HDA
HOUSING DEVELOPMENT AGENCY

An agency of the National
Department of Human
Settlements

Working for integration

Mopani District
Municipality

Greater
Tzaneen

Ba-Phalaborw

Polokwane

Limpopo

Capricorn
District
Municipality

Maruleng

Lepele-Nkumpi

R37

Fetakgomo

Greater Sekhukhune
District
Municipality

Waterberg
District
Municipality

Greater
Tubatse

Makhuduthamaga

Ephraim
Mogale
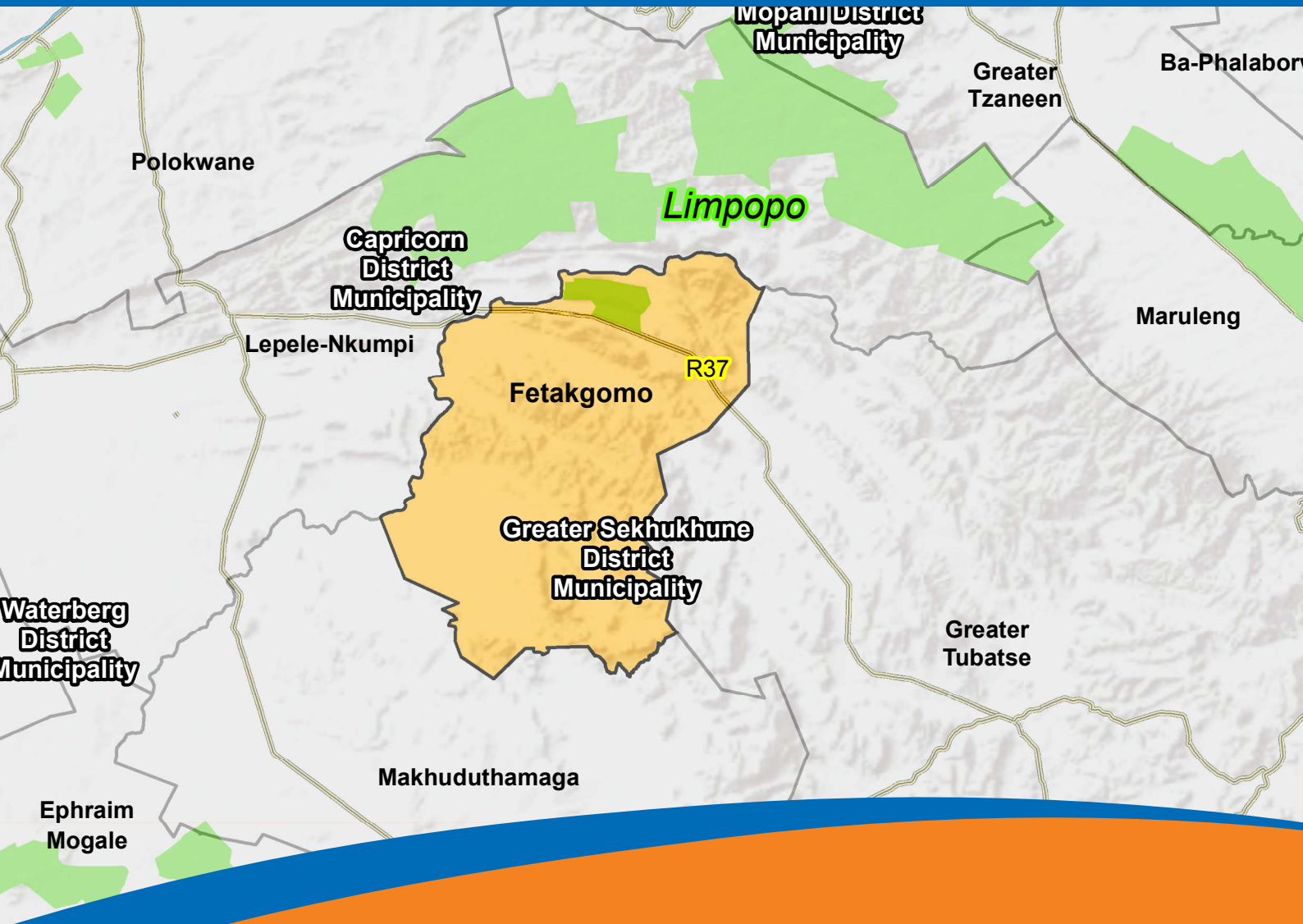
Fetakgomo – Limpopo

Housing Market Overview
Human Settlements Mining Town Intervention
2008 – 2013

Disclaimer
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Contents

1. Frequently Used Acronyms

CAHF	–	Centre for Affordable Housing Finance in Africa
GDP	–	Gross Domestic Product
GVA	–	Gross Value Added
HDA	–	Housing Development Agency
HPI	–	Housing Performance Index
IDP	–	Integrated Development Plan
NU	–	Non Urban, a Stats SA subplace designation
RDP	–	Reconstruction and Development Programme
SDF	–	Spatial Development Framework
SP	–	Subplace
StatsSA	–	Statistics South Africa

2. Introduction

The Housing Development Agency (HDA) is a national public development agency that promotes sustainable communities by making well-located land and buildings available for the development of human settlements. As its primary activity, the HDA assembles and releases state, private and communal land and buildings for development. In addition, the HDA provides project delivery support services to organs of state at local, provincial and national levels.

In setting the agenda and asserting its role in the housing continuum, the HDA realised that there is a gap in the provision of accurate and easy-to-understand information regarding the property market, particularly in previously overlooked areas, including the mining towns.

The development of this report is a result of this gap. It aims to explore and present an overview of the formal housing markets in Matjhabeng, Moqhaka, Merafong, Randfontein, Westonaria, Thabazimbi, Greater Tubatse, Elias Motsoaledi, Lephalale, Fetakgomo, eMalahleni, City of Matlosana, Mogale City, Ephraim Mogale, Steve Tshwete, Thaba Chweu, Tsantsabane, Ga-Sekgonyana, Gamagara, Kgetlengrivier, Madibeng, Moses Kotane and Rustenburg so as to change perceptions of affordable markets, and as such, expand and deliver affordable housing options within South Africa's municipalities.

The study was undertaken over a three-month period, relying mainly on the high level indicators developed by the Centre for Affordable Housing Finance in Africa. These indicators consider the market conditions, existing market size and activity, average prices and values, market growth and lending activity in the area to support a better understanding of the opportunity and the impact of various housing policy interventions. The indicators also highlight the range of opportunities across areas to stimulate the affordable housing market in South African municipalities.

The methodology also included site visits to eMalahleni, Randfontein, Westonaria, and Rustenburg so as to confirm findings and to gain more insights about the current housing circumstances.

