
Why Housing Market Studies?

The Western Cape Government's (WCG) Provincial Strategic Plan 2019–2024 identifies the development of an inclusionary housing policy framework as an intervention to support its focus area of generating more opportunities for people to live in better locations. One of the WCG's strategic priorities is to *promote mobility and spatial transformation*.

The Western Cape Department of Environmental Affairs and Development Planning is finalising this framework, the purpose of which is to introduce and guide the application of inclusionary housing as a mechanism to promote better-located affordable housing in towns and cities in the Western Cape. In partnership with the private sector, the aim is to shift the exclusionary impact of property markets and pursue spatial transformation.

The draft framework identifies the need to undertake a housing market study as the first step a municipality should take to inform the identification of appropriate measures to promote more inclusive property markets. To kickstart this process, the Western Cape Government commissioned Housing Market Studies for four of the province's intermediate cities/ larger towns; namely, the George city area, Mossel Bay-Kwanonqaba-Hartenbos, Stellenbosch town and the Paarl-Mbekweni-Wellington area. These studies profile housing demand and supply and identify the affordability gap in each of the urban centres – building an evidence base to inform suitable responses to address the shortcomings in the housing market, one of which may be an inclusionary housing policy.

Functional housing markets that respond to the diversity of residential accommodation needs of households across the spectrum of affordability and optimise the role of the private sector (from large-scale property developers to micro-landlords), are central to the economic and social well-being of our settlements, as well as for the financial sustainability of our towns and cities.

The Western Cape Growth Diagnostic report (2022) notes that,

"a large gap between demand and supply has led to rising prices across the whole housing market from top to bottom. On the one hand, this raises the household wealth of homeowners. On the other, it raises the cost of accommodation resulting in lower real ex-accommodation household incomes. It also results in upward wage pressure on local firms. Higher prices ripple across the housing market, making even the most affordable formal housing stock more expensive, with huge implications for living standards and inclusion" (intellidex, 2022).

As a result, economic inequality persists, and the property market, as a means to support upward mobility, or to respond to changing accommodation requirements, is increasingly limited in the Western Cape¹. Poor

¹ The ratio of asset wealth (including property) to income is rising in developed countries and in South Africa. Property values are growing faster than household income: In the Western Cape, average household income decreased by 0.3% from 2015 to 2019 (Quantec, 2021), while the average sale price of property increased from R950 000 to R1 176 429 (an increase of 24%) over the same

housing product and location choices leak household income to transport and managing related risks, diminishing household capacity to invest in other avenues towards betterment, for example, further education, small business development, etc.

However, the Growth Diagnostic also notes that,

“the gap between housing demand and housing supply – reflected in rising prices – also creates opportunities for growth in construction, as well as in a variety of supply chains in the manufacture, sale and maintenance of household goods and services. Many of these sectors/supply-chains are intensive in the use of unskilled labour. Apart from these effects, slowing the rate of growth in the cost of accommodation is welfare improving and could reduce some upward pressure on wages across the provincial economy. If it facilitates densification (e.g., through the delivery of apartment blocks), expanded housing production has the potential to increase urban efficiency and reduce the province’s per capita greenhouse gas emissions” (intellidex, 2022).

The report concludes noting that filling the gap between demand and supply in the property market will boost economic growth in the Western Cape.

To appropriately respond to this challenge and the opportunity, it is important to understand the nature and performance of the housing markets in our urban centres.

The studies confirm that the formal housing markets are not responding adequately to the needs of households who earn up to approximately R30,000 a month, perhaps even more. These are middle- and lower-income households in our cities and towns in the Western Cape, many of whom are households undertaking work essential to education, health and safety services.

A functional housing market requires that the gaps in the housing ladder are addressed, particularly in the market for properties between R300,000 and R900,000, and especially in the affordable market between R300,000 and R600,000. Without this, households in the entry market have nowhere to go when their circumstances improve and their needs change, blocking the opportunity for households to progressively improve their housing, leaving behind their old house which can then be made available to another household seeking an entry level or affordable unit (Rust, 2022).

In comparing the property markets of the four towns and cities, while there were commonalities, such as the gaps in the market, there were trends specific to each of the settlements. This speaks to the importance of assessing the housing market dynamics in each urban centre, as the performance of the markets will differ and appropriate approaches to addressing the gaps will vary.

The four Housing Market Studies for Intermediate Cities/ Larger Towns in the Western Cape were prepared by the Centre for Affordable Housing Finance in Africa (CAHF) under the commission of the Western Cape Department of Environmental Affairs & Development Planning and the Western Cape Department of Human Settlements.

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period (Property 24, 2022). Disposable income growth is on a downward trajectory (Western Cape Government Provincial Treasury, 2021).