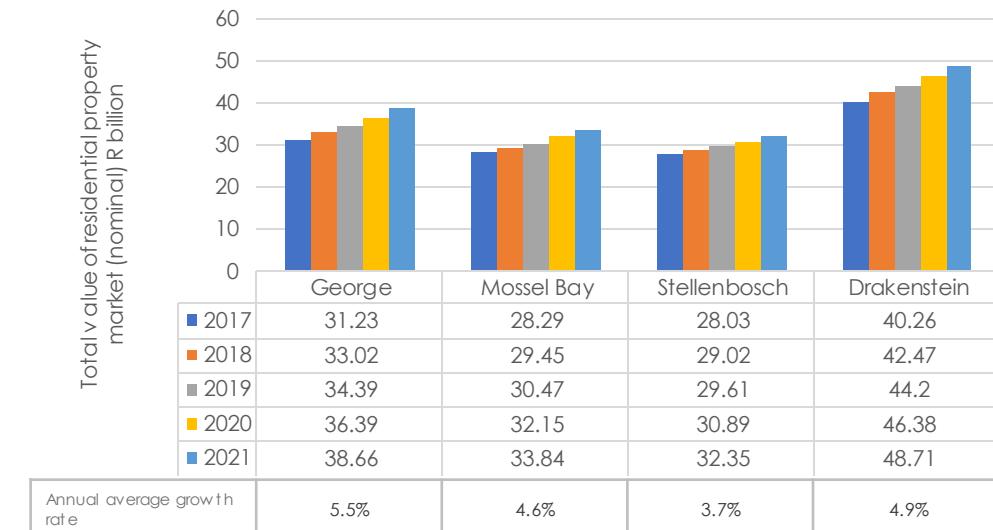


Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

Market Segment	Subsidy Type
Under R300 000	Government subsidised housing
R300 000 to R600 000	Non-subsidy
R600 000 to R900 000	
R900 000 to R1.2m	
Over R1.2m	

Property Type Description
Freehold
Freehold Estate
Sectional Title
Sectional Title Estate

Total value of residential property markets and average annual growth rate (2017-2021)



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Contribution of government housing programmes

Similar to the Mossel Bay city area, in Paarl/Wellington, 28% of the residential properties are government-subsidised and these GSP properties are worth 5.4% of the total residential property market in the municipality. In contrast, Stellenbosch town has less than 9% GSP (in terms of numbers of properties), while the George city area has 43% GSP. Of the total GSP in Paarl/Wellington, a quarter (25%) are valued over R300 000 and 74% are more than 8 years old.

Property types

The majority of Paarl/Wellington's residential property market is freehold title (79%), while freehold titles within estates constitute about 13%. Stellenbosch has the largest proportion of sectional title properties among the four areas, due to the amount of student housing. Although freehold estate properties only make up 13% of total properties in the Drakenstein city area, they account for 36% of the total value of the residential property market.

* GSP are identified through a proxy which is applied by Lightstone the deeds data. See further details at Appendix B.

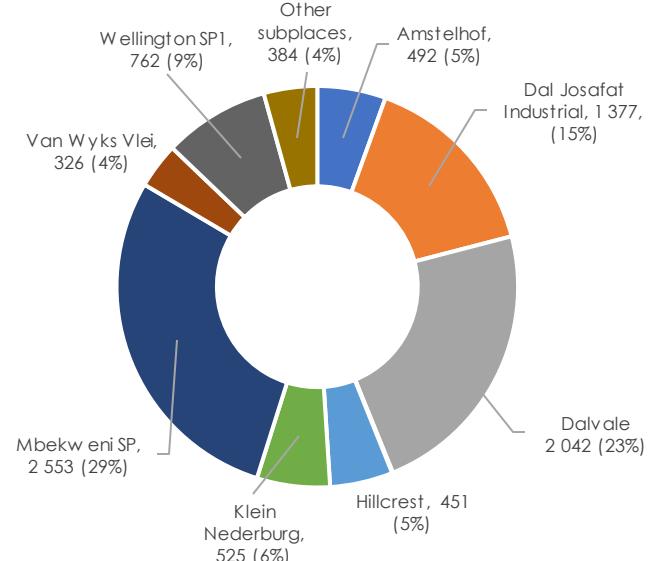
Government-subsidised properties – Number and spatial distribution

Government subsidised houses are not explicitly recognised or marked on the title deed. Therefore it's necessary to use a proxy to identify these properties on the deeds registry—the proxy is based on common programme characteristics of BNG/RDP houses, including the year, first registration price and buyer type, maximum prices, and proximity to other similar housing types (see [Appendix B](#)). This analysis helps to understand the contribution of public investment in subsidised housing programmes, and the performance of these assets on the ground.

Using this proxy, it is estimated that Paarl/Wellington contains **9 282 GSP**, making up **27% of residential properties** in 2021—and 5.4% of the total value of the residential property market.

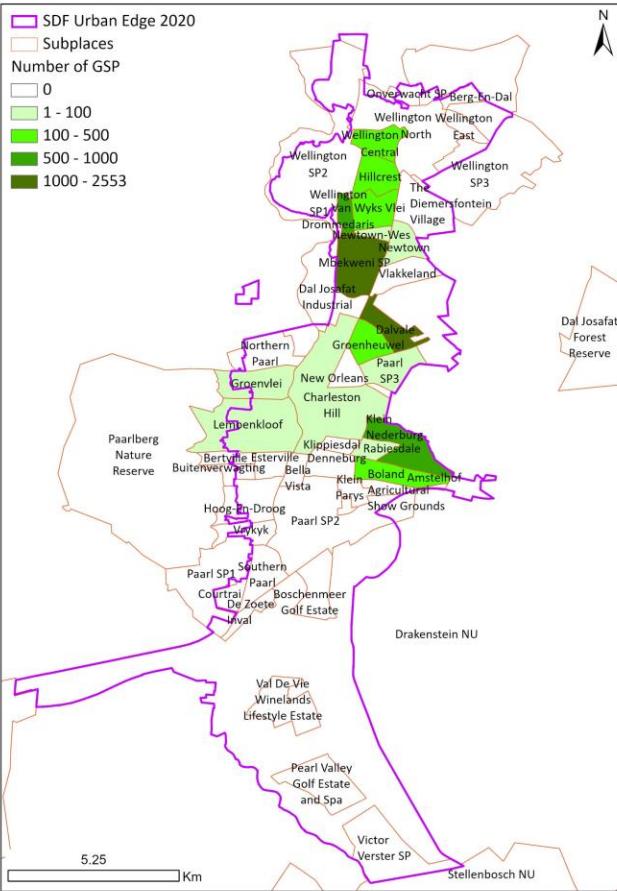
Notably, by virtue of the fact that this is deeds data, these figures only include those subsidised houses where the transfer of title is registered in the Deeds Office. Due to the title deed backlog, these figures will not reflect those units delivered by government and handed over to beneficiary households but have not been transferred.

Paarl/Wellington: Distribution of government-subsidised housing by Census subplace

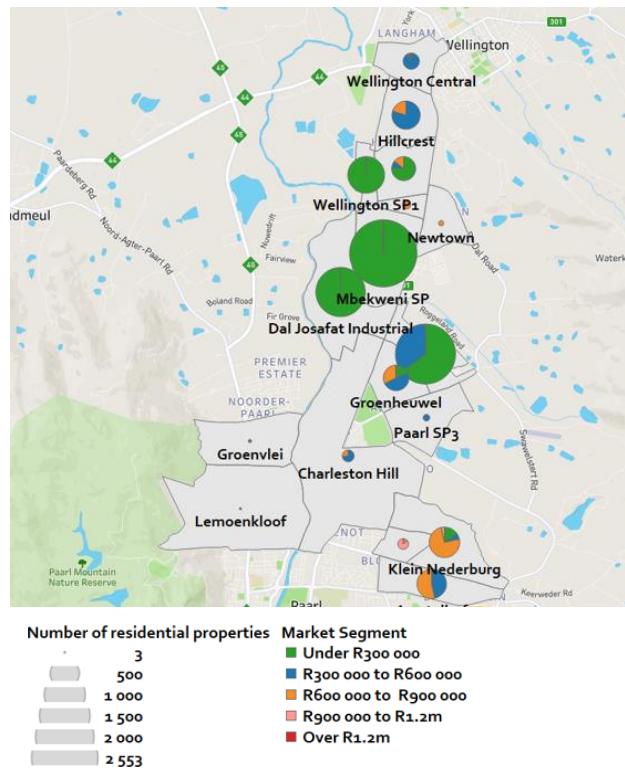


Paarl/Wellington:

Distribution of GSP by Census subplace



Distribution of GSP by market segment



The distribution of GSP across the municipality is shown in the maps above. Nearly 65% of the total GSP are grouped together in the area between Paarl and Wellington—in Mbekweni (2 553 GSP, 27.5%), and neighbouring Dalvale (2 042 GSP, 22%) and the Dal Josafat Industrial area (1 377 GSP, 15%).

GSP neighbourhoods – Population and age of GSP

As noted above, the 9 282 GSP in Paarl/Wellington are located in 20 of the 52 Census subplaces in the municipality, but are mainly concentrated in Mbekweni and Dalvale. The green shading in the table to the right reflect the percentage of residential properties in the area that were built by government. Except for Dal Josafat Industrial, the areas with over 75% GSP are older government housing projects mostly over 8 years old. Although the older and larger government housing projects are almost entirely GSP neighbourhoods, over half of the total GSP subplaces are more mixed, with less than half GSP.

The red shading indicates which subplaces are more heavily populated, and shows that Mbekwini, with a population of approximately 11 850 households in 2021 and only around 3 300 residential properties, still has an undersupply of formal housing, despite the public investment in government housing. Similarly the figures for Wellington SP1 suggest a large gap in adequate housing, with nearly 3 000 more households than residential properties registered in the area.

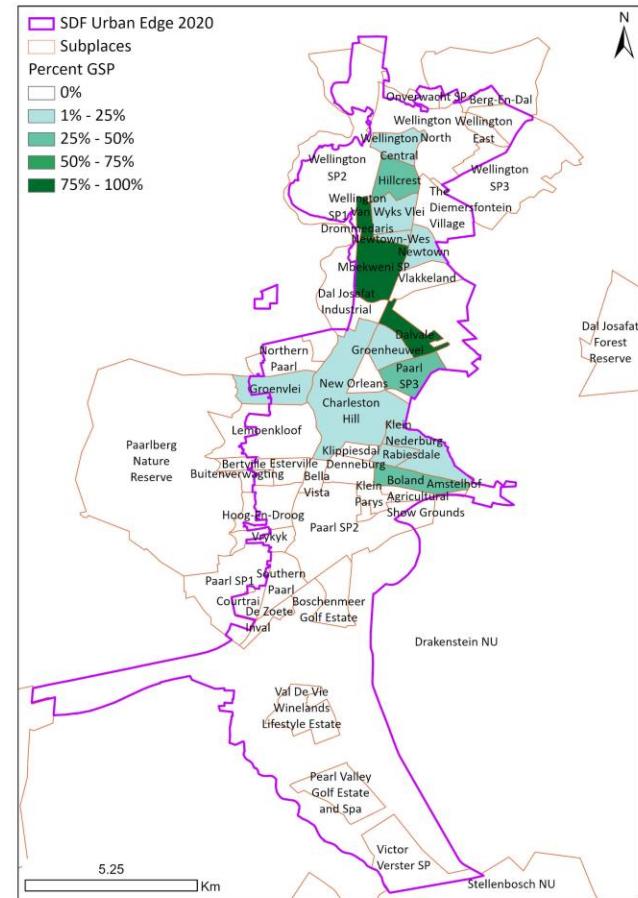
Subplaces containing GSP in Paarl/Wellington – Population and age of stock (2021)

Subplace Name	Number of Residential properties	No. of GSP	Subplace share of total GSP in Paarl/ Wellington	GSP as share of total properties in subplace	No. of households (2021)*	GSP over 8 years old as share of total GSP in subplace	GSP over 8 years old as share of total older GSP in Paarl/ Wellington
Mbekweni SP	3 277	2 553	27.5%	78%	11 838	93%	35%
Dalvale	2 330	2 042	22.0%	88%	4 665	72%	21%
Dal Josafat Industrial	1 379	1 377	14.8%	100%	3 395	-	-
Wellington SP1	969	762	8.2%	79%	3 833	100%	11%
Klein Nederburg	2 164	525	5.7%	24%	5 480	90%	7%
Amstelhof	1 264	492	5.3%	39%	2 684	95%	7%
Hillcrest	1 069	451	4.9%	42%	2 625	100%	7%
Groenheuwel	1 498	370	4.0%	25%	2 085	70%	4%
Van Wyks Vlei	1 376	326	3.5%	24%	2 078	100%	5%
Wellington Central	947	150	1.6%	16%	833	100%	2%
Charleston Hill	1 514	80	0.9%	5%	4 009	99%	1%
Rabiesdale	570	66	0.7%	12%	790	39%	-
Newtown-Wes	279	38	0.4%	14%	386	21%	-
Paarl SP3	86	25	0.3%	29%	176	100%	-
Newtown	726	16	0.2%	2%	715	100%	-
Groenvlei	1 191	6	0.1%	1%	1 307	83%	-
Lemoenkloof	1 359	3	0.0%	0%	2 417	100%	-
Total Paarl/Wellington	21 998	9 282	100%	42%	49 316	74%	100%

Source: Lightstone data as of 31 Dec 2021; ©GEOTERRAIN AGE – Neighbourhood Lifestyle Index™© (NLU™©) Release 2021.

The large majority of GSP in Paarl/Wellington are over 8 years old—74%. These older GSP stock which are eligible to be sold in the secondary property market, are mostly located in Mbekweni and Dalvale, where they comprise the majority of total residential properties in the area (93% and 72% respectively). This indicates there a sizable amount of stock of low income housing in these areas which can be traded.

GSP subplaces by density of GSP stock (2021)



Source: Lightstone data as of 31 Dec 2021.

Government-subsidised properties – Performance and role of GSP

Performance of GSP

Together, the 9 282 GSP in Paarl/Wellington were valued at R2.6 billion in total as at the end of 2021, with an average value of R281 957 each. In 2021, 69% of GSP in Paarl/Wellington were **entry** market properties valued under R300 000, with 19% in the **affordable** segment valued R300 000 to R600 000, and 11% in the **conventional** market (R600 000 – R900 000). Interestingly, 80 (or 1%) GSP were in the **high-end** market and even more surprisingly, there were 4 GSP in the **luxury** market.

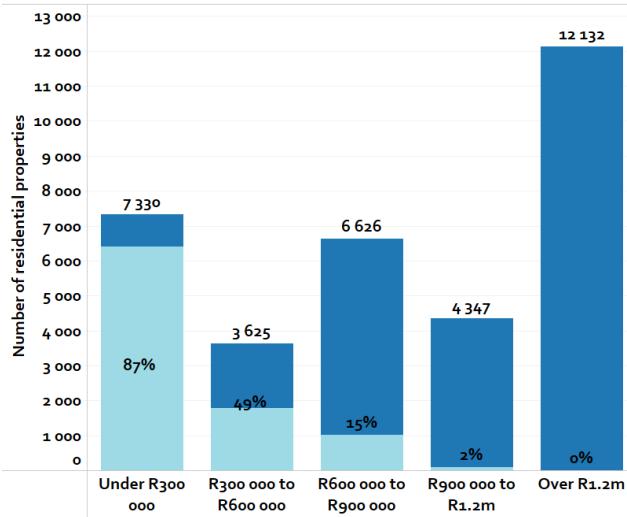
As shown in the graph to the right, GSP dominate the **entry** level market in Paarl/Wellington: 87% of **entry** level properties were built by government, and 49% of residential properties in the **affordable** market (R300 000 – R600 000). Thus, not only are most GSP in the **entry** market segment, most of the **entry** market segment are GSP.

The map to the right shows that most **entry** level GSP are concentrated in Mbekweni, between Wellington and Paarl. In some subplaces such as Amstelhof and Hillcrest, GSP have a value of more than R300 000.

The value of most GSP in Paarl/Wellington has achieved the expected appreciation often associated with older properties. Across Paarl/Wellington, most GSP (74% or 6 888) are more than 8 years old, and they each have an average value of R305 117 while the newer GSP less than 8 years old have a lower average value of R215 320. The performance of these properties over 8 years is particularly relevant because GSP older than 8 years are eligible to be sold in the formal property market.

Total number of residential properties

Drakenstein, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

■ Number of government-subsidised housing
■ Number of residential properties

Total number of residential properties

Drakenstein, 2021

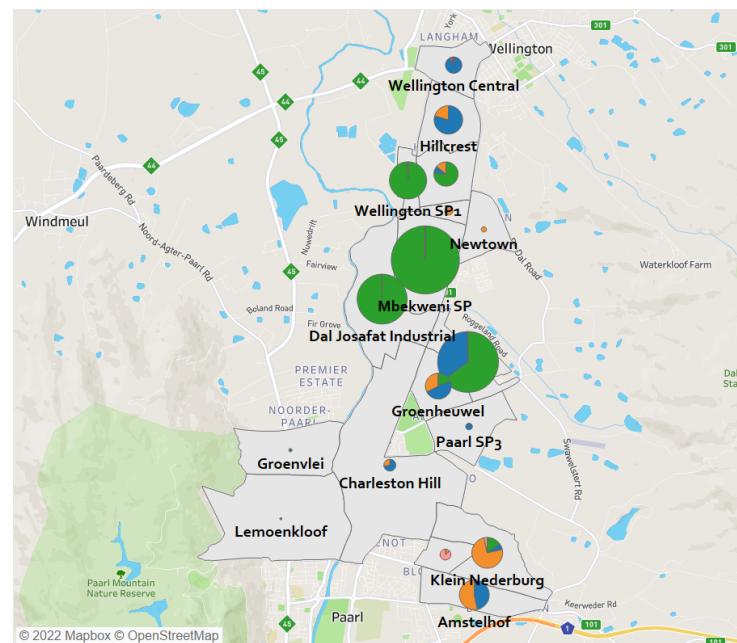
Market Segment	Number of residential properties	Number of government-subsidised houses	Government-subsidised houses percent share of market segment
Under R300 000	7 330	6 411	87%
R300 000 to R600 000	3 625	1 776	49%
R600 000 to R900 000	6 626	1 011	15%
R900 000 to R1.2m	4 347	80	2%
Over R1.2m	12 132	4	0%
Grand Total	34 060	9 282	27%

Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of June 2021 (sourced June 2022).

Distribution of residential properties:

Government-subsidised properties by market segment

Drakenstein, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

Number of residential properties Market Segment

3	Under R300 000
500	R300 000 to R600 000
1 000	R600 000 to R900 000
1 500	R900 000 to R1.2m
2 000	Over R1.2m
2 553	

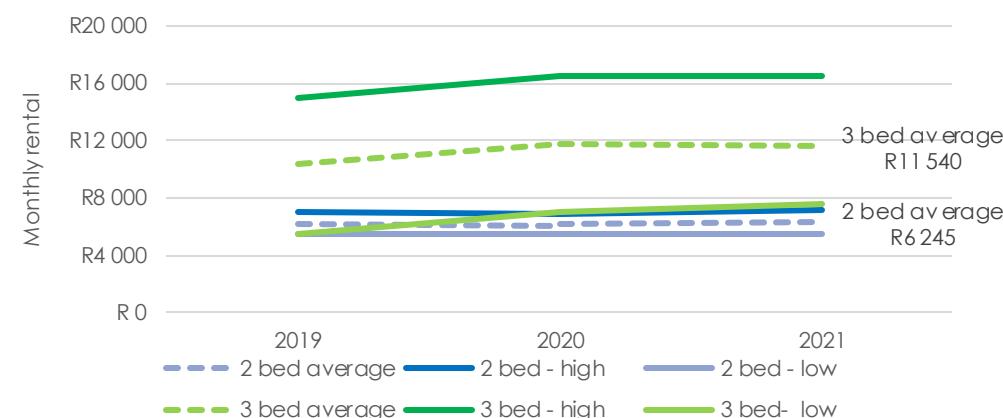
Rental market – Rental prices by property type and size

The TPN Credit Bureau provides updated data on the rental market, however it's important to note that these figures are for the municipality as a whole, and not Paarl/Wellington.