The report is intended for use by all stakeholders involved in planning, including professionals in municipalities, Government officials, private sector, investors, developers and urban planners, for the mission of enticing a range of development options. The report does not address housing supply for the lowest income levels, but rather seeks to make the case for expanding the gap market in order to entice private sector engagement more effectively.

2.1 Report Contents

The report covers the following aspects of housing markets through maps, charts and graphs to highlight understanding across the municipality and at the neighbourhood level, where housing markets function.

1. **Housing Performance Profile** – the pace of growth by suburb, on maps and in charts, as measured by the Housing Performance Index
2. **Market Size** – total number and distribution of residential properties, households, values and sales prices, key demographic indicators
3. **Market Activity** – properties, sales and new properties and resales over time
4. **Lending Activity** – sales and loans by lender
5. **Affordability Profile** – affordability based on local incomes, compared to sales price, housing gaps and affordability ratios
6. **Leverage** – the value of equity available for purchasing new homes
7. **Rental Index** – those areas most prime for quality, dense professionally managed rental housing

2.2 Definitions and Methodology

For housing supply, title and deeds records were merged at the suburb level, mapped and ranked through the Citymark dashboard. Priority has been placed on actual transaction datasets from familiar sources that can be geocoded to the subplace level, trended over time and updated regularly. For housing demand, StatsSA data was applied as the most consistently collected, widely understood and most common source of demographic data in the country.

2.3 Benchmarks

Benchmarks are indicators used to compare performance across areas and are valuable for understanding meaning. Each indicator was created at the local, municipal and national levels in order to measure performance within and across markets. These benchmarks also highlight areas or trends which are outperforming the overall market in certain ways and might be most receptive to a variety of new housing development options.

2.4 Site Visits

As mentioned, the team conducted four site visits to eMalahleni, Randfontein, Westonaria, and Rustenburg. These visits provided the chance to confirm findings from the data and chat informally with residents about their current housing circumstances: where they had moved from; where they were currently living and how affordable it was; and where they were headed, including their ambitions and concerns. This helps to provide a sense of the housing continuum in the town – what choices residents feel empowered by, and what constraints keep them from realising their dreams and aspirations. Residents who were engaged came from informal settlements, brand new RDP homes, and a stalled RDP project, which had recently been reactivated by the city.

Some of the key insights from these site visits were:

- Residents may not know exactly what their home might be worth, but they are very aware that their home has a value, which includes stability and security for themselves and a better future for their families
- Many residents use their homes to supplement their own income, including renting shacks and rooms and operating home-based businesses
- There might be a relationship between how the houses are handed over and the sense of ownership (as evidenced by improvements to the homes)
- Everyone we spoke to understood the importance of a title deed, that the title deed proved (secured) ownership, even if, in a few cases, they were not sure of its status or how to get one
- Most people mentioned a better future for their children as an integral part of the importance of homeownership
- Residents were aware that there is an acute shortage of housing opportunities and that despite having their homes, they were surrounded by others without adequate housing

Many people understood housing markets around them intuitively — where the better houses were closer to jobs and transportation and what the barriers were — the price, the inconvenience and the cash required to access the houses.

2.5 Using this Report

This report is intended to provide a high-level view of the mining town housing markets overall and by neighbourhood, within areas of particular interest, by measuring and comparing housing market performance amongst each other and with the municipality. This report highlights connections and implications from the findings that are of significant interest to the HDA. The report does not seek to understand why things are, but offers general ideas based on experience with housing markets and new learning about mining town housing markets from these reports.

The report findings emphasise opportunity as opposed to risk or failure. Opportunities are defined as conditions or indicators within areas, which can show:

- The ways in which areas or markets are behaving *positively* (such as growing more quickly), or showing strength (such as stability and consistency)

- The ways in which areas can be connected to common strategies that promote *growth, investment or sustainability* (such as proximity to transit or density)

- A more accurate picture of the *real value of areas* in ways that can leverage economic investment (such as equity, lending levels and new registrations)

- Better ways in which *risk* can be measured and accounted for (such as timing, scale, or location risk)

- A more *comprehensive scope or scale of markets*, to better estimate and project market intervention (such as property or population size, absorption rates, or patterns of behaviour)

- Ways to *challenge and overcome those perceptions* or assumptions that might stymie investment, or slow growth

This report is not intended to provide a complete final picture of market conditions or demographic circumstances. It does not reflect conditions in the informal market, nor general attitudes. It is not intended to be the last word on market potential, but is rather the *first*: how can current conditions present opportunities for better housing options, and improved market performance? Where are places that might be performing better in some ways, which might provide areas of opportunity, and how? The highest and best use of this report is to suggest new ways to support the growth of affordable housing in South African mining towns, by exploring and reconsidering areas for new investment, expanding existing investment, and promoting policies and programmes which can support and entice that development. It can also imply the impact of ongoing investment and programmes activities.

2.6 About Formal Housing Markets

This report relies on the South African deeds registry as the basis for analysing local housing markets. Thus, the report **only measures the formal housing market**, which can be defined as those residential properties which have been formally titled to a specific owner or group of owners. While this excludes a large part of the human housing condition in these towns, the advantage of focusing on the formal housing market is that it offers a better understanding of that part of the residential property market, which is most opportune for leverage and investment interventions in ways previously not understood.

Taking into consideration the housing backlog from StatsSA, informal settlements and human mobility, housing markets are quite fluid and difficult to measure. Understanding housing markets more completely is one advantage of the titling initiatives recommended by many housing policy and planning advocates across the country.