By number of bedrooms

According to the TPN data, the average monthly rental for a 2 bedroom unit in 2021 in Drakenstein municipality was R6 245, and for a 3 bedroom unit it was R11 540. The range of prices was significantly wider for 3 bedroom units than for 2 bedroom units.

Monthly rental prices for 2 and 3 bedroom units (2019-2021)



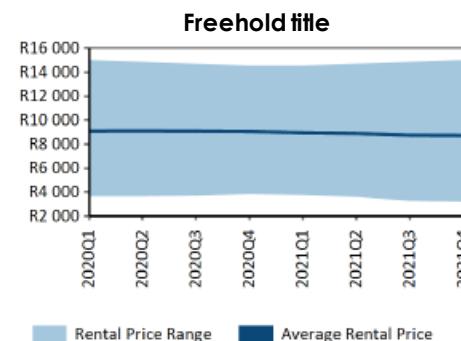
Source : TPN Credit Bureau, Investor Report's March 2022.

By property type

On average, rental prices for sectional title units are more affordable than freehold property. (Notably, the TPN data does not disaggregate freehold properties inside and outside of private estates.)

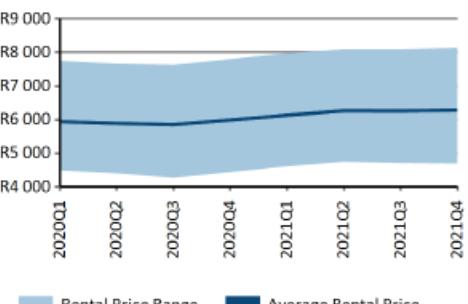
According to TPN data, average rent was around R9 000/month for freehold properties and around R6 000/month for sectional title units at the end of 2021. The graphs below show the average rental price as well as the price range, from Q1 2020 to Q4 2021. As at the final quarter of 2021, the minimum rental price was approximately R3 000/month for freehold properties and R4 500/month for sectional title properties.

Rental price range – (2020-2021)



Source : TPN Credit Bureau, Investor Report's March 2022.

Sectional title



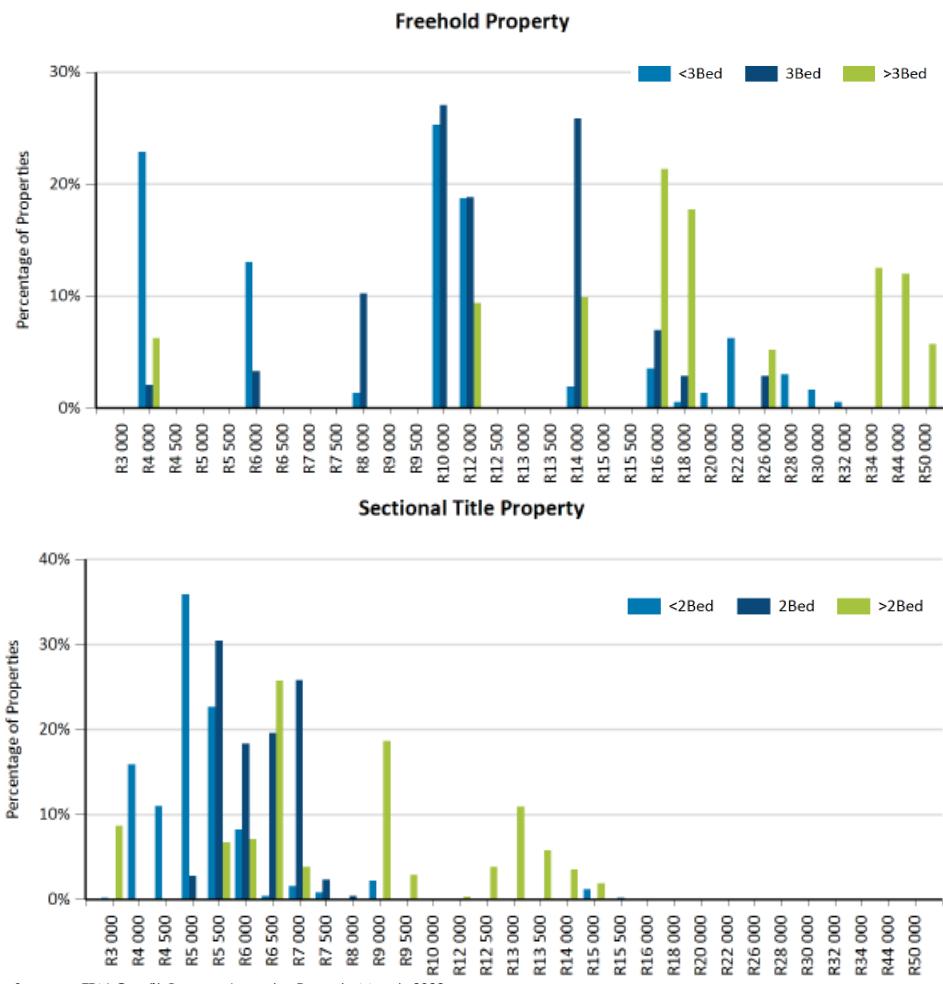
Target market

Assuming a benchmark of 30% of income spent on rent, the lowest-priced freehold property (R3 000/month) would be affordable to households with a minimum income of R10 000/month—which is 40% of households in Paarl/Wellington.* A R4 500/month sectional title property would be affordable to 30% of Paarl/Wellington households.

* Calculation based on income data from ©GEOTERRAIN AGE – Neighbourhood Lifestyle Index™© (NLI™©) Release 2021.

Rental market – Rental price distribution

Rental price distribution (2021)



Source : TPN Credit Bureau, Investor Report's March 2022.

Rental price distribution

The graphs to the left display the distribution of rental units (less than 3 rooms, 3 rooms, and more than 3 rooms) according to their rental price. Data is from TPN, for 2021.

For **freehold** properties, rental units with less than 3 bedrooms were available at a wide range of rental amounts, from R4 000/month up to R32 000. The majority of these smaller units rent for R10 000 – R12 000 /month.

Most 3 bedroom freehold units rent for between R10 000 and R14 000 per month. The larger rental units with more than three bedrooms mostly rent for R16 000 – R18 000 /month.

For **sectional title** properties, nearly 35% of 1 bedroom units rent for R5 000 per month while most 2 bedroom units rent for R5 500 – R7 000 per month. Larger units with more than 2 bedrooms rent at a wide range of prices, from R3 000 /month up to R15 000 / month.

According to the GTI income data, this suggests that most 2 bedroom sectional title rental units would require an income of at least R18 330, which is approximately 30% of Paarl/Wellington households.

This data is consistent with the information provided by developers we spoke to, who indicated that growing demand for rental properties in recent years has driven rental prices up.

Summary of supply side assessment

In terms of the number of residential properties, Paarl/Wellington has essentially the same size market as the George city area—which is slightly more than the Mossel Bay city area, and less than Stellenbosch town. About 21.5% of residential properties in Paarl/Wellington are in the **entry** market, valued R300 000 or less, 11% are in the **affordable** market (R300 000 to R600 000) and 19.5% are in the **conventional** market (R600 000 to R900 000). A little over half (51.6%) of Paarl/Wellington properties are valued R900 000 or less.

● Government-subsidised properties

The majority of residential properties are freehold title outside an estate (79%) followed by freehold in private estates (13%) and sectional title outside estates (6%). Almost all (92%) of freehold estate properties are in the **luxury** market over R1.2 million. Sectional title properties are most prominent in the **conventional** and **high-end** markets (R600 000 – R1.2 million).

According to our proxy applied to the Lightstone deeds data, Paarl/Wellington contains 9 282 GSP, making up 27% of residential properties in 2021. The large majority of these GSP are over 8 years old—74%. These older GSP stock, which are eligible to be sold in the secondary property market, are mostly located in Mbekweni and Dalvale.

GSP dominate the **entry** level market in Paarl/Wellington: 87% of **entry** level properties were built by government, and 49% of residential properties in the **affordable** market (R300 000 – R600 000). Thus, not only are most GSP in the **entry** market segment, most of the **entry** market segment are GSP. Older GSP are an important source of stock at the lower end of the property ladder.

● Rental market

According to the TPN data, the average monthly rental for a 2 bedroom unit in 2021 in Drakenstein municipality was R6 245, and for a 3 bedroom unit it was R11 540. The minimum rental price was approximately R3 000/month for freehold properties and R4 500/month for sectional title properties.

Estimated household incomes required to purchase property with a mortgage, per market segment (2021)

Market segment (residential property value)	No. of properties in that market segment	% share of total properties in that market segment	Minimum monthly household income needed to purchase in this market segment*	Maximum monthly household income needed to purchase in this market segment
Entry level: < R300 000	7 330	21.5%	--	R7 300
Affordable: R300 000 - R600 000	3 625	10.6%	R7 300	R14 750
Conventional: R600 000 - R900 000	6 626	19.5%	R14 750	R22 200
High end: R900 000-R1.2m	4 347	12.8%	R22 200	R29 600
Luxury: > R1.2m	12 132	35.6%	R29 600	--
Total	34 060	100%		

* Assuming 7.75% interest rate, 20 year loan tenor, 30% premium to income ratio, 10% deposit and no FLISP.
Source: Lightstone data as of 31 Dec 2021. Own calculations.

● Affordability

About 30% of residential properties (or approximately 10 250 units) fall in the bracket between R300 000 and R900 000 (**affordable** and **conventional** market segments), which is theoretically accessible for purchase by households earning between R7 300/month and R22 200/month—see table above. Notably, with the average monthly household income for Drakenstein (R19 999), a household could only afford a house priced about R812 000.

Approximately 36% of residential properties are valued over R1.2 million (**luxury** market) and thus would require a monthly income of approximately R29 600 or more in order to purchase with a mortgage (no FLISP). This implies that they would not be affordable to approximately 82% of the households in Paarl/Wellington.

Word of caution regarding affordability calculations

There are a number of important cautionary notes which should be raised with respect to these calculations:

- While house purchases below R1.2 million avoid transfer fees, there are other transfer costs which are not included here—see box on pg 40.
- Not all households purchase in the market segment they can afford: some may have additional funds from a once-off source, and some may have other competing expenses that prohibit them from spending the benchmark figure of 30% on housing.
- Some households may be living in properties that they accessed either by purchase or inheritance or gift, that today they could not afford to buy - in some cases properties appreciate faster than incomes.

Current market activity

New vs. resale market activity

Analysis of resale and new transactions provides a view into current market activity—which geographic areas are seeing more private development and new sales, and which properties are being traded more frequently, and where?

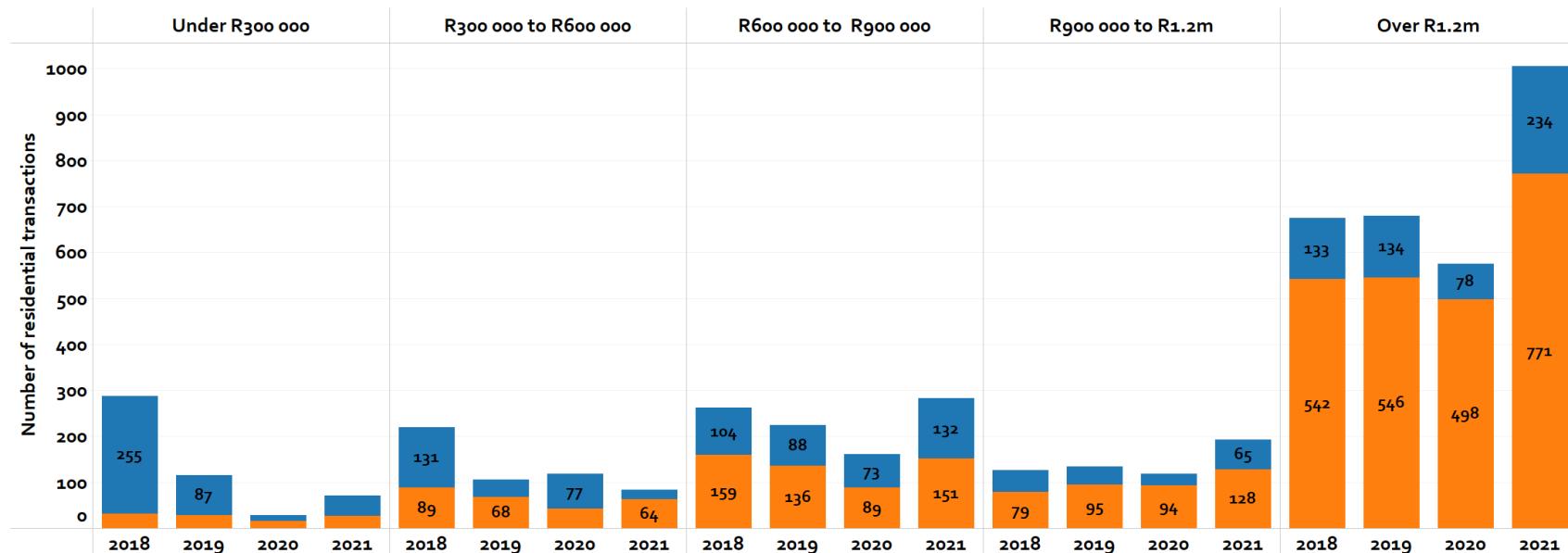
In Drakestein, the resale market is more than double the size of the new build market, and it accounts for the majority of sales. In 2021, there were 1 154 resale transactions and 494 new transactions in the municipality.

Despite the continuation of the pandemic and restrictions into a second year, the market activity picked up significantly in 2021, compared to the first year of COVID-19. In 2020, there were just 746 resale transactions and only 266 new transactions recorded.

As shown in the graph, in the last four years, Paarl/Wellington saw far more transactions over R1.2 million than in the market segments below. The new build and resale markets are analyzed separately in the following sections.

Number of new and resale transactions market segment

Drakestein, 2018 to 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Transaction Type

- New transactions
- Resale transactions

Market for new build – New transactions by market segment

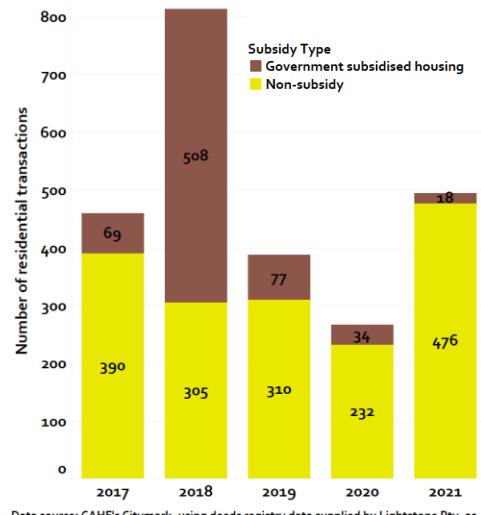
Within Paarl/Wellington, over the last five years, the number of new transactions peaked in 2018 and then dropped in 2019 and even further in 2020 only to rebound in 2021, the second year of the pandemic. New transactions rose quite significantly in 2021, almost doubling between 2020 and 2021. As shown in the graph to the right, the drop between 2018 and 2020 was primarily driven by a reduction in new sales in all the market segments especially the **entry** market while the increase between 2020 and 2021 was largely driven by new build in the **conventional** and **luxury** markets.

It is important to note that new transactions include both the sale of houses newly constructed by private developers, as well as the transfer of new subsidised units to government housing programme beneficiaries. In 2021, 18 out of the 44 new **entry** market transactions were GSP. And over the 2017-2021 period, on average 22.8% of all new transactions each year were due to government housing programmes. In 2018 a sizeable 508 new GSP were built in the Paarl/Wellington area.

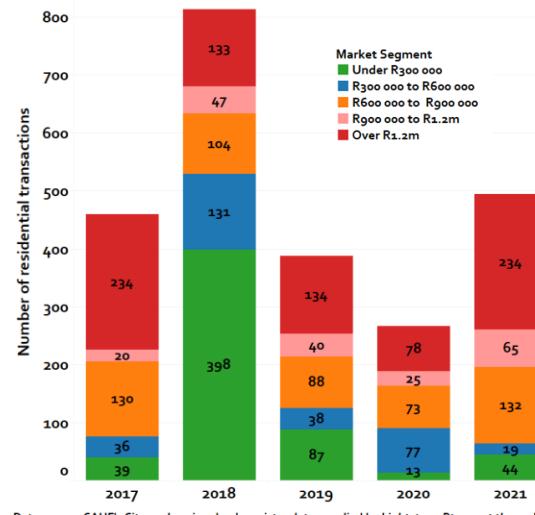
In 2021, there were 476 new non-GSP transactions in Paarl/Wellington (96.4% of all new transactions), totaling about R600 million in value.

As shown in the map to the right, the **entry** level new transactions in 2021 mostly took place in Mbekweni, while the new sales of **conventional**, **high-end** and **luxury** properties were centred in the Wellington area and Diemersfontein Village, and then south along the R45/Main Road.

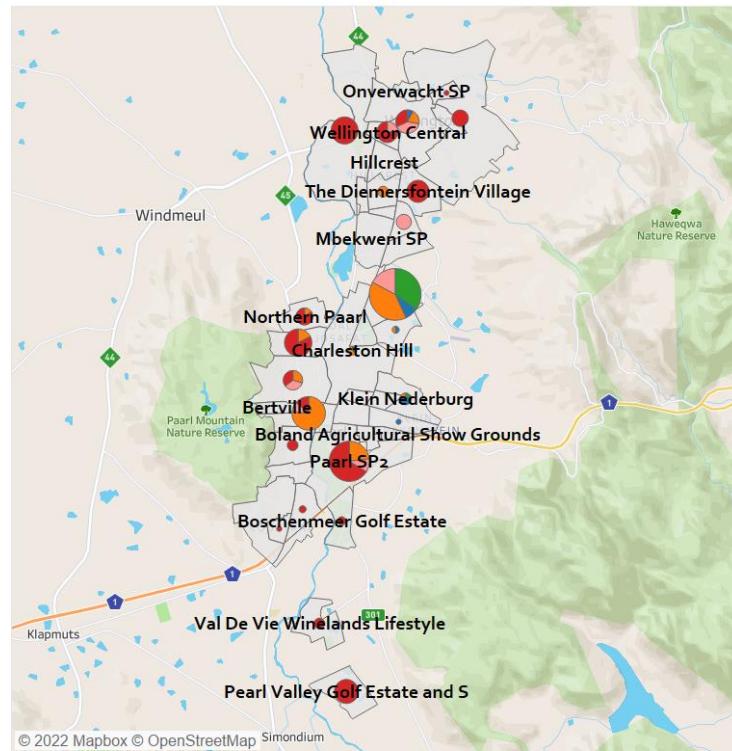
New residential transactions : GSP and non-GSP
Drakenstein, 2017 to 2021



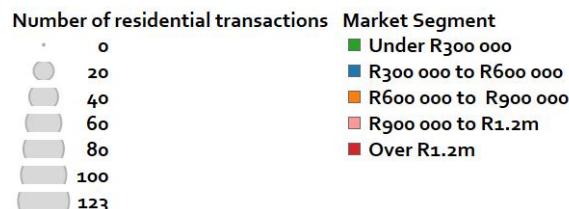
New residential transactions by market segment
Drakenstein, 2017 to 2021



Distribution of new transactions by market segment Drakenstein, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).