3. Context
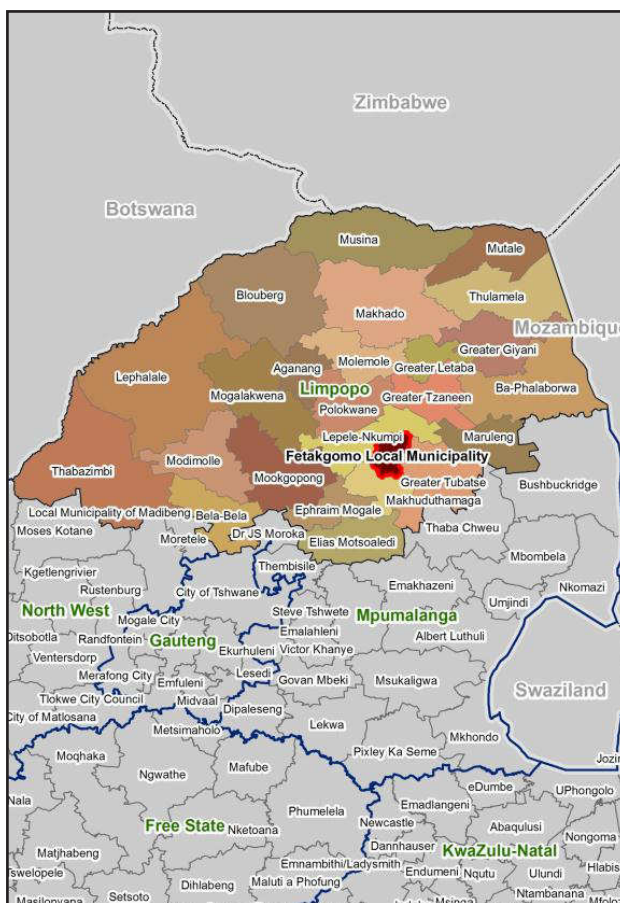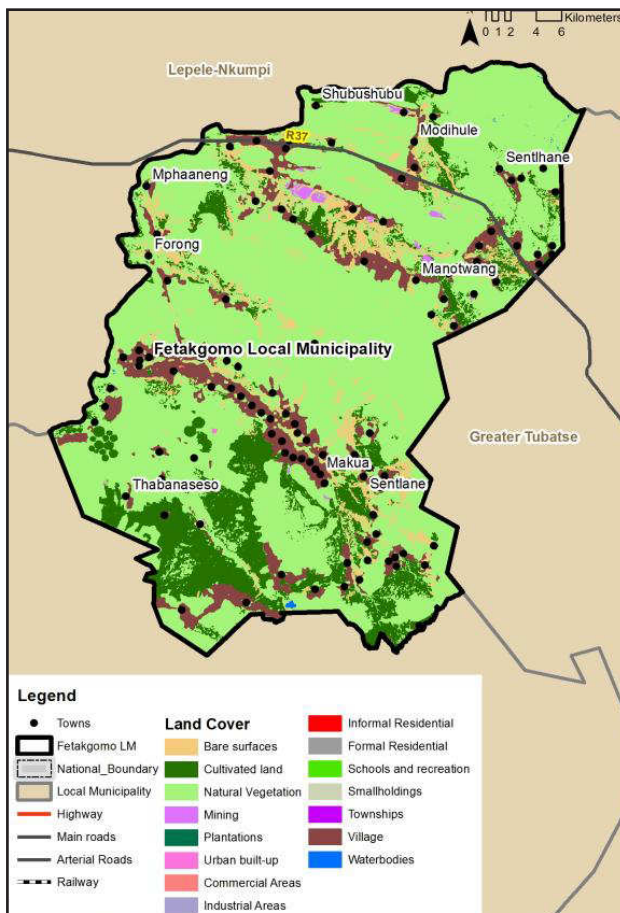
3.1 Municipal and Regional Context

Key contextual aspects of the city, summarised from its 2014 - 2016 IDP, give important insights to the market overall:

- Fetakgomo is the smallest municipality in the Sekhukhune District Municipality

- The municipality is completely rural in nature and is dominated by traditional land ownership

- The majority of the population resides in 87 settlements

- The majority of these settlements are small with less than 1,000 inhabitants in each

- 3,184 RDP houses have been completed and allocated to those who did not have adequate shelter since 2001

- Fetakgomo is characterised by a weak economic base, poor infrastructure, major service backlogs, dispersed human settlements and high poverty levels

3.2 Socio-Economic Profile:

The municipality's current demographic information is drawn from the HDA Municipal Profiles and from the 2001 — 2011 Census Data:

- Fetakgomo has a population of 93,795

- There was a 0.13% population growth between 2001 — 2011

- In 2011, the unemployment rate was 58.9% and the youth unemployment rate was 70.5%

- The mining industry makes up the highest share of the GVA and employment market

- There are 22,851 households in Fetakgomo, with an average household size of 4.1 people

- 94.2% live in formal dwellings

- An average of 29% of the households have flush toilets connected to a sewerage system, piped water inside the dwelling, weekly refuse removal and electricity for lighting

- 56.8% of the housing is owned and fully paid off

According to the deeds registry, there are no residential non-farm properties in Fetakgomo. The town's IDP indicates that there are 87 settlements, including 3,184 RDP houses, however it must be assumed that those properties have not been formally registered.