New build market – New transactions by property type

Analysis of new transactions (excluding GSP) by property type sheds light on the type of units which developers are constructing and bringing onto the market within the Paarl/Wellington area.

New units from private sector

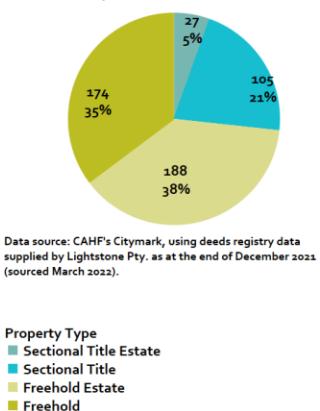
The graphs below show the number of new transactions each year, by property type, **excluding** GSP. Over the last five years, the largest portion of units built and sold by the private sector has been freehold properties in estates. A significant number of sectional title properties are also delivered each year—an average of 23% sectional title per year.

As shown in the pie graph, in 2021, 38% of new non-GSP transactions were freehold houses in estates, 21% were sectional title units, another 5% were sectional title within estates and the remaining 35% were freehold units outside of estates.

New residential transactions by property type:
Non-subsidy properties
Drakenstein, 2017 to 2021



New residential transactions by property type
Drakenstein, 2021

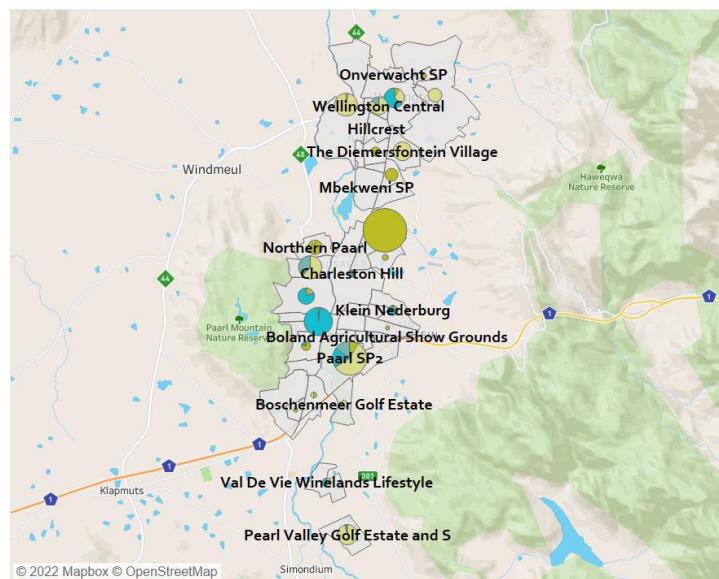


Total new transactions

The bar graph to the right **includes** GSP, and thus gives an overall picture of new units being sold or transferred each year. The number of new affordable housing units coming onto the market valued under R1.2 million is relatively small. In 2021, in all the market segments under R1.2 million, a total of 260 new units were sold or transferred while a slightly lower number of 234 new units were sold or transferred in just the **luxury** market segment alone. Of the 234 **luxury** market units, 177 or 75.6% were freehold houses in estates.

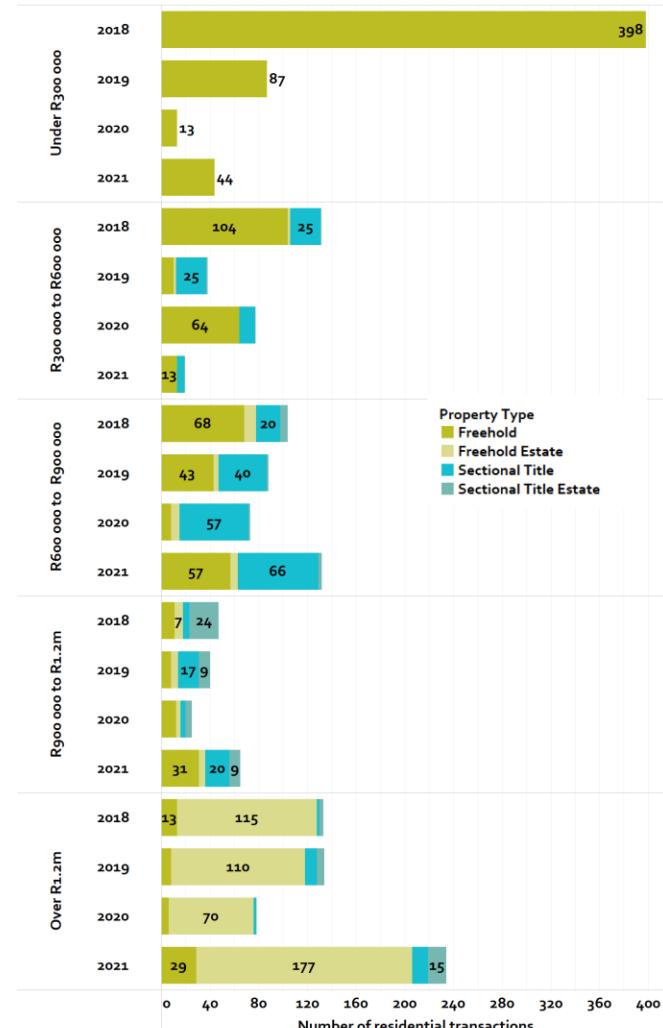
Distribution of new transactions by property type

Drakenstein, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Number of new transactions by property type by market segment
Drakenstein, 2018 to 2021



Resale market – Secondary market sales

Prior to 2021, resale transactions were already declining, and then they dipped further in 2020 due of the economic lockdowns. After the first year of COVID, resale transactions picked up again in 2021 to even higher figures than pre-pandemic. The increase in transactions in 2021 was largely driven by a boost in sales of existing properties valued over R1.2 million—luxury market.

Resale transactions in 2021 included: 3.5% in the **entry** level market, another 5.5% in the **affordable** market, 13% in the **conventional** market and 11.1% in the **high-end** market. Over this five-year period, more than half the resale transactions in each year were in the **luxury** market.

• Resale transactions of GSP

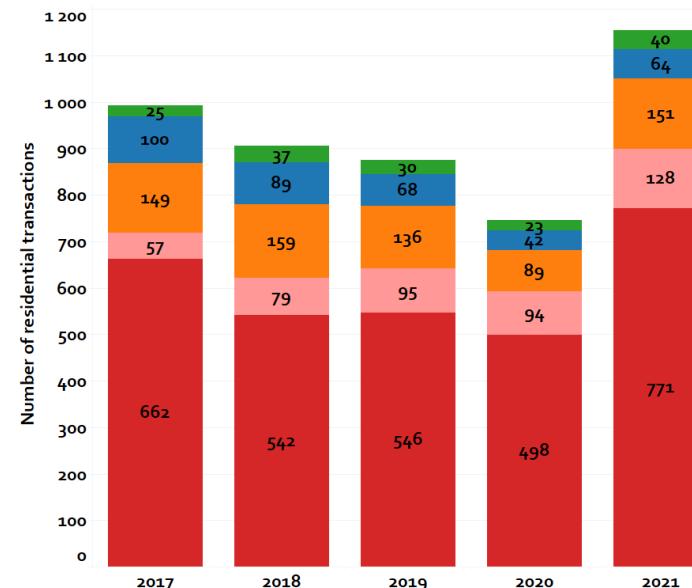
A number of resale transactions each year are sales of existing GSP which are older than 8 years (and thus no longer subject to sales restrictions). As noted earlier in the report, 74% of GSP in the Paarl/Wellington area are over 8 years old, comprising a total asset value of R2.1 billion.

In 2021, just 77 of these GSP were sold on the resale market, at an average price of approximately R312 918. These 77 resale transactions of GSP made up less than 1% of all resale transactions in 2021 (0.8%).

In total, 36 of the 40 resale transactions in the **entry** market were cases of GSP changing hands, indicating that government housing

Resale residential transactions by market segment

Drakenstein, 2017 to 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

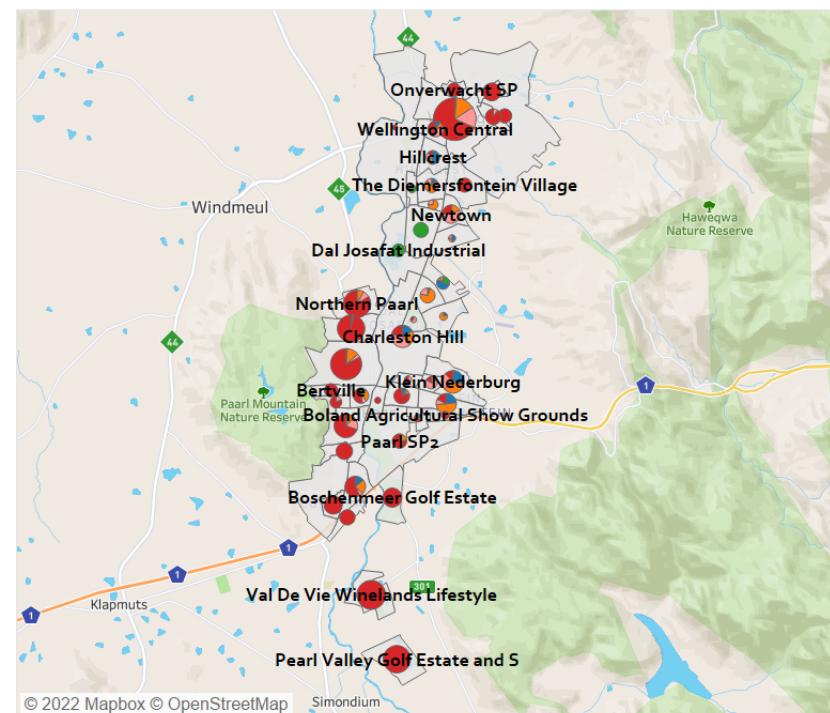
Market Segment

- Under R300 000
- R300 000 to R600 000
- R600 000 to R900 000
- R900 000 to R1.2m
- Over R1.2m

programmes were responsible for 90% of the stock for resale in the **entry** market. This underlines the critical importance of GSP properties, not only in their original delivery to beneficiary households, but also their role in providing a critical supply of affordable housing for households purchasing property on the resale market.

Distribution of resale transactions by market segment

Drakenstein, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Number of residential transactions

- 0
 - 50
 - 100
 - 152
- ### Market Segment
- Under R300 000
 - R300 000 to R600 000
 - R600 000 to R900 000
 - R900 000 to R1.2m
 - Over R1.2m

Resale market – Resale transactions by property type

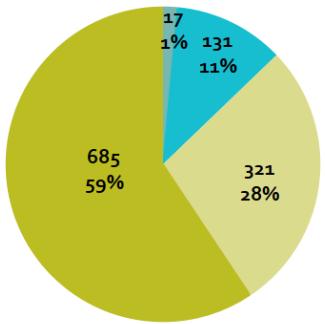
As shown in the graph to the right, the majority of resale transactions are of regular freehold properties outside of private estates (59% of resale transactions). This is partly driven by the resale transactions of GSP—in fact, 77 of the 685 freehold resale transactions in 2021 (or 11%) were sales of government-subsidised housing.

About 28% of resale transactions in 2021 were freehold properties in private estates changing hands, most of these being sales in the **luxury** market over R1.2 million, as shown in the graph to the far right.

Sectional title properties accounted for 11% of resale transaction in 2021 in Paarl/Wellington, with 131 sectional title properties sold in the secondary market. In comparison, just 17 new sectional title units were sold in 2021 (1%).

Resale residential transactions by property type

Drakenstein, 2021

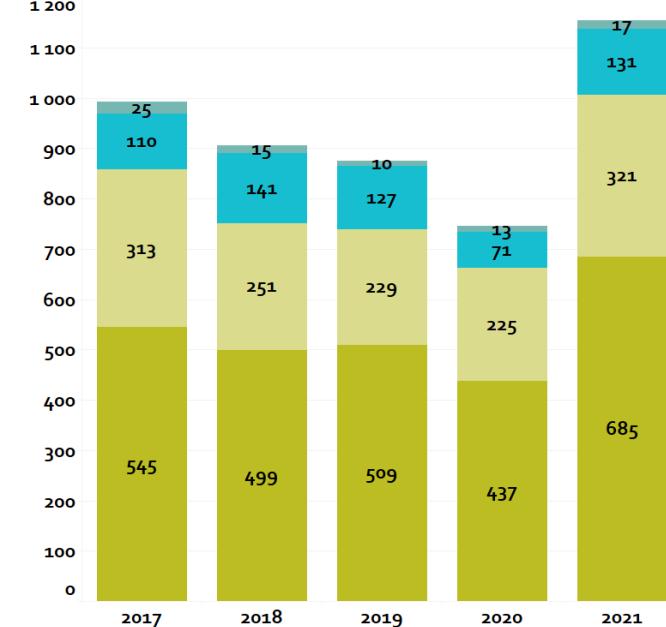


Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Property Type
■ Sectional Title Estate
■ Sectional Title
■ Freehold Estate
■ Freehold

Resale residential transactions by property type

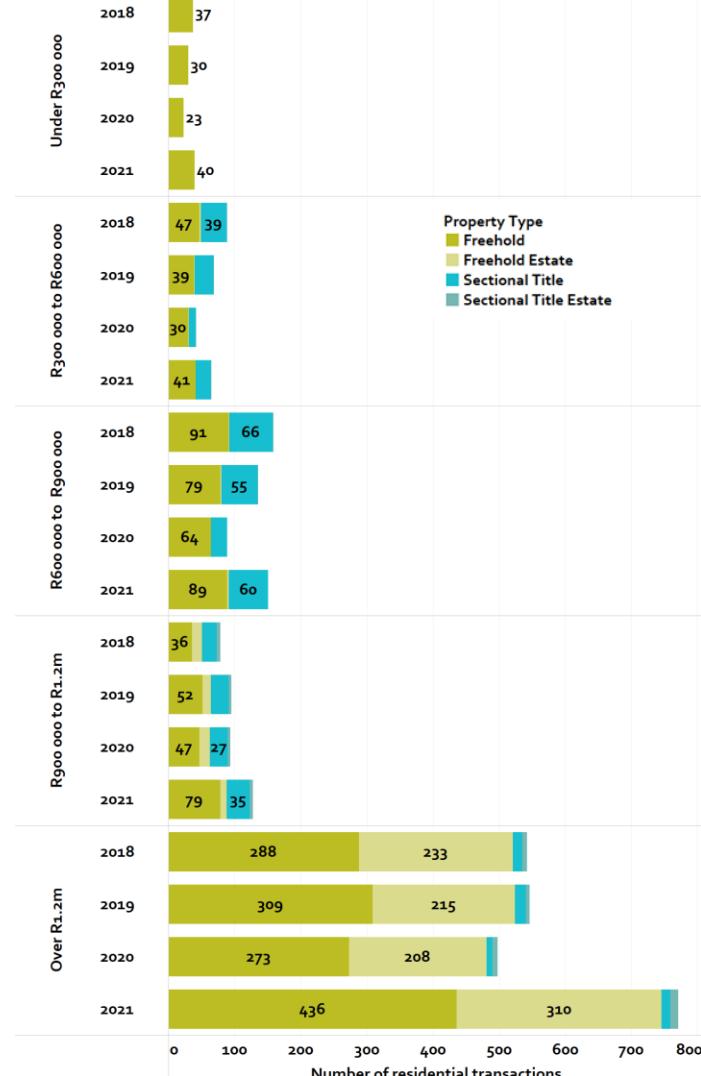
Drakenstein, 2017 to 2021



Property Type
■ Sectional Title Estate
■ Sectional Title
■ Freehold Estate
■ Freehold

Number of resale transactions by property type by market segment

Drakenstein, 2018 to 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Spatial distribution of new vs. resale market activity

These two maps illustrate the marked differences and similarities between the new build and resale markets in Paarl/Wellington.

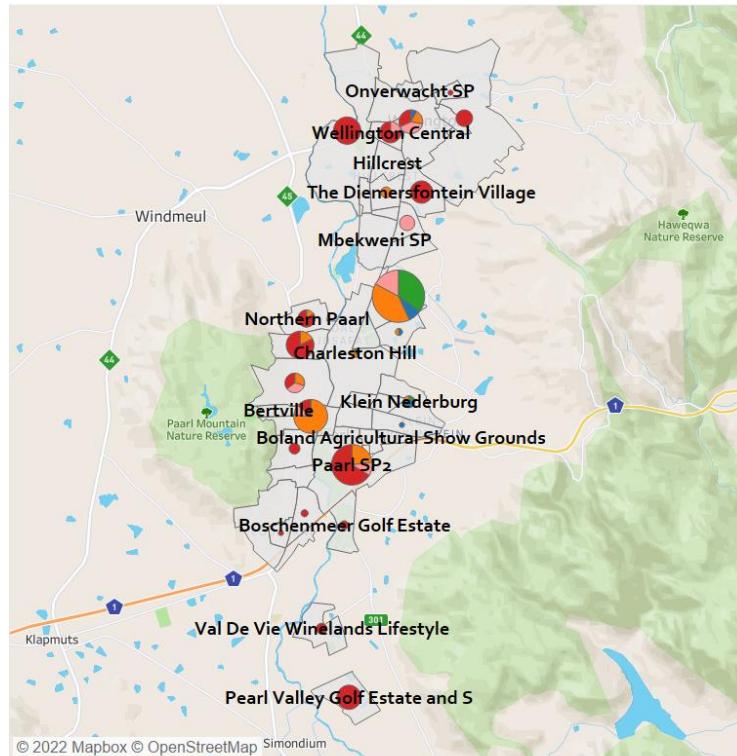
Many of the new transactions were around the Mbekweni and Vrykyk areas, with some new sales in the south as well.

The resale market however was very active in Wellington Central. However, more resale market activity took place further south of the municipality including areas like Northern Paarl, Charleston Hill, Klein Nederburg, Bertville and a number of other areas along Main Road.

It is also important to note that, for both new and resale transactions, the most dominant market segment has been the **luxury** market.

Distribution of new transactions by market segment

Drakenstein, 2021



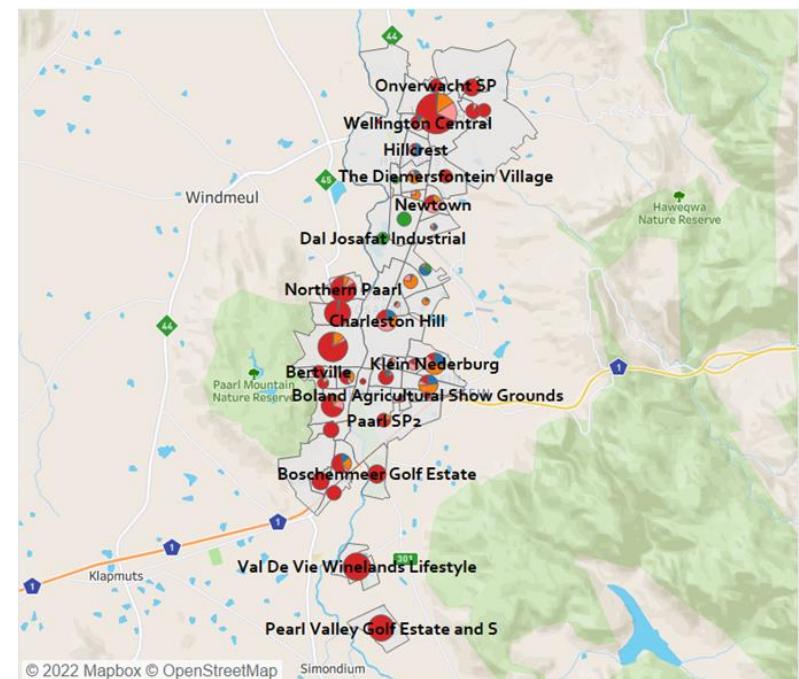
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Number of residential transactions Market Segment



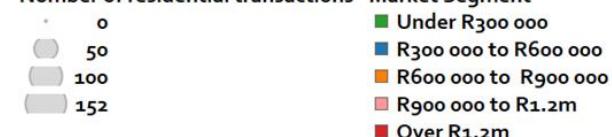
Distribution of resale transactions by market segment

Drakenstein, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Number of residential transactions Market Segment



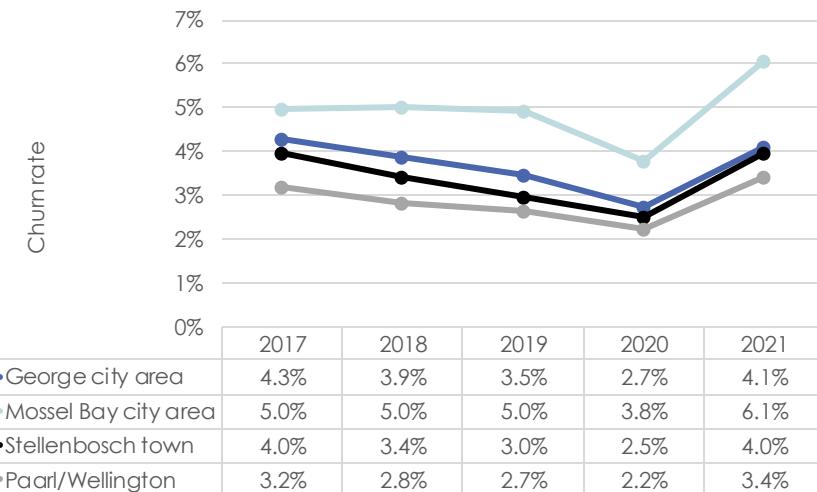
Churn – Levels of resale transactions by market segment

Another important indicator of market activity is the churn rate. Churn rates measure the rate of formal (registered) turnover of the property market: the total number of formal repeat transactions divided by the total number of properties less new registrations, expressed as an annual ratio. It serves as a useful indicator for understanding how well filtering is happening within the property market, or whether markets in particular neighbourhoods are constrained.*

Churn can also indicate a level of market interest. More resale activity also brings new people into an area. Given apartheid's legacy of racially-divided cities, neighbourhoods with very low churn rates are unlikely to diversify quickly.

Prior to the pandemic, the churn rate in the Paarl/Wellington area had been falling, from 3.2% in 2017, to a low of 2.2% in 2020. However, resale activity picked up in 2021, with an increased churn rate of 3.4%. The graph below shows how the churn rate for the Paarl/Wellington area compares to the other four study areas. The George city

Churn rate for four study areas (2017-2021)



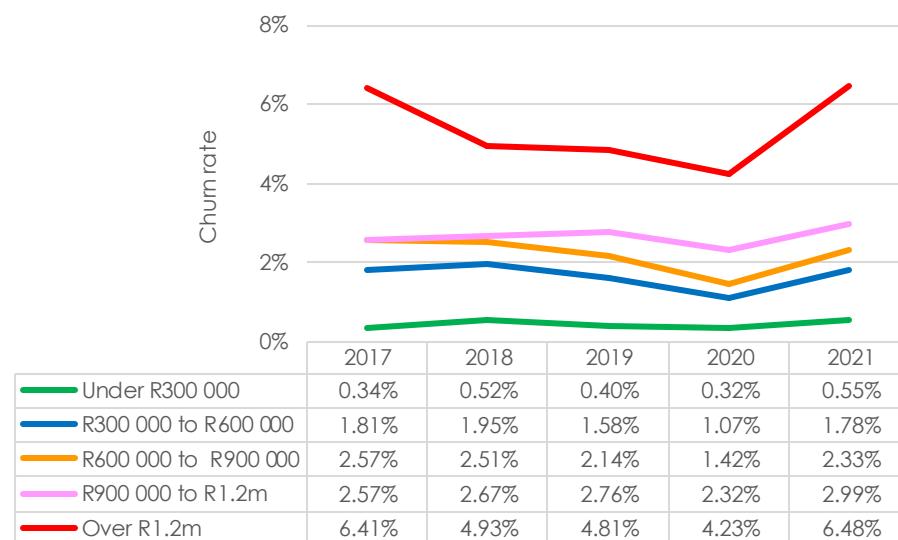
Source: Lightstone data as of 31 Dec 2021.

area, Stellenbosch town and Paarl/Wellington have followed the same pattern over the same period over this five-year period, while the churn rate in the Mossel Bay city area has been consistently higher.

● Churn rates by market segment

Churn varies significantly between market segments, with higher value properties changing hands more frequently than lower value properties. While the top market segment of properties worth more than R1.2 million have relatively high churn rates – reaching 6.48% in 2021—the bottom **entry level** market segment of properties worth less than R300 000 have churn rates of 0.55% in the same year. For properties in the **affordable** market, the churn rate is also low, 1.78% in 2021. This means that properties in those market segments are not selling – the potential benefits of filtering are not being realised.

Churn rate by market segment (2017-2021)



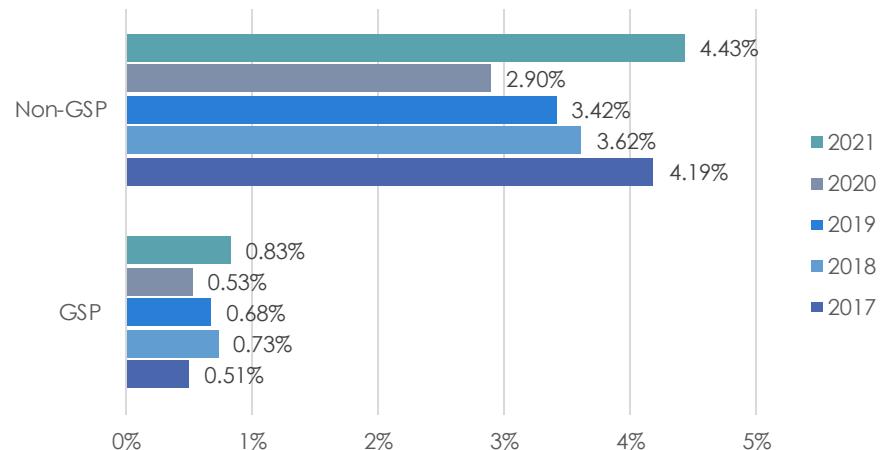
Source: Lightstone data as of 31 Dec 2021.

Churn – Turnover of GSP

● Churn rates of government-subsidised properties

The analysis by property type indicates that the very low levels of churn with freehold properties outside estates, is responsible for a lower overall average of 2.87% in the last 5 years across the Paarl/Wellington area. This is partly due a very small churn rate for GSP—less than 1% in 2021. In part, this is due to the 8-year preemptive clause attached to government-subsidized properties, but the impact of the Housing Act restriction on GSP sale is limited, given that 74% of GSP in the Paarl/Wellington area are over 8 years old and can be transacted freely. The low resale activity of older GSP houses is a cause for concern, as the small churn rate indicates that home owners are not realizing the asset value of their property.

Churn rates (2021) by property type

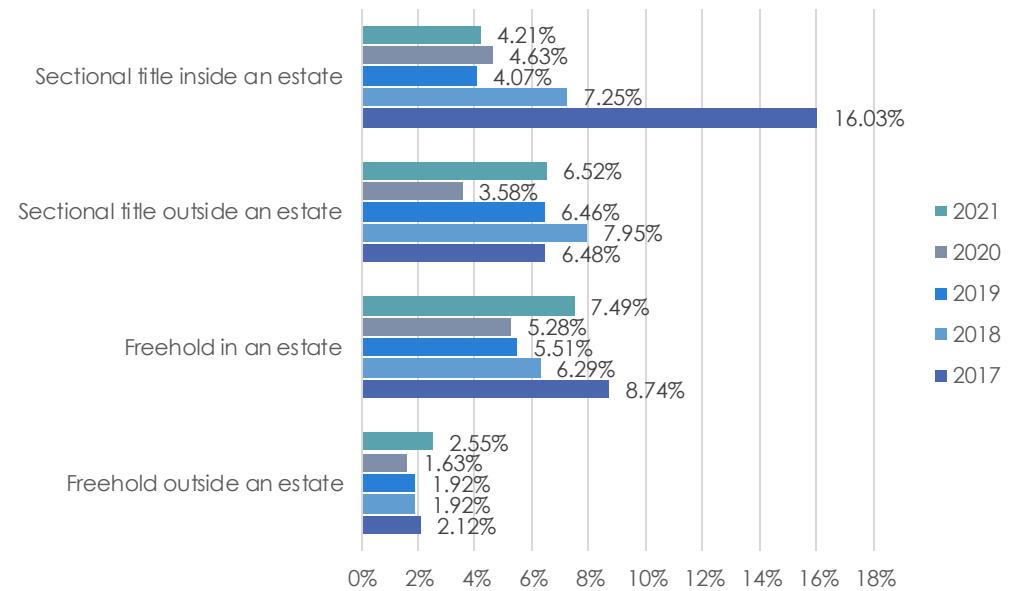


Source: Lightstone data as of 31 Dec 2021.

● Churn rates by property type

Resale market transaction rates (or churn) also vary significantly by property type. Freehold and sectional title properties within private estates both have relatively high levels of turnover – 3-4 times larger than regular freehold properties outside an estate (including GSP). This suggests a more vibrant market within private estates in the Paarl Wellington area, and substantial market interest in these property types.

Churn rates (2021) by property type



Source: Lightstone data as of 31 Dec 2021.

First time home buyers – How do households step onto the property ladder?

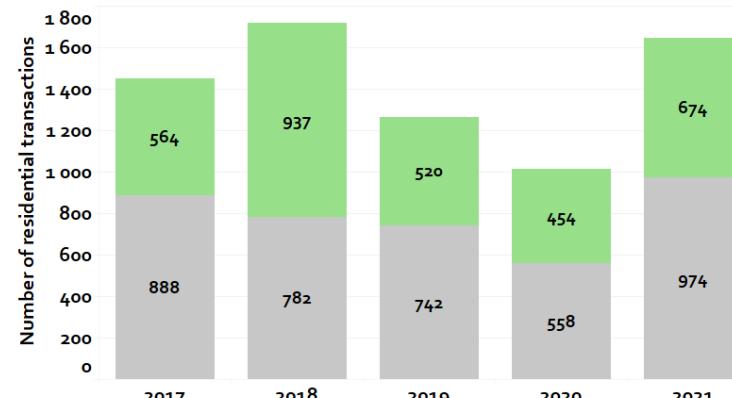
FTHB as share of total transactions

Comprising 41% of total transactions in 2021, first time home buyers (FTHB) made a significant contribution to the residential property market, particularly the **luxury** housing segment. In 2021, 674 households in Paarl/Wellington became homeowners for the first time. Only 74 of these transaction were for **entry** market properties valued under R600 000.

As shown in the middle graph, over the past five years, FTHB transactions were highest in 2018, dropped in 2019 and they dropped further in 2020 due to the pandemic and economic lockdowns, and then they rebounded in 2021.

First time home buyers: Total residential transactions

Drakenstein, 2017 to 2021



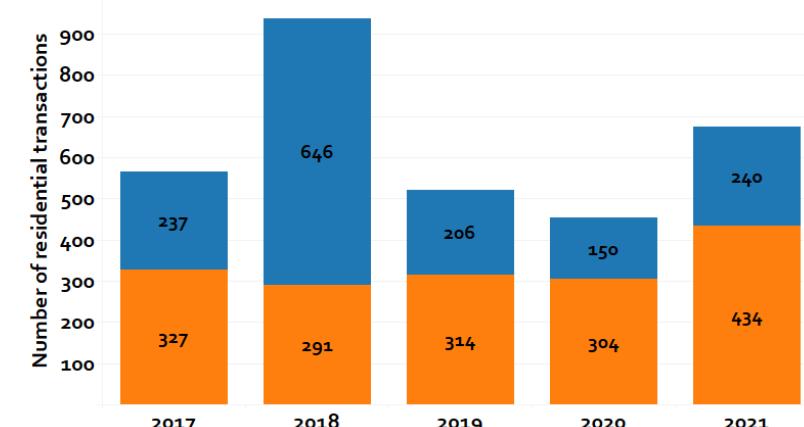
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

Buyer type

- First Time Buyer
- Other Buyer

First time home buyers: Total residential transactions

Drakenstein, 2017 to 2021



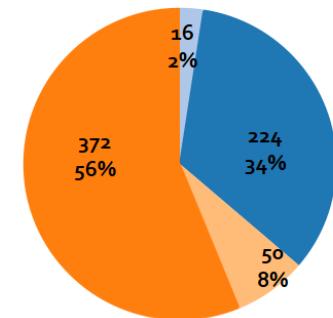
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

Sales Type

- New transactions
- Resale transactions

First time home buyers

Drakenstein, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Transaction type

- New transactions government-subsidised housing
- New transactions non-subsidy
- Resale transactions government-subsidised housing
- Resale transactions non-subsidy

How do FTHB step onto the property ladder?

The majority of FTHB (64%) in the municipality purchased an existing house. Just 2% of the FTHB who moved into new houses, received those properties from government. The majority purchased units in the resale market (56%). In general, if a family is not able to receive a GSP, their most likely option for acquiring a home is through the resale market hence the higher 74% FTHB transactions in 2021.

As shown in the first pie graph below, the main avenues for households to become homeowners is to purchase a non-subsidy property on the resale market (56%) or to buy a new unit from a private developer (34%). Interestingly, 8% of FTHB bought an existing GSP on the secondary market. Only 2% of FTHB were beneficiaries of government housing programmes in 2021.

First time home buyers – By market segment

By market segment

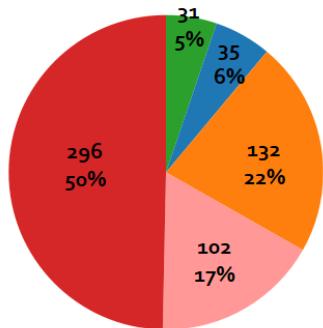
If we exclude FTHB who are beneficiaries of government-subsidised housing from the equation, one third of FTHB are buying houses under R900 000, 17% are buying units in the **high end** market, and 50% are purchasing in the **luxury** market over R1.2 million.

Of those FTHB who are buying **luxury** properties, 83% used a bond to finance the purchase. About 88% of those in the **high-end** market and 80% of those FTHB in the **conventional** market accessed a mortgage for the transaction.

This data is consistent with the views of the developers we interviewed, who emphasized the great demand in Paarl/Wellington for affordable housing under R1 million. In their experience, most first time home buyers are seeking houses around the R1.5 million mark.

Number of first time home buyers by market segment

(Excludes new transactions of government-subsidised properties)
Drakenstein, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Market Segment
■ Under R300 000
■ R300 000 to R600 000
■ R600 000 to R900 000
■ R900 000 to R1.2m
■ Over R1.2m

Transfer payments and other costs associated with buying a house

For first-time homebuyers, there can be many unexpected associated costs to purchasing a home including VAT, bond initiation fees, bond registration fees and monthly loan account administration fees. However, the largest additional costs for a homebuyer are the transfer fees, and transfer duty payments.

Transfer fees are paid to the attorneys who complete the transaction paperwork and are typically the largest portion of the total transfer costs—ranging from R23 000 to R35 000 for a R1.2 million house.

Transfer duty payments are owed to the South African Revenue Service (SARS). Homes valued below the threshold of R 1 million are exempt from any duty payments. If the house is R1 million - R1.375 million, 3% of the value over R1 million is owed. The percentage owed continues to climb as the value of the house increases. Transfer duty payments are exempt for those who acquire a house through marriage, divorce, inheritance, or if a property purchase is canceled before it is registered at the Deeds Office.

The threshold adjustment for transfer duty payments took effect on March 1, 2020, prior to which the threshold was R900 000. This adjustment specifically enacted to aid those trying to enter the property market.

Mortgage market – New and resale bonded transactions

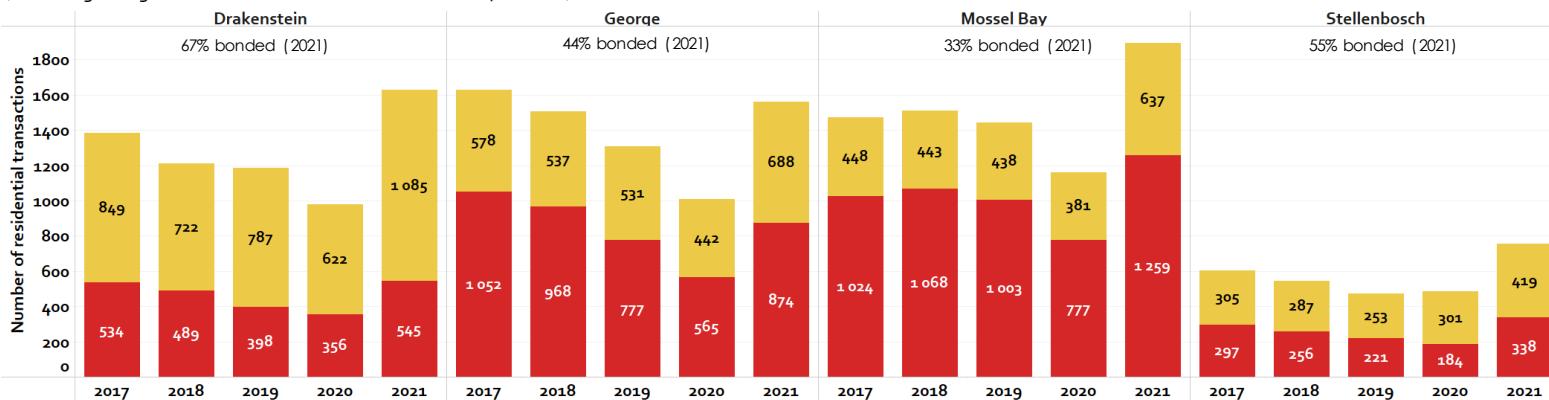
An analysis of bonded transactions provides a picture of the health of the mortgage market and the degree of confidence by the financial sector in the residential property market. In 2021, 66% (or 1 085) of new and resale transactions in Paarl/Wellington were bonded.

The graphs to the top right show the number of bonded transactions in each market segments—both new and resale. Overall, 73% of new transactions were bonded. Notably, this figure is impacted by the number of GSP which are transferred to beneficiaries, obviously without a bond. As noted above, 96.4% of the new transactions in 2021 were non-GSP. Three quarters of these 476 new transactions of non-GSP were financed with a bond, leaving 25% (117) of these new (non-GSP) houses to be purchased with cash or non-mortgage finance.