4. Context: Mining Sector Overview

Fetakgomo is located in Limpopo and is the smallest of the five municipalities in the Sekhukhune District Municipality.

4.1 Mining Industry Profile

- The strengths about the Fetakgomo mining industry include vast and rich deposits of platinum, which are situated on the Dilokong Corridor
- One of the weaknesses about the Fetakgomo mining industry is the uncertainty about land availability for expansion and housing
- It was anticipated that Sekhukhune District Municipality will produce 22% of South Africa's PGM (Platinum Group Metals) in 2015
- The capacity of chromite mines in Sekhukhune was anticipated to increase by 150%, and Vanadium by 50% in 2015
- Mining-related employment opportunities were anticipated to increase by 180% in 2015

4.2 Housing in the Mining Sector

Due to the remote locations of many mining operations, mining companies have long histories of providing housing solutions for its employees, from executive management to miners. Because each industry has different business models based on the supply and demand of the raw material (coal, gold, platinum and diamonds), and different approaches to housing policies, the housing solutions vary and are not discussed in specific terms. Knowing the general Mine Housing Policies assists in understanding the effects on the housing markets in the towns. Unlike large metropolitan areas where housing markets grew more organically, (with some historical master planning involved), these towns were largely designed intentionally to serve the interests of the mining franchises above them. Understanding the housing options offered by the mining companies is an important factor in understanding local housing markets. The following is only indicative of each company's general approach, the housing models in each town are approached differently and more specific to their context.

The major mining activity in Sekhukhune District occurs within the Dilokong Corridor, which stretches largely across Tubatse, Fetakgomo, Elias Motsoaledi, Makhuduthamaga and Marble Hall, although the last three areas have relatively low mining activity. It is estimated that mining activity grew at an annual rate of 5.4% from 1996 – 2001 in total there were 17 mines operating in Sekhukhune District Municipality in 2006.

Some of the mines within the Sekhukhune district include: Blue Ridge and Sheba's Ridge, both managed by Aquarius Platinum (AQPSA), Loskop Mine; managed by Boynton and Tinderbox Mine, both of which are owned by Sedibelo Platinum Mines.

Their Mine Housing Policies outline the following:

- Aquarius Platinum (AQPSA) provides housing allowances to its employees; employees in categories A and B receive housing allowances included in their salary packages. Category A employees receive R6,640 and Category B employees receive R1,840
- Xstrata has eliminated hostels and unsustainable" mine villages"
- XCSA pays industry leading "living-out allowances" (about R2,000 per month) intended to offer employees with flexible housing options throughout the area
- XCSA educate all employees during annual induction training on how to access of formal housing and the merits as opposed to informal housing
- Exxaro has introduced a five-year mortgage repayment subsidy for first-time homebuyers who are permanent employees
- Exxaro has approved a Housing Capital Assistance scheme that was piloted at Arnot, outside eMalahleni. This will assist first-time homeowners on specific salary grades with a capital amount of R75,000 after tax
- While Exxaro's housing policy focuses on home ownership, employees receive a housing or living-out allowance to assist them in obtaining accommodation. The total value of these allowances in 2010 was over R137 million
- Exxaro facilitated employee ownership of 10,510 homes in 2010

5. Context: Housing

The municipality has identified the following challenges and opportunities from its 2014/2015 IDP:

5.1 Housing Challenges:

- There are approximately 29,594 households within Fetakgomo

- All wards have previously benefited from the RDP housing implementation

- About 3,484 people or families are still in need of RDP houses, compared to 2,402 in the previous financial year, i.e. 2010/11, which represents a 31% increase in need

- Traditionally, rural communities have always provided their own shelter from the available natural material in their local areas

- No informal settlements exist in the municipality those concentrated in urban areas, can be found in the municipality although some are beginning to develop in and around the new mining areas, such as Atok

- 88% of the population in Fetakgomo have access to housing

- Housing delivery is a competence of the Department of Local Government and Housing (DLGH). Fetakgomo Local Municipality's primary role is limited to compiling housing waiting lists

5.2 Housing Strategies:

- One of the municipality's primary objectives is to improve the quality of life of citizens through provision of housing

- The municipality aims to eradicate the housing backlog by 2024

6. Housing Performance Profile

6.1 Key Findings: Housing Performance Index

The state of the municipality, whether slow, stable or growing, creates an opportunity for markets to be carefully assessed in order to best position the next wave of growth.