In total, 63% of all resale transactions were bonded. Of the 726 bonded resale transactions, only 3% (23) were GSP. Only 30% of resale GSP transactions were financed with a bond in 2021.

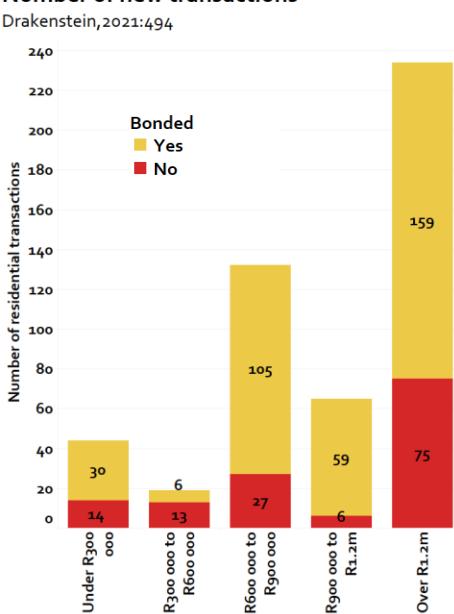
As would be expected, banks primarily lend to the top of the market. Only 10% of resale transactions below R300 000 were bonded, compared to 68.4% of resale transactions of homes valued R1.2 million or more.

Number new and resale transactions: Bonded and non-bonded
(Excluding new government -subsidised transactions 2017 to 2021)



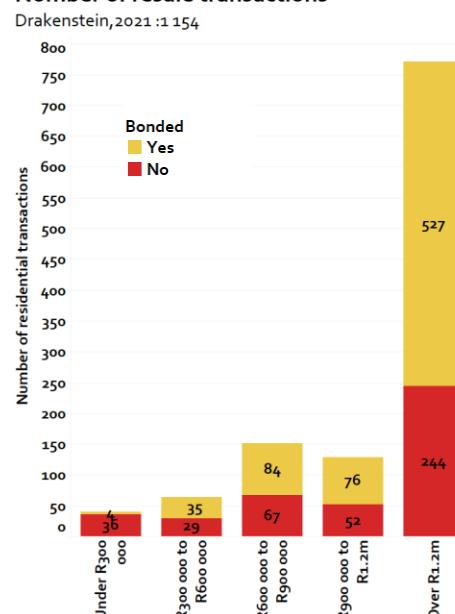
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

Number of new transactions



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

Number of resale transactions



Non-bonded transactions could be the result of high-income buyers who don't require financing, or low income households who can't access a mortgage. It may also be that these homes were purchased with non-mortgage loans. In Paarl/Wellington, excluding new GSP registrations, 67% of new and resale transactions in 2021 were bonded, meaning that close to one third of households (545 transactions) managed to buy a house cash or with non-mortgage credit. Among the four study areas, Paarl/Wellington had the highest proportion of bonded transactions (excluding new non-GSP), as shown in the graph above.

Mortgage market – Bonded transactions by lender and property type

● By lender

In total, 1 124 bonds were issued for new and resale transactions in 2021, nearly one third of which were issued by Standard Bank and Absa—as shown in the pie graph to the right.

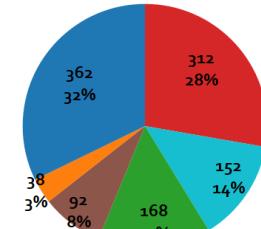
However, if we focus specifically on bonds for transactions under R600 000, the picture shifts. Only 7% (or 77 bonds) were issued for residential properties valued at R600 000 or below in 2021, of which the largest share (35%) were issued by Standard Bank, followed by Absa (21%).

In the entry level market, 34 bonds were issued in 2021—four of which were for GSP. Most of these mortgages were sold by Nedbank.

● By geographic area

As shown in the map below, in 2021 the banks were primarily lending in Wellington Central Northern Paarl and Dalvale.

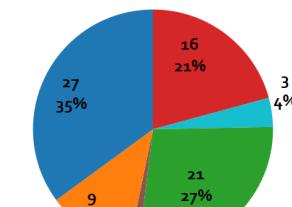
Residential transactions by lender
Drakenstein, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Lender
■ Absa
■ FNB
■ Nedbank
■ Other Lenders
■ SA Home Loans
■ Standard Bank

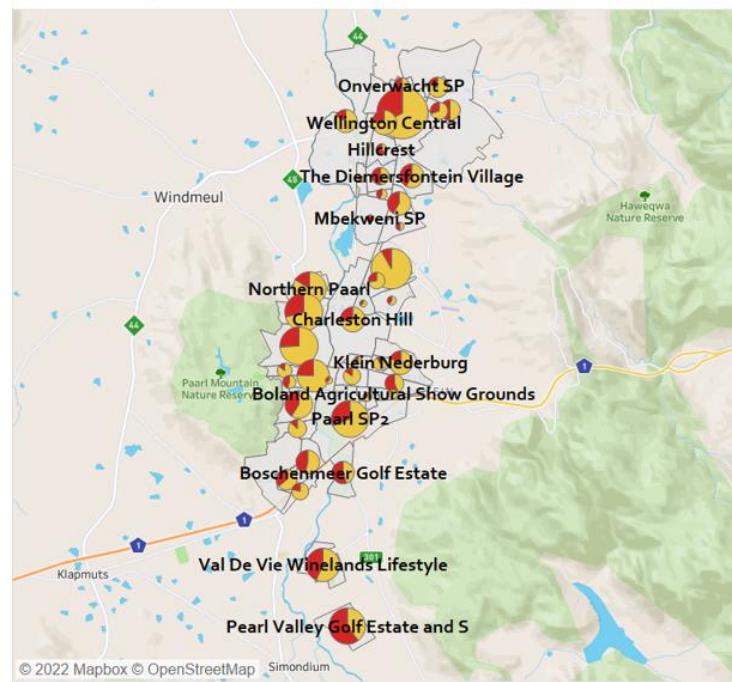
Residential transactions by lender:
Under R600 000
Drakenstein, 2021



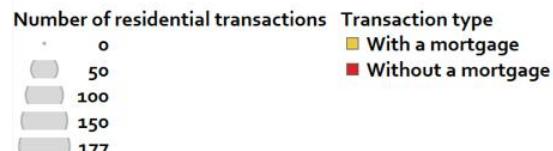
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Lender
■ Absa
■ FNB
■ Nedbank
■ Other Lenders
■ SA Home Loans
■ Standard Bank

Distribution of new and resale transactions: Bonded and non-bonded non-subsidy properties
Drakenstein, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

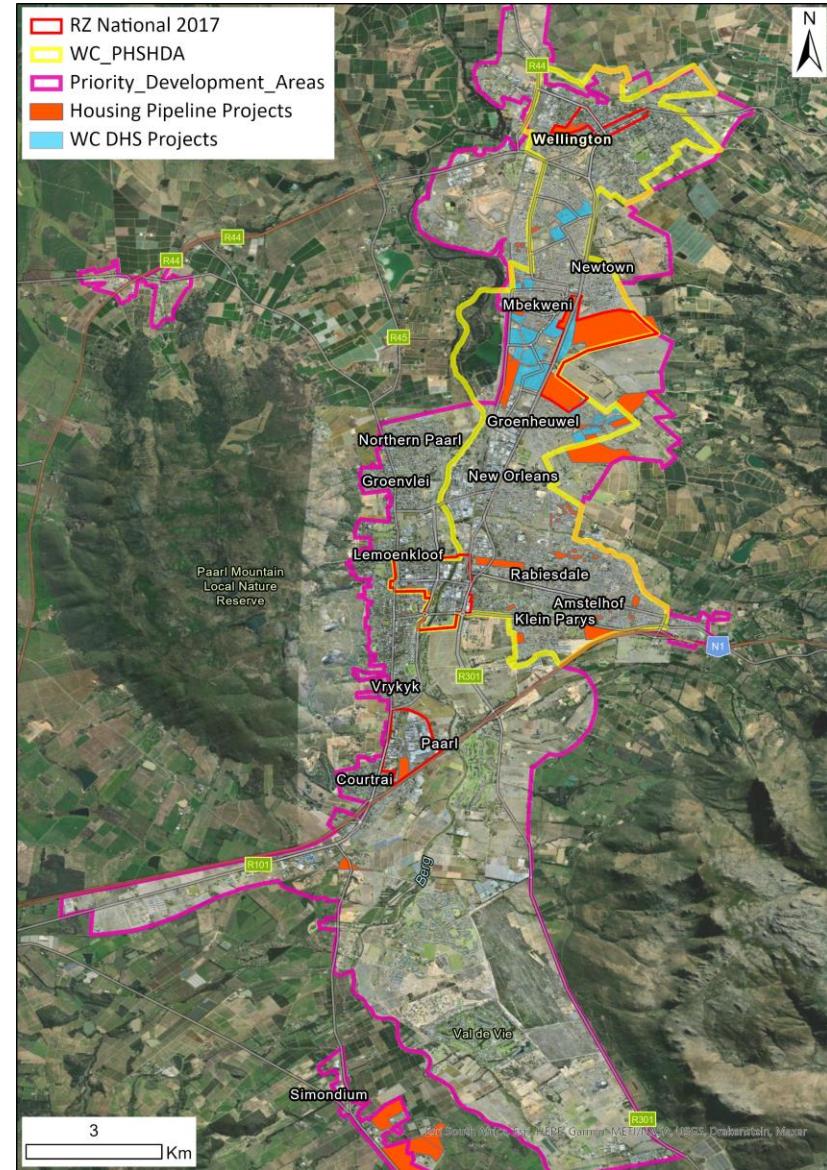


Government housing delivery

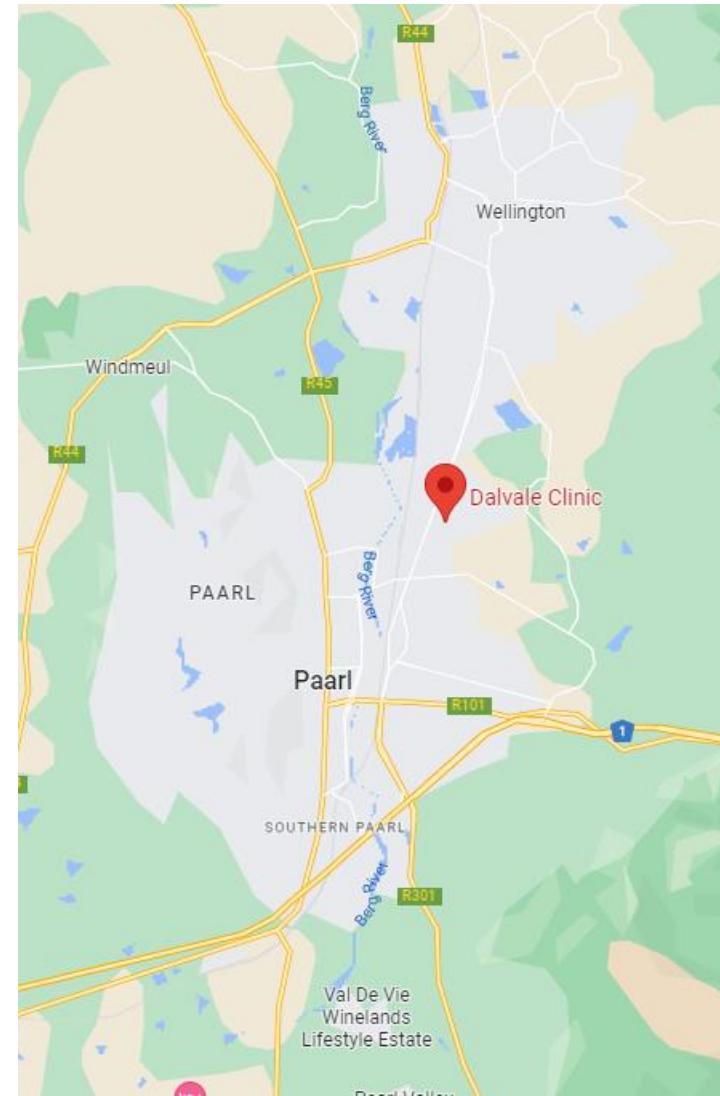
According to 2020 IHSP, Drakenstein Municipal records indicate that, on average, 574 housing units have been delivered per year between 1998 and 2014. The Lightstone data puts new registrations of GSP at 706 in total, over the last five years.

The maps to the right display municipal data on the housing pipeline in the Paarl/Wellington area as well as the provincial data (WC DHS Projects), in relation to the WC Priority Human Settlements and Housing Development Area (PHSHDA) and priority development area identified by the municipality. The largest planned projects are in the Mbekweni area and surrounds.

Paarl/Wellington: Government housing projects



Data sources: Drakenstein Municipality, Municipal Demarcation Board (MDB), ESRI South Africa.



Spatial targeting – Priority development areas, Restructuring Zones and PHSHDAs

The Drakenstein municipality has a number of overlapping spatial designations, identified by different spheres of government. At a municipal level, the 2022/27 IDP references five spatial **priority development areas**:

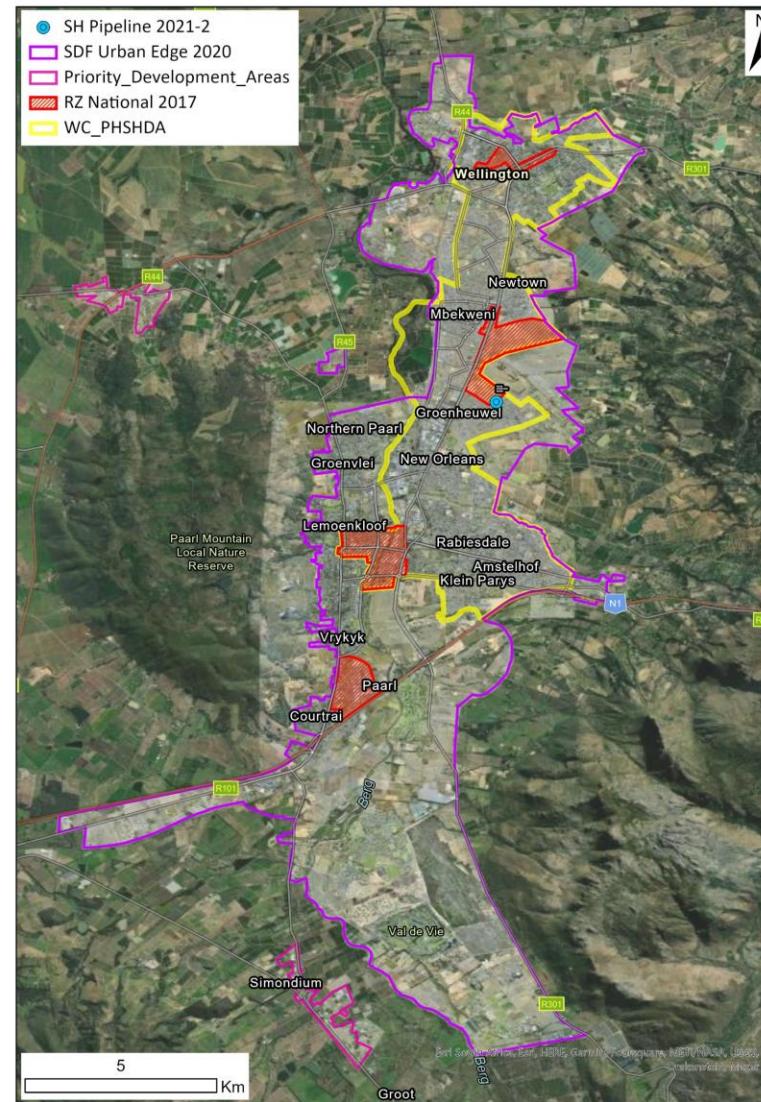
- N1 Corridor
- South city corridor (Boschenmeer, Val-De-Vie, Pearl Valley and Smondium), south of N1
- Paarl east/west corridor
- North city corridor
- Hinterland: Saron, Gouda, Hermon, windmeul and Bain's Kloof Village

The yellow shading denotes the single **Priority Human Settlement and Housing Development Area (PHSHDA)** designated by the province, which covers the main areas of Wellington, and stays within the municipal priority development area. The PHSIDA does not extend into the southern parts of Paarl south of the N1.

Finally, the National Gazette in 2017 identified four separate **Restructuring Zones** for social housing in the municipality—shaded in red—two in Paarl and two in Wellington. Notably the two RZs in Paarl fall outside the PHSIDA. There is currently one housing social housing project (blue dot) in Groenheuwel.

The 2019 IHSP reports that, although Restructuring Zones have been established in Paarl, Mbekweni and Wellington, no social housing projects have been implemented to date. Sites for projects within these RZs have yet to be approved by Council. The Erf 557 project in Mbekweni is planned as a mixed typology settlement with 200 units, including IRDP and social housing.

Paarl/Wellington: Priority development areas, RZs and PHSIDA



Data sources: Drakenstein Municipality, Municipal Demarcation Board (MDB), ESKI South Africa.

Rental market

Rental yields provide an indication to landlords and potential landlords which properties would be profitable to rent out.

Freehold property rental yields

Since 2010, the municipality's rental yield for freehold properties has twice risen above the national average rental yield, and then dropped below again—fluctuating between 5% and 11% over the last 10 years.

At the end of 2021, the gross rental yield for freehold properties in Drakenstein municipality was approximately 6.5%, while the effective yield (taking into account outstanding rental payments) was around 5.2%.

Sectional title rental yields

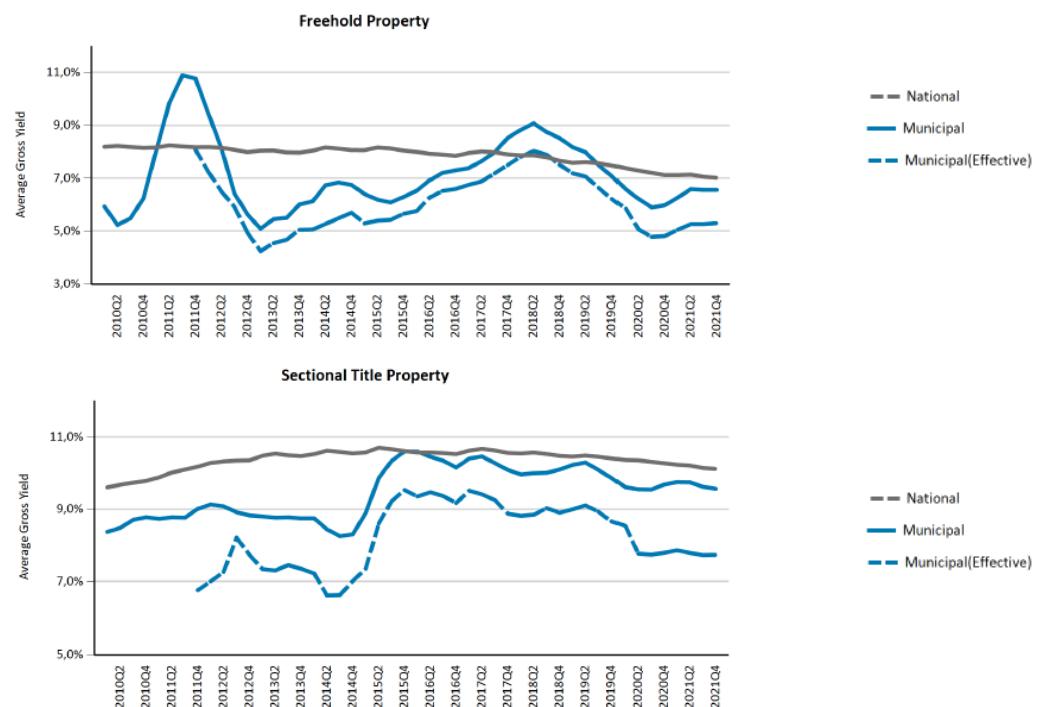
Rental yields for sectional title are generally higher than freehold properties in Drakenstein. Gross rental yield for sectional title property was approximately 9.5% at the end of 2021, while effective yield was approximately 7.8%. Sectional title effective rental yield is thus about 2.5 percentage points higher than for freehold title.

Percentage of tenants in good standing

The percentage of tenants in good standing reflects the number of tenants who are up to date with their monthly payments,* and serves as another indicator of profitability for landlords. The indicator took a heavy hit in the second quarter of 2020, due to the economic impact of COVID and associated lockdowns. At that time the national average dropped to 74%.

Since then the national average for percentage of tenants in good standing has substantially recovered, reaching 81.4% at the end of 2021. At the end of 2021, the good standing rate for Drakenstein municipality (82.74%) was better than both the national average and the provincial average (82.54%).

Rental yields (2010-2021)



Source : TPN Credit Bureau, Investor Reports March 2022.

Effective rental yields for four municipalities (Q4 2021)



Source : TPN Credit Bureau, Investor Reports March 2022.

Implications for inclusionary housing

What is the profile of housing in Paarl/Wellington?

In order to better understand the implications of the above analysis on inclusionary housing, we return to the key questions set out for this study:

- What is the profile of housing in the city? – by market segment, property type, neighbourhood
- What is the state of the residential market currently? – in terms of market performance, activity, key players, government and private sector delivery
- What is the affordability gap? – where is affordable housing needed, how much and what type? what is the target market for the affordable housing market?
- Is there an active property development market that would make the application of an inclusionary housing policy viable?

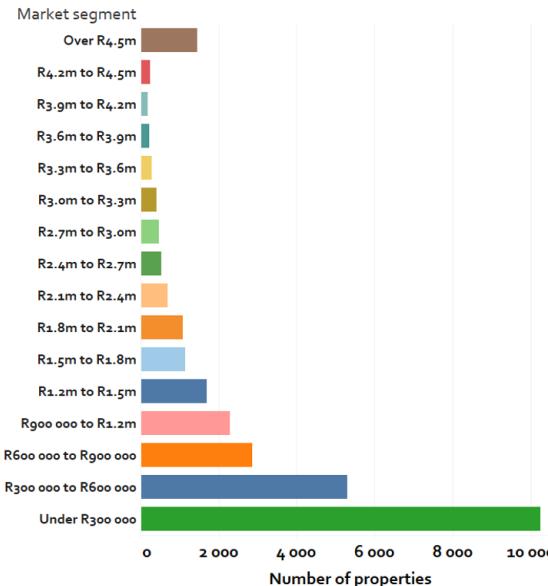
This concluding section of the report pulls together the main points of the above analysis to identify the characteristics and trends of the residential property market in Paarl/Wellington which would critically impact on the success of an inclusionary housing policy.

The residential property market of the Paarl/Wellington area, including Mbekwini, is the most diversified, with respect to market segments, of the four areas studied. The market is roughly similar to the George city area, with approximately the same number of properties, and the same proportion in the **luxury** market (36%). However Paarl/Wellington has a larger slice of properties in the 'middle' between R300 000 and R1.2 million, including a **conventional** market segment that makes up a sizable 19% of total properties. The total value of the Paarl/Wellington residential market is R47.8 billion, according to Lightstone data, exceeding the other three areas of the study.

Public investment is responsible for the great majority of housing stock at the lower end of the market. About 87% of **entry** level properties are GSP, mostly older stock, and nearly half of residential properties in the **affordable** segment.

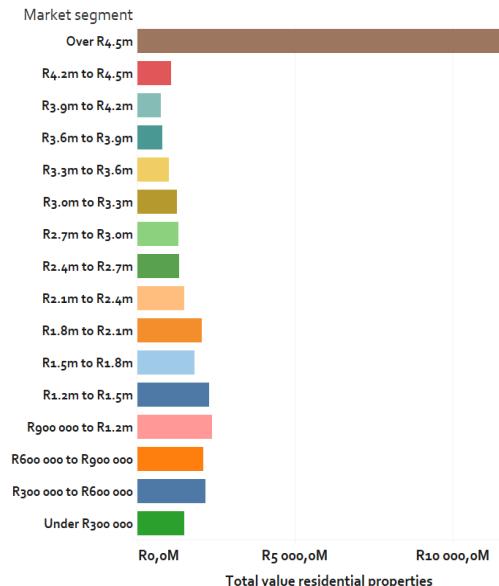
Wealthy private estates are a key feature of the market—13% of properties are freehold title inside residential estates, of which 92% are valued over R1.2 million. Although the 2016 CS puts Drakenstein municipality with the highest rental rate among the four municipalities (23%), sectional title properties make up only 7% of total properties. Although the municipal valuation roll has fewer total properties, it has a higher count of the lower end of the market, showing 35% of residential properties valued below R300 000.

Number of residential properties by market segment: Drakenstein VR (2021)



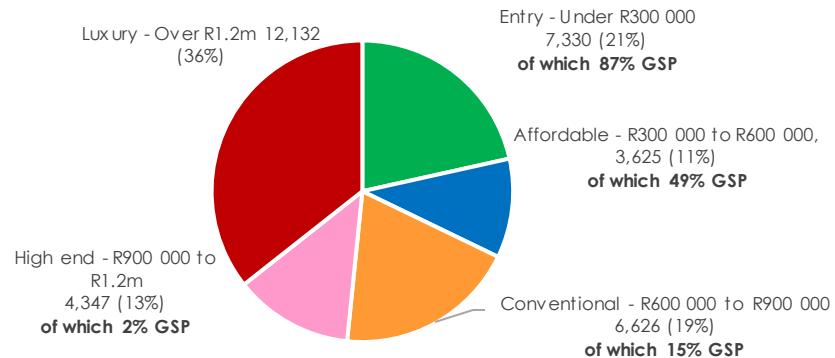
Source: Stellenbosch Valuation Roll, July 2020.

Total value of residential properties by market segment: Drakenstein VR (2021)



Source.: Stellenbosch Valuation Roll, July 2020.

Number of properties by market segment: Lightstone data (2021)



Source: Lightstone data as of 31 Dec 2021.

What is the state of the residential market currently?

Market activity in the Paarl/Wellington area pick up substantially in 2021, despite the continuation of the pandemic into a second year. This increase in transactions was apparent in both the new build and secondary markets, primarily properties in the luxury segment, but also the conventional segment (R600 000 to R900 000).

● New build and resale activity

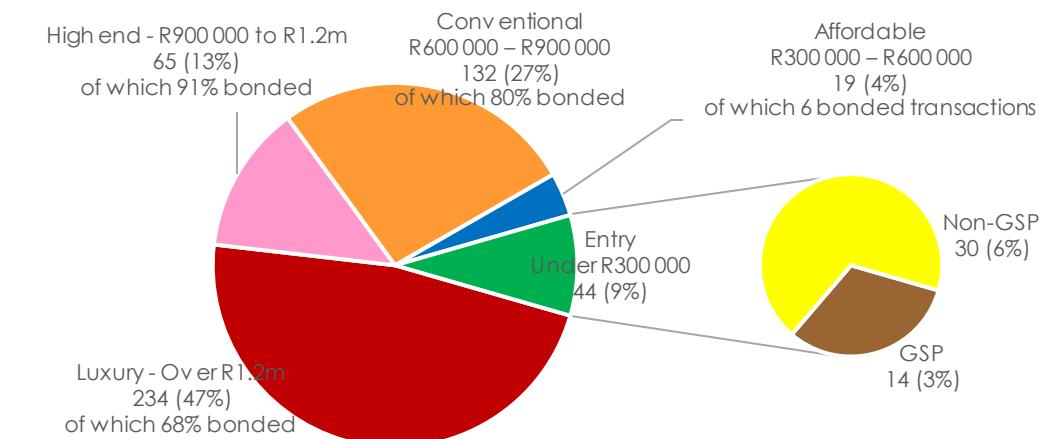
Three key dimensions characterize the resale market in Paarl/Wellington. First, the private sector is largely responsible for new build, accounting for 96% of the 494 new transactions in 2021. Government subsidized housing delivery, as reflected in transfers at the Deeds Office, is fairly small, according to the Lightstone data, just 18 new units in 2021. Over the last five years, approximately 700 GSP have been built and transferred, nearly 70% of which were in 2018.

Second its apparent that private sector is building at the top end of the market. Despite the heavy demand for affordable housing, private sector development has been focused on high end properties. In 2021, 260 units under R1.2 million were built, compared to 234 units in the luxury segment over R1.2 million. Focus of private developers is on gated estates—75% of the new luxury transactions are inside estates.

Thirdly, the GSP resale market in Paarl/Wellington is showing some activity. Paarl/Wellington has total stock of 2 982 GSP, most of which are over 8 years old and thus no longer subject to sales restrictions as per the Housing Act. In 2021, there were 77 resale transactions of GSP—23 of these transactions were financed with a mortgage, demonstrating the banks willingness to finance sales of GSPs and lower value properties. Many of the 77 GSP transactions were the in the entry market, but not all. About 53% of the sales were over priced over R300 000, of which nearly half were bonded.

The older GSP is potential stock for low income households looking to purchase in the entry or affordable markets. Estate agents in the area indicated they have many enquires for units priced under R600 000, yet few properties in this market segment go onto the market.

Paarl/Wellington: New sales and registrations by market segment (2021)



Source: Lightstone data as of 31 Dec 2021.

First time home buyers, who were responsible for 38% of total transactions in 2021, are mostly purchasing existing properties instead of buying a newly built unit (56% of total FTHB transactions). Another 34% of FTHB are purchasing from a private developer. Half of first time home buyers are moving into luxury homes, valued over R1.2 million.

● Mortgage lending

Excluding new GSP registrations, over two thirds of new and resale transactions in 2021 in Paarl/Wellington were financed with a bond, the highest rate among the four study areas. A high percentage of new sales in the conventional market were financed with a mortgage (80%), giving evidence of lender's involvement in lower value mortgages.

only 55% of all transactions in 2021 were bonded. Nearly 78% of the bonded transactions in 2021 were over R1.2 million, indicating that not only is the mortgage market limited in volume, it is also largely limited to high-value transactions. While some of these households may have drawn up once-off lump sum payments (e.g. pensions or inheritance), many of them will have been drawing upon equity from a previous home.

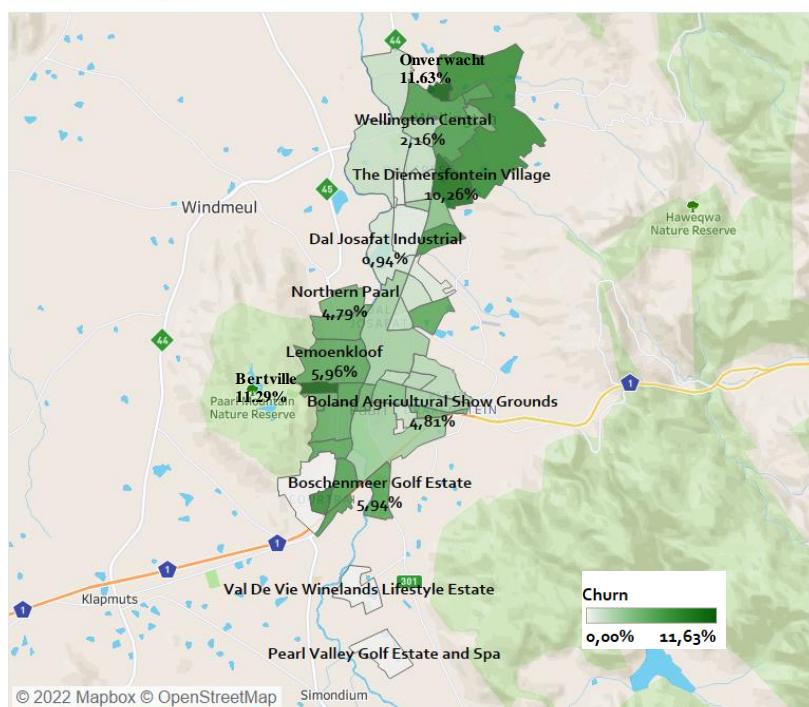
What is the state of the residential market currently?

Churn rates

After having declined 2018-2020, the overall churn rate for Paarl/Wellington surpassed 2017 levels to reach 3.44% in 2021. As with the other study areas, the churn rate for the higher market segments exceeds that of the lower market segments—ranging from 0.55% for the [entry](#) market, to 6.48% for the [luxury](#) market.

Churn rates by subplace

Drakenstein, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

As a result of the very low churn rates at the bottom end of the market, filtering is not taking place. This is important because, without turnover at the lower end of the ladder, current homeowners (both GSP and not) are unable to realise the asset wealth of their properties and move up the ladder.

As reflected in the churn rates, freehold properties inside private estates are seeing the most market activity (7.5%), along with sectional title units outside estates (6.5%). However turnover for regular freehold houses outside an estate is low—2.6%.

Market activity is clearly concentrated in particular neighbourhoods and suburbs, as shown in the map. Highest churn rates in 2021 were in Onverwacht at the northern end of Wellington (11.6%), Bertville near Lemoenkloof (11.3%) and Diemersfontein Village (10.3%). On the whole there was more turnover in Wellington than Paarl.

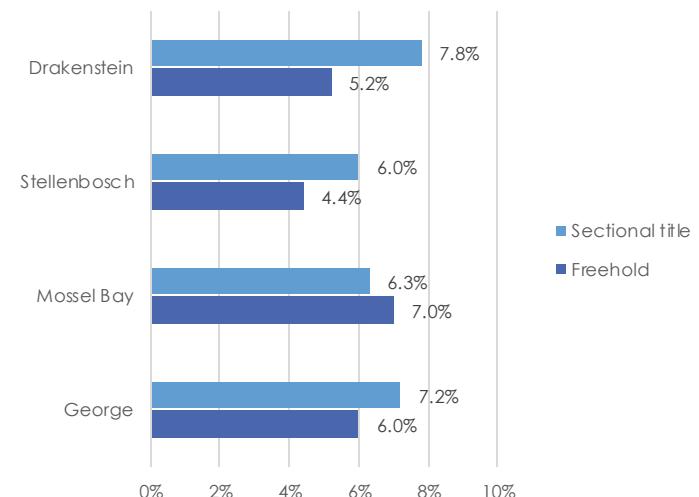
Rental market

Data on the rental market is painfully scarce—the TPN data used in this report does not include absolute figures and thus does not assist with quantifying supply and demand.

According to TPN's municipal level data, most rental units are unaffordable to the majority of households in the Paarl/Wellington area. Given that most 2 bedroom units rent for R5 500 – R7 000 per month, a household would require minimum monthly income of R18 330 to afford this lease. However only 30% of Paarl/Wellington households have this income or above, according to the GTI income data, .

The graph below compares Drakenstein municipality to the other three municipalities, demonstrating that effective rental yields for sectional title were highest in Drakenstein (7.8%). This might suggest that supply would increase as higher yields attract further investment.

Effective rental yields for four municipalities (Q4 2021)



Source : TPN Credit Bureau, Investor Report's March 2022.

What is the affordability gap? – City area level

The table to the right compares the stock of housing per market segment in Paarl/Wellington, to the number of households with the income required to purchase a house with a bond in that market segment. The results point to:

- Unmet need for adequate housing in the **entry** and **affordable** markets**

In the **entry** level market, there are approximately 7 300 residential properties and nearly 33 800 households who earn below R7 300/month. It may be that these additional 7 400 households are staying in informal settlements or backyard dwellings, which would not be reflected in the deeds data. It suggests an unmet need for adequate formal dwellings in this market segment, which would be affordable to low income households. While new government-subsidized housing is an effort to meet this gap, it is not able to meet the entire need.

There are approximately 3 600 residential properties in the **affordable** segment, and nearly 10 500 households who earn R7 300 – R14 750/month, the income required to purchase a house in this market segment with a bond. This would suggest there is a problem of supply of affordable housing in this segment, although it may be that some of these 10 500 households are, and would prefer to, rent. However the TPN data indicates that a minimum monthly income of R10 000 would be required to rent the smallest, most affordable rental unit (freehold property renting for R3000/month). It is thus inferred that many of these 10 500 households must be staying in informal dwellings.

Estimated household incomes required to purchase property with a mortgage, per market segment (2021)

Market segment (residential property value)	No. of properties in that market segment	% share of total properties in that market segment	Minimum monthly household income needed to purchase in this market segment*	Maximum monthly household income needed to purchase in this market segment	No. of 2021 households that fall in this income bracket*	Percent of 2021 households that fall in that income bracket
Entry level: < R300 000	7 330	21.5%	--	R7 300	33 762	52.9%
Affordable: R300 000 - R600 000	3 625	10.6%	R7 300	R14 750	10 469	16.4%
Conventional: R600 000 - R900 000	6 626	19.5%	R14 750	R22 200	5 532	8.7%
High end: R900 000 - R1.2m	4 347	12.8%	R22 200	R29 600	2 680	4.2%
Luxury: > R1.2m	12 132	35.6%	R29 600	--	11 383	17.8%
Total	34 060	100%			63 826	100%

* Assuming 7.75% interest rate, 20 year loan tenor, 30% premium to income ratio, 10% deposit and no FLISP.

** Assuming evenspread of number of households at each income level, within an income bracket.

Source: Lightstone data as of 31 Dec 2021; ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™ (NLI™) Release 2021. Own calculations.

- Potential oversupply at the top end of the market**

In the **conventional** and **high end** markets, there are nearly 11 000 residential properties, and around 8 200 households, suggesting a potential oversupply.

In the **luxury** market of houses valued at R1.2 million or above, there is extensive stock of about 12 100 units, and approximately 11 400 households with incomes that could afford to purchase properties with a bond at this price. This is consistent with the finding that private developers are focused on construction of high value properties located in private estates.

Word of caution regarding affordability calculations

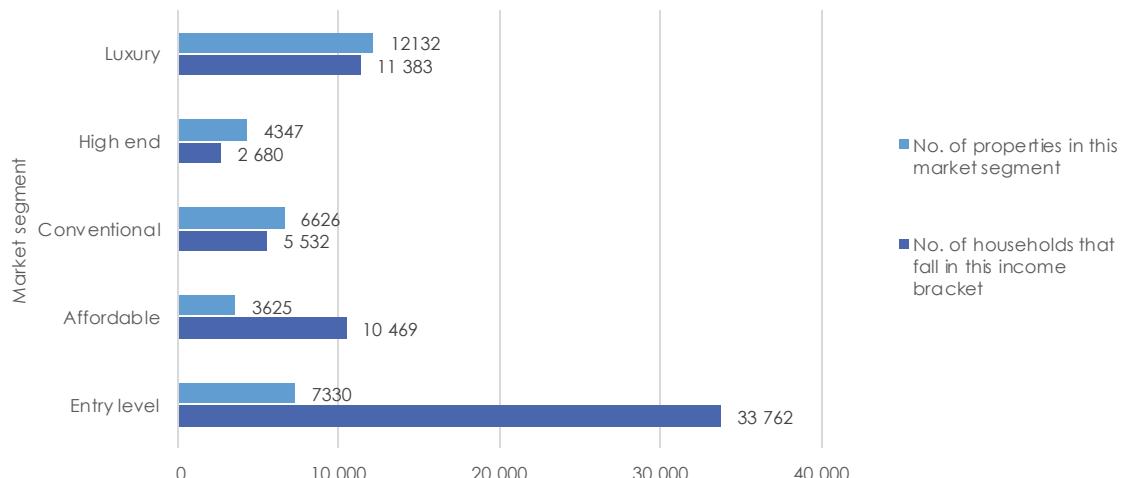
There are a number of important cautionary notes which should be raised with respect to these calculations:

- While house purchases below R1.2 million avoid transfer fees, there are other transfer costs which are not included here. See box on pg 40.
- Not all households purchase in the market segment they can afford: some may have additional funds from a once-off source, and some may have other competing expenses that prohibit them from spending the benchmark figure of 25% on housing.
- Some households may be living in properties that they accessed either by purchase or inheritance or gift, that today they could not afford to buy - in some cases properties appreciate faster than incomes.

The affordability gap – City area level

The graph below shows the gap between the housing stock in each market segment and the number of households with an income required to purchase a house with a bond in that market segment. The analysis is consistent with the views expressed in our interviews with developers who noted that there is great demand for affordable housing under R1 million, yet currently there is virtually nothing below R600 000 being produced.

Paarl/Wellington: Number of properties per market segment and number of households in associated income bracket (2021)



* Assuming 7.75% interest rate, 20 year loan tenor, 30% premium to income ratio, 10% deposit and no FLISP.

** Assuming even spread of number of households at each income level, within an income bracket.

Source: Lightstone data as of 31 Dec 2021; ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™© (NLI™©) Release 2021.
Own calculations.

It should be emphasized that this analysis must be considered with caution and due recognition of its limitations (see box on prior page). This is not a quantification of demand, but only a comparison of the available stock and the number of households with an income required to purchase that stock with a bond. It does not consider the rental market, and does not take into account the multitude of circumstances that also impact on a household's housing choices and ability to pay e.g. large once-off income such as pension payout or inheritance; equity from a previous property; housing preferences and needs with respect to size, location and other factors; and other sources of credit.

Where is the affordability gap? – Neighbourhood view

With subplace level income data, it's possible to undertake the same analysis we did at municipal level, comparing the number of properties per market segment to the number of households in the associated income band, at neighbourhood level. The graphs below display this comparison for three subplaces in Paarl/Wellington, selected in order to look at a diversity of types of neighbourhoods—Dalvale, Klein Nederburg, and Charleston Hill.

With 60% of properties in the **entry** market, Dalvale is largely GSP properties, most of which are older than 8 years. The turnover in the area is quite low. With nearly 75% of the population earning less than R7 300 monthly, the gap in the lowest market segment, between the number of households and the stock of entry level properties, is nearly 2 100. As a consequence, housing projects in the area of Dalvale are part of the government housing project pipeline.

Klein Nederburg also has about 3 400 households in the lowest income bracket, yet only a quarter of properties in the area are GSP, nearly all of which are older stock. The neighbourhood has a more mixed range of properties, with the bulk of houses (63%) in the **conventional** market segment between R600 000 and R900 000. Nevertheless, the largest supply gap remains in the **entry** market where the number of households far surpasses the number of formal residential properties.

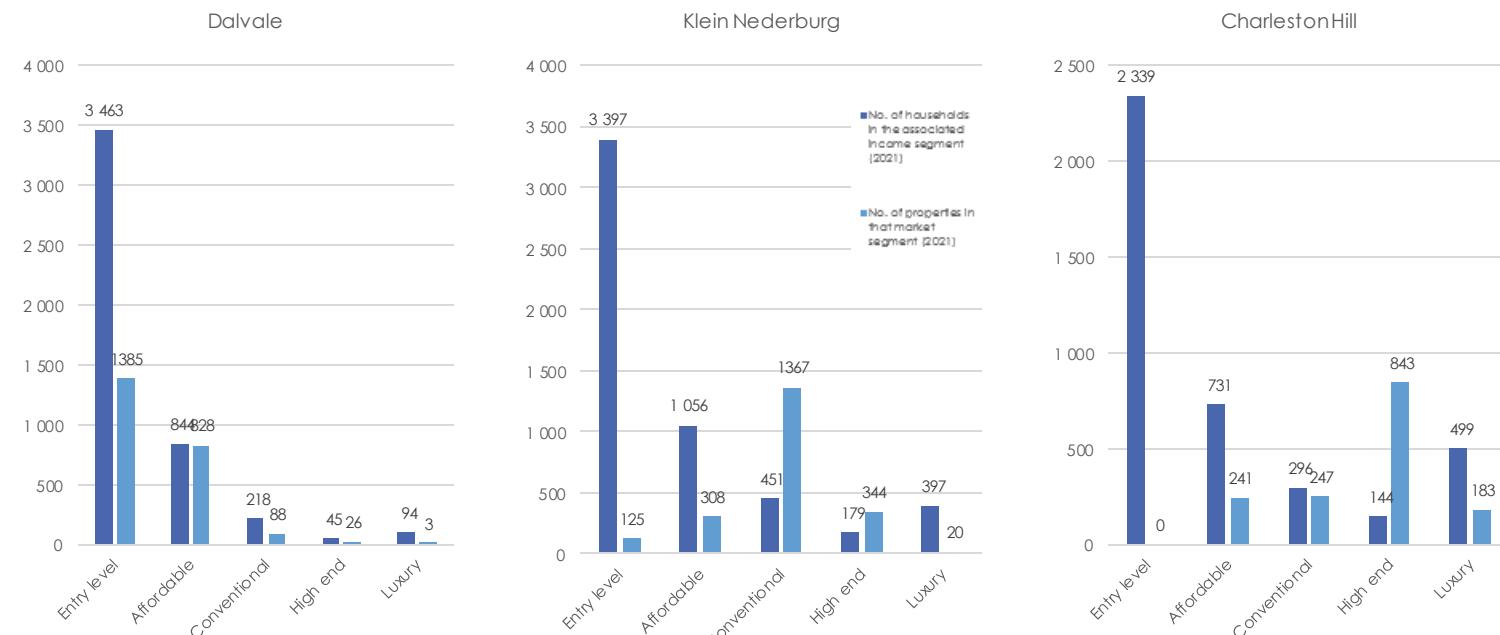
Lastly, Charleston Hill, which has a higher churn rate, only has a very small number of GSP. Yet 58% of the households earn less than R7 300 monthly. The data suggests the great majority of households are staying in informal structures, as the number of households far outpaces the number of formal residential properties.

Churn, GSP and number of properties by market segment –selected subplaces (2021)

	Churn (2021)	GSP as share of total properties in subplace (2021)	Total no. of households in subplace (2021)	No. of GSP over 8 years as share of total GSP in subplace (2021)	Number of properties per market segment (2021)					Total residential properties (2021)
					Under R300 000	R300 000 to R600 000	R600 000 to R900 000	R900 000 to R1.2m	Over R1.2m	
Dalvale	0.59%	88%	4 665	72%	1 385	828	88	26	3	2 330
Klein Nederburg	1.95%	24%	5 480	90%	125	308	1 367	344	20	2 164
Charleston Hill	2.71%	5%	4 009	0%	0	241	247	843	183	1 514

Source: Lightstone data as of 31 Dec 2021; ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™ (NLI™) Release 2021. Own calculations.

Number of properties per market segment and number of households in associated income bracket (2021)*



* Assuming 7.75% interest rate, 20 year loan tenor, 30% premium to income ratio, 10% deposit and no FLISP. Also assuming an even spread of number of households at each income level, within an income bracket.

Source: Lightstone data as of 31 Dec 2021; ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™ (NLI™) Release 2021. Own calculations.

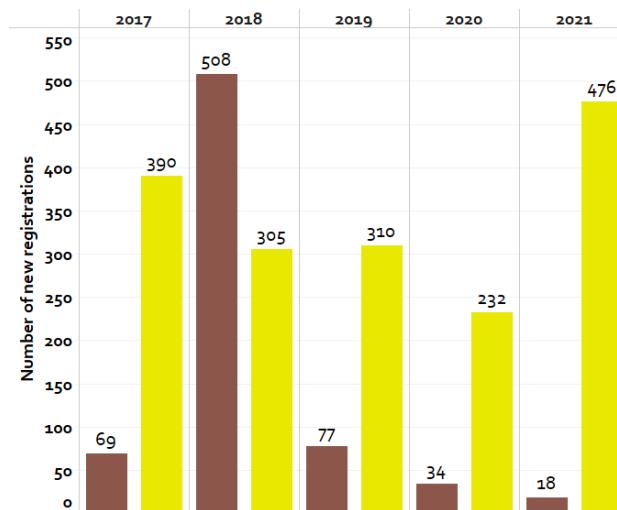
Is there sufficient developer activity and interest? – New non GSP transactions by market segment

Given that inclusionary housing leverages planning permissions to compel the incorporation of affordable housing units into private developments, the presence of strong developer interest is a necessary prerequisite for the regulatory mechanism to be effective.

The bottom graph compares the number of new registrations of GSP with new transactions of non-GSP properties over the last five years. In 2021, 1 713 housing units were built and sold by private developers or households in Paarl/Wellington, compared to 706 GSP.

New registrations and transactions of GSP and non-GSP (2017-2021)

Drakenstein



■ New GSP transactions
■ New non-GSP transactions

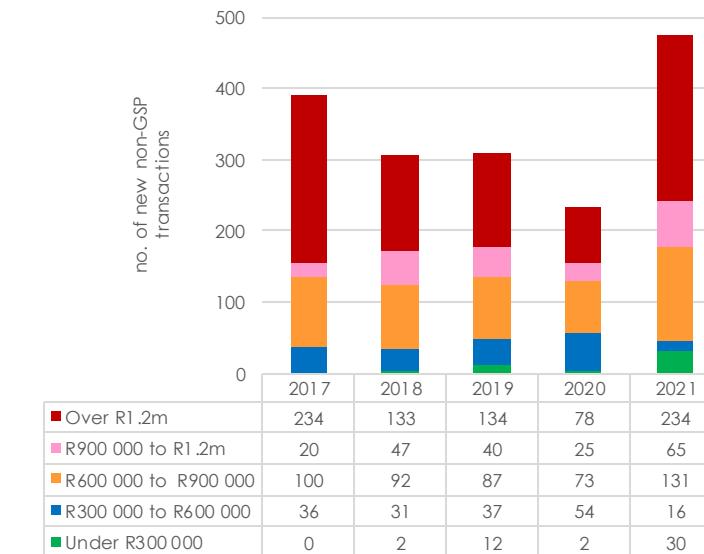


Centre for Affordable
Housing Finance
in Africa

The middle graph then unpacks the non-GSP new transactions for each year, by market segment. The graph thus reflects the types of products that private developers are putting into the market, providing evidence of the degree and nature of recent private developer activity and investment.

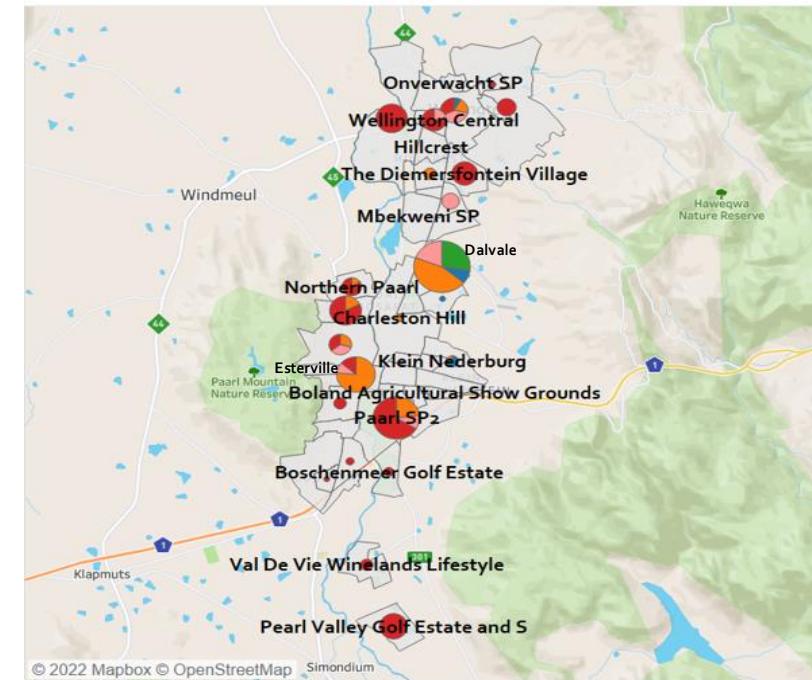
As shown in the map to the right, private investment in building new **luxury** units in Paarl/Wellington has been substantial. However the portion of **conventional** market properties built and sold by the private sector is also sizable, especially in Dalvale (40%) and Esterville (76%).

New transactions non-GSP by market segment (2017-2021)

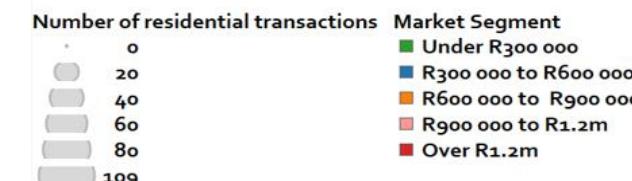


Distribution of new transactions by market segment: Non-subsidy properties

Drakenstein, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).



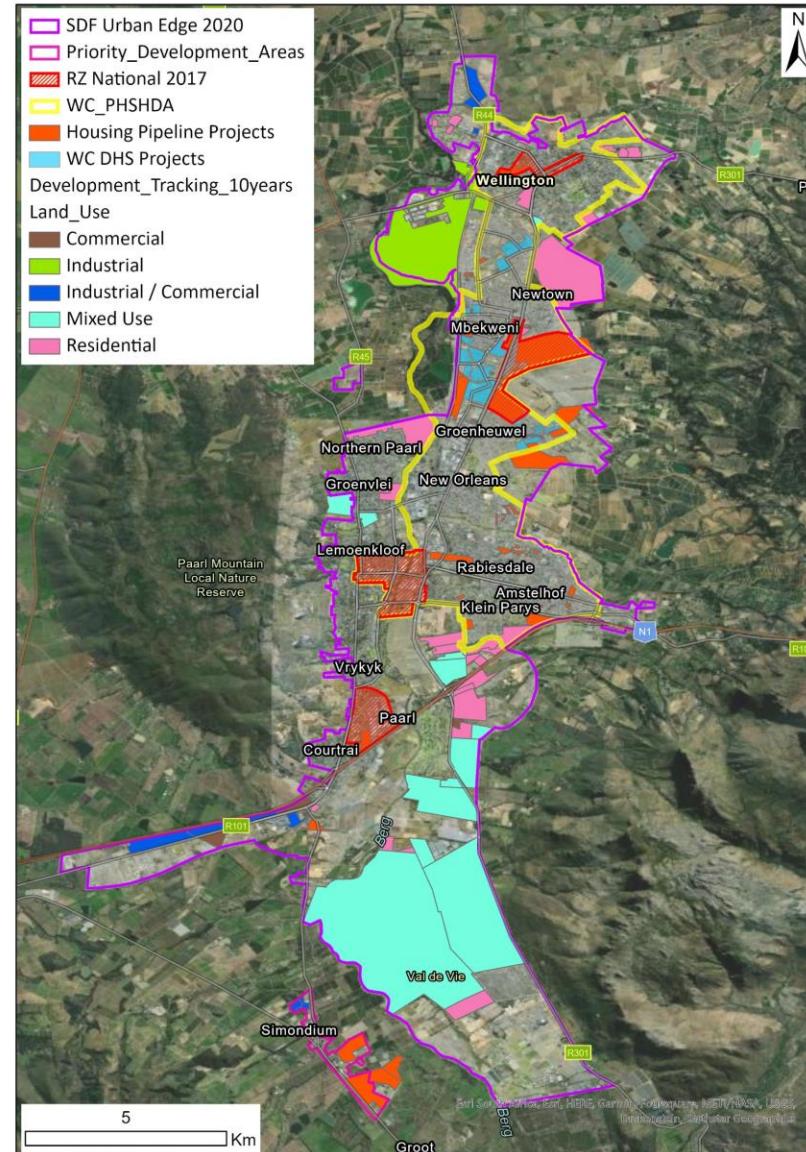
Where is developer interest? – Evidence from land use management applications

Apart from looking at recent new build by the private sector, land use management applications are another source of evidence of future developer interest. The left-hand map displays the development applications received by the municipality over 10 years, grouped into categories for commercial, industrial, mixed use and residential use. Planned government housing projects are shown alongside the development applications from the private sector. The map therefore provides a visualization of public investment alongside private sector intentions for development.

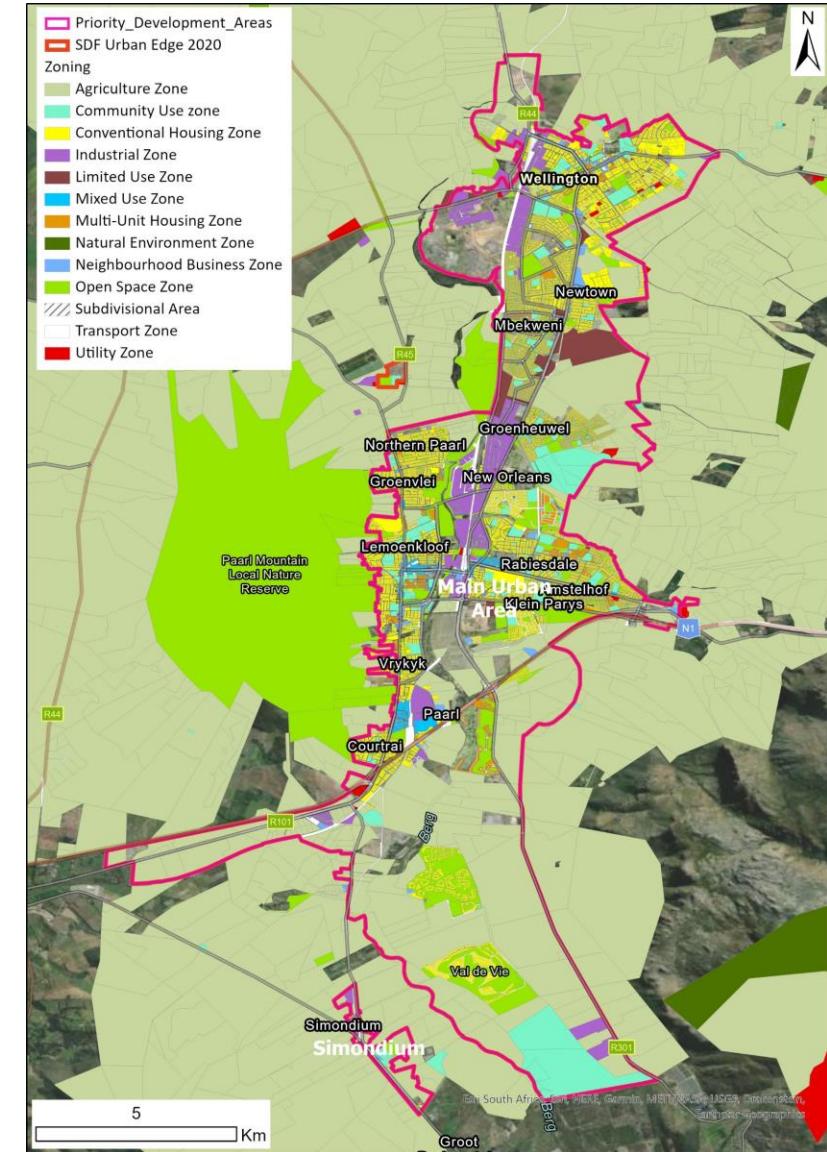
The right-hand map display the zoning scheme for the municipality, with the priority development areas delineated by the municipality outlined in pink. The conventional housing zone—shaded in yellow—is intermixed with areas of community use zoning and neighbourhood business zoning primarily. There remain significant cushions of space within the priority development areas which are still zoned agricultural and could presumably accommodate expansion of the residential area.

One of challenges cited by the developers interviewed was the price of vacant land. Land banking occurs quite frequently, with investors and developers purchasing vacant land and farms in hopes of profiting off its appreciation. Vacant land within the urban edge becomes more expensive, with one developer indicating that 5 hectares of land can cost up to R11 million within the urban edge.

Paarl/Wellington: Government projects and development applications



Paarl/Wellington: Zoning scheme and priority development areas



Conclusion

Inclusionary housing is intended to promote better located affordable housing, create more inclusive neighbourhoods and contribute to spatial transformation. The geographic target of an inclusionary housing policy would thus be areas that present opportunity for greater inclusion and diversity in property value bands, while also containing the space and potential for new developments (in terms of appropriate residential zoning and the existence of bulk infrastructure), in addition to being well-located with respect to transport, jobs and amenities.

The demand and supply side assessments of the residential property market in Paarl/Wellington point to an undersupply of **entry** level and **affordable** housing, in relation to the number of households in the lower income brackets. This gap could potentially be addressed by leveraging private developer investment towards the construction of additional affordable housing, both ownership and rental, especially in those areas experiencing increased market activity post-COVID and high churn rates.

The data presented here suggests a possible oversupply of luxury properties over R1.2 million, but the evidence on the ground, supported by development applications, is that the appetite of the private sector to construct new residential developments is not abating, despite some of the challenges experienced by developers. The newly formed Drakenstein Developers Forum will assist to address some of these hurdles, such as rigid civil services standards and development charges. Implemented alongside such structured stakeholder engagement, an inclusionary housing policy has the potential to leverage this developer interest towards increased investment in affordable housing, thus increasing supply and contributing to mixed neighbourhoods. The challenge is to ensure that demand in each sub market is met, particularly the R300 000 to R1.2 million segment, while preserving new affordable housing for the intended target market.

This report was prepared by the Centre for Affordable Housing Finance in Africa (CAHF) under the commission of the Western Cape Department of Environmental Affairs and Development Planning (WC DEA&DP) and the Western Cape Department of Human Settlements (WCDHS)

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Appendix A. Scope of Lightstone deeds data

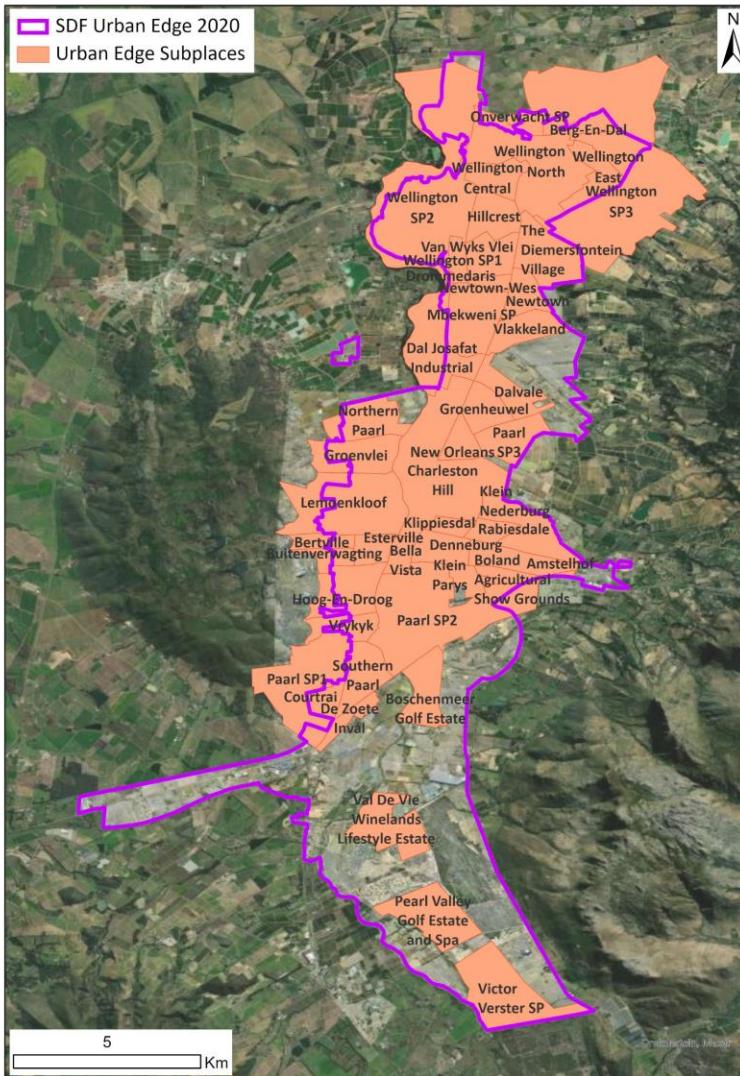
As noted in the study area section of the report, the area identified for the focus of this study is the Paarl/Wellington area within the urban edge. However the borders of the Census subplaces are not perfectly aligned with the urban edge. The map to the right shows the urban edge in red. The boundaries of the Census subplaces are shown in black.

Given that we purchase the indicators from Lightstone at subplace level, we needed to identify those subplaces which most closely align with the area within the urban edge of Paarl/Wellington. In order to remove those areas outside, we did not include five subplaces in the analysis: Saron SP, Drakenstein NU, Dal Josafat Forest Reserve, Gouda SP, and Paarlberg Nature Reserve.

As a consequence of removing Drakenstein NU, there are some large parts of the area within the urban edge which are not captured; for example, the area around Val De Vie and Pearl Valley Golf Estate. However these areas are not densely populated, thus the error of exclusion (by not including Drakenstein NU) was considered smaller than the potential area of inclusion if we did include all of Drakenstein NU.

Thus the Lightstone deeds data used in this report to cover the study area is made up of 47 of the 52 Census subplaces in Drakenstein municipality, as listed in the table to the right.

Paarl/Wellington area: urban edge and Census subplaces



Data sources: Drakenstein Municipality, Municipal Demarcation Board (MDB), ESRI South Africa.

Sp Code	Subplace Name
166004001	Onverwacht SP
166005001	Berg-En-Dal
166005002	Wellington SP3
166005003	Wellington East
166005004	Wellington North
166005005	Wellington SP2
166005006	Wellington Central
166005007	Hillcrest
166005008	Van Wyks Vlei
166005009	Wellington SP1
166005010	Drommedaris
166005011	Newtown-Wes
166005012	Newtown
166006001	The Diemersfontein Village
166007001	Mbekweni SP
166008001	Vlakland
166008002	Dal Josafat Industrial
166008003	Dalvale
166008004	Groenheuwel
166008005	Paarl SP3
166008006	New Orleans
166008007	Charleston Hill
166008008	Northern Paarl
166008009	Groenvlei
166008010	Lemoenkloof
166008012	Bertville
166008013	Esterville
166008014	Bella Vista
166008015	Denneburg
166008016	Klippestdal
166008017	Rabiesdale
166008018	Klein Nederburg
166008019	Amstelhof
166008020	Boland Agricultural Show Grounds
166008021	Klein Parys
166008022	Paarl SP2
166008023	Hoog-En-Droog
166008024	Buitenvrugt
166008025	Vrykyk
166008026	Southern Paarl
166008027	Paarl SP1
166008028	Courtrai
166008029	De Zoete Inval
166008030	Boschenmeer Golf Estate
166009001	Val De Vie Winelands Lifestyle Estate
166010001	Pearl Valley Golf Estate and Spa
166011001	Victor Verster SP

Appendix B. Proxy for identifying government-subsidised housing

The term "government-subsidised properties" refers to any properties created as a result of government subsidies, including provision of land, construction of top structures, and where possible, financing. The definition is limited to the data indicators available from the deeds registry, and/or those extrapolated from Lightstone's databases. The methodology uses the knowledge of the government programmes, namely RDP/BNG, discount benefit scheme and 99-year leases, to identify particular characteristics of a residential property to designate it as "government subsidised."

Properties are deemed to be government subsidised, and under which programme, if *all* of the following conditions hold true:

RDP/BNG:

1. The property's first transaction price is less than the government subsidy amount (R184 658 for 2017; R187 275 for 2018-2021), plus R50 000, depending on the year of transacting, and
2. The property's first seller to a private owner should be a government entity or a major developer/development company,^[1] and
3. The property should be a freehold non-farm property,^[2] and
4. The stand size of the property should be less than or equal to 500 m²,^[3] and
5. New private transactions are not bonded,^[4] and
6. The property's first registration should have taken place also after 1 January 1994,^[5] and

^[1] Subsidy amounts were often used as the default property value on the deeds registry at the time of registration. An amount of R50 000 was added to these amounts to take into consideration the incidences where registrations attempted to consider actual market values.

^[2] The Residential Development Programme (RDP) and Breaking New Ground (BNG) programmes provided funding to provinces, municipalities or developers to build housing directly on top of land made available for that purpose. Both were implemented after 1 January 1994. All RDP/BNG homes were transferred directly from the province or municipality or the developer to the owner directly.

^[3] All RDP/BNG properties were transferred to owners in freehold title.

^[4] The RDP/BNG programme implemented lot size limitations of up to 500 square metres.

^[5] As RDP and BNG properties were provided to owners for free, there should be no bond.

^[6] The programmes were implemented after 1994, with land initially designated in large plots to the developer, province or municipality, and delivered to the homeowners upon completion.

7. The property should not fall in luxury/super wealthy areas or within a gated estate, and^[7]
8. Properties located in suburbs (Lightstone suburb spatial layer) with 10 or more flagged active RDP/BNG properties.^[7]

Subsidy Other:

In order to be classified as the 'Subsidy Other' subsidy type, all the following conditions must hold true:^[8]

1. The property is not an RDP/BNG property as defined above, and
2. The title deed type should be freehold (non-farm), and
3. The transferor of the property to the first private owner is a government entity, and
4. The property's first private registration date occurs on or after 1 January 1989, and
5. The property is not located in a luxury or gated estate area.

Alternatively, the following conditions must be met which attempt to identify 99-year leasehold subsidy properties:

6. The property does not meet the RDP/BNG requirements, and
7. The property's first private transfer title deed begins with 'TL'.^[9]

Note that 99-year leasehold properties are also classified as "Subsidy Other" subsidy type. **Properties identified in this report as GSP are a combination of both RDP/BNG and Subsidy Other.**

^[7] Due to the programme guidelines, properties were only developed in large development tracts; this indicator is to prevent isolated properties which might meet other criteria from being inadvertently included (such as due to data entry errors).

^[8] The two other major government housing interventions preceded the RDP and BNG programme, namely the Discount Benefit Scheme and the 99-year lease programme.

^[9] 99-year leaseholds were properties provided by the government, in order to adhere to national legislation preventing land ownership by race category. Leasehold ownership was created to provide collateral assurance to those lenders and investors providing acquisition loans. Note that bonded first-time private registrations are allowed for when classifying a property as a 99-year leasehold.

Appendix C. Comparison of municipal level income data from WC DEDT and GTI

For this project, income data was provided by the Western Cape Department of Economic Development and Tourism for 2021, at municipal level only. Income data obtained from GeoTerralmage, also for 2021, was available at subplace level, allowing isolation of the study area.

Total number of households by municipality (2021) – GTI and WC DEDT data

	GTI total no. of households	DEDT total no. of households	Difference	
			No. of households	%
George	65,010	64,480	-530	-0.8%
Mossel Bay	41,649	33,133	-8,516	-25.7%
Stellenbosch	58,593	50,559	-8,034	-15.9%
Drakenstein	72,931	73,736	805	1.1%

Source: ©GEOERRAIM AGE – Neighbourhood Lifestyle Index™© (NU™©) Release 2021; W C Department of Economic Development and Tourism, 2021.

Monthly household income distribution (2021) – GTI and WC DEDT data*

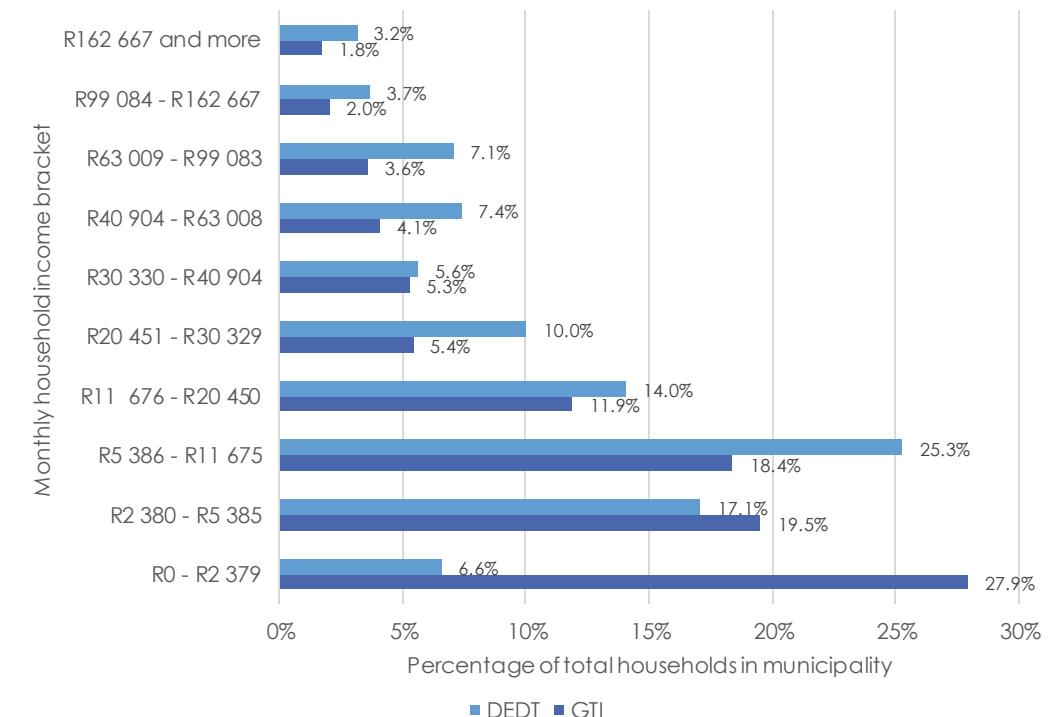
	GTI		WC DEDT	
	No. of households	Percent share	No. of households	Percent share
R0 - R2 379	20,364	27.9%	4,864	6.6%
R2 380 - R5 385	14,242	19.5%	12,587	17.1%
R5 386 - R11 675	13,424	18.4%	18,644	25.3%
R11 676 - R20 450	8,670	11.9%	10,358	14.0%
R20 451 - R30 329	3,970	5.4%	7,381	10.0%
R30 330 - R40 904	3,865	5.3%	4,163	5.6%
R40 904 - R63 008	2,989	4.1%	5,464	7.4%
R63 009 - R99 083	2,637	3.6%	5,222	7.1%
R99 084 - R162 667	1,491	2.0%	2,714	3.7%
R162 667 and more	1,279	1.8%	2,331	3.2%
Total	72,931	100%	73,726	100%

Source: ©GEOERRAIM AGE – Neighbourhood Lifestyle Index™© (NU™©) Release 2021; W C Department of Economic Development and Tourism, 2021.

At municipal level, the number of total households for 2021 does not differ significantly between the two data sources. According to GTI, total households for the municipality was 72 931, while DEDT reported slightly more, 73 736 households.

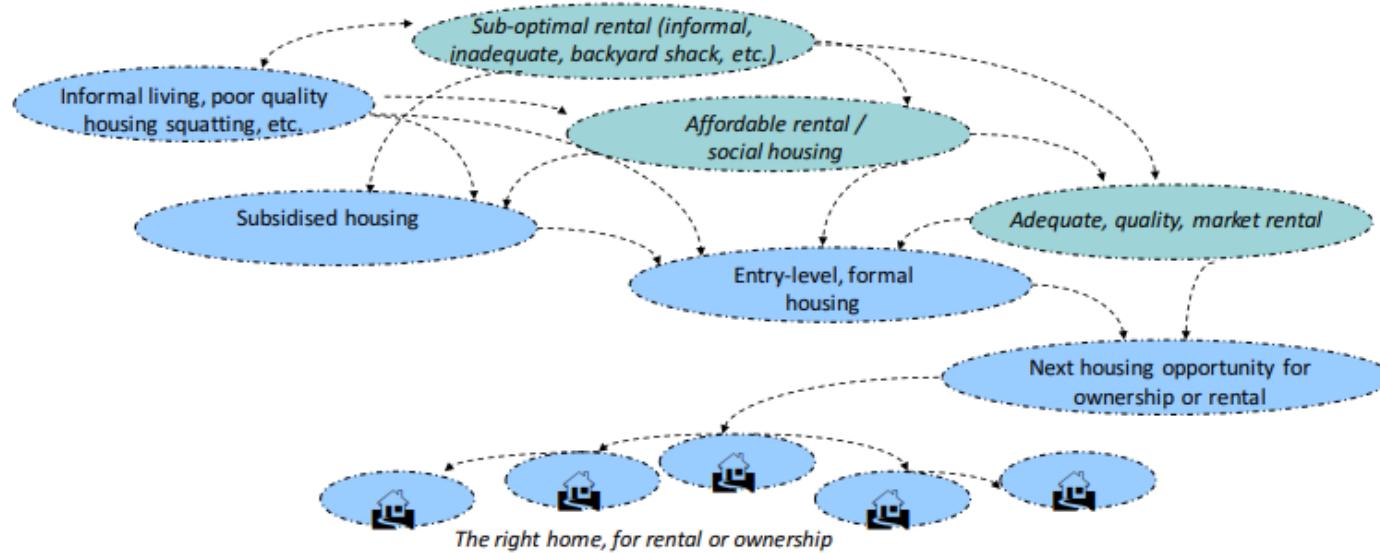
The data does differ significantly in its distribution however. The graph below compares the income data from the two sources. Given that the two sources used different income brackets, the DEDT data was converted into the GTI income segments, which required an assumption that the number of households in an income bracket is evenly distributed across the income range.*

Monthly household income distribution at municipal level (2021) – GTI & WC DEDT data



Source: ©GEOERRAIM AGE – Neighbourhood Lifestyle Index™© (NU™©) Release 2021; W C Department of Economic Development and Tourism, 2021.

Appendix D. Filtering in residential property markets



Filtering is when households move from one house to another to meet their needs affordably

- **New housing supply and functional resale markets** enable filtering
- **When filtering works** there is **sufficient supply of affordable housing** for ownership and rental, enabling **household mobility** and the **leverage of the housing asset**.
- **When filtering doesn't work**, **household mobility** is constrained, the **value of the housing asset declines**, and poor households cannot access the property market. This also depresses household affordability for entry-level housing, and widens the housing gap, as first time buyers come without equity.