6.2 Policy Implications

In slow-growth neighbourhoods, where most of the lower priced housing currently exists, housing will be built more affordably, but will need to be situated well to better integrate housing markets. Site development initiatives should include rental housing to meet the increased demand.

6.3 Quick Definitions:

Housing Performance Index (HPI): provides an understanding of local housing market performance by tracking six key indicators which most effectively convey fundamental components of real estate markets and then comparing them to the results for the entire municipal property market to determine areas of growth or strength relative to the entire metro.

Housing Performance Profile: this describes housing market performance of local areas as growing (those areas where the index is 6.5 or higher), stable (the index is 4 or higher) or slow (the index is less than 4) compared to the metro in which it is located.

Formal Housing Market: residential properties that are registered on the South African deeds registry. This does not include informal settlements or other houses otherwise not on the deeds registry.

Indicators: suburb-level measures used to convey a more complete understanding of housing markets, sometimes a point of data (such as number of properties), or a calculated factor (such as the housing index or the affordability ratio).

Housing Continuum: a range of housing options which are available to a wide range of income levels, budgets, housing types and ownership opportunities.

Bonded Sales: the total residential properties that were transacted with a bond collateralised or secured by that property.

New Registrations: residential properties that have never appeared on the deeds registry before. This is an important indicator of the growth of a market, whether the property has just been built or was built previously and never registered.

Churn: an indicator of the sales activity within an area similar to turnover, it is the number of residential sales divided by the total number of properties.

CAHF Housing Performance Index			
Indicator	**Measured**	**Implies**	**Weight**
Price	Average sales price	Appreciation	25%
Value	Average property value	Appreciation	25%
Transactions	Number of sales	Demand	15%
Percent bonded	Bonds per sales	Investment	15%
Churn	Repeat sales as a percent of total properties	Activity	10%
New properties	New properties added to the registry	Growth	10%

6.4 The Housing Performance Index

These maps identify the Housing Performance Profile by suburb and total residential properties, to provide a sense of how local property markets are performing compared to the metro as a whole. The Housing Performance Index (HPI) provides a glimpse of the formal housing market only and does not include any demographic information. The weights were determined by how well the indicator reflects activity, increased investment and demand (and how reliably the indicator can be measured).

This information is useful in understanding how the formal market is behaving (which is influenced by the presence of mines, informal settlements and the people who move in and around the towns). This is intended to help understand how key housing sector partners (developers, investors) seek and measure opportunity, in order to better inform and coordinate Government planning processes and private sector motivation.

"**Growing**" suburbs are areas which exceed the municipality's rate of change in any four of six key market indicators. "**Stable**" areas meet or beat the municipality in at least three indicators, and "**Slow**" areas are growing at rates less than the municipality in two (or fewer) of the six indicators. While an index provides quick understanding, it is important to look more closely at the indicators themselves to understand more clearly the underlying factors affecting market growth and stability.

6.5 Performance Over Time

In considering development investment over the long term, stability of growth is often a more important consideration when projecting future performance than high growth. Building housing opportunities between areas of high and low growth can better integrate housing markets overall. This information can help advise how to create a more cohesive and stable housing continuum, with fewer spikes and drops, and where to begin.

6.6 Housing Performance Indicators

Six indicators – price and value appreciation, total sales and bonded sales, change in new properties and churn– are the most telling of growing, active housing property markets. The relationship between indicators provides clues as to what may be driving performance, what that might mean for future development potential and how it might affect or be influenced by different housing types, prices or target incomes.

Housing markets are very sensitive to access to credit, so lending information will be helpful in understanding this more closely (see Lending below).

6.7 Housing Performance Indicators by Property Type

Different housing markets perform in different ways, including freehold (free-standing) homes and sectional title (subunits within a single property).

Lending is instrumental in the growth of housing markets, and the ability to access bonds to buy sectional title housesdrives the growth of this housing type. Sectional title is also an important affordable home ownership option.

7. Market Size

7.1 Market Size: Key Findings

Fetakgomo's housing market are essentially made up of three markets: Government-sponsored housing built as part of the National Housing Initiative over the past 20 years, privately traded and financed homes, and informal settlements. Markets are highly segregated between higher-priced, actively selling private growing markets near the city centre and further flung lower income, non-bonded Government-sponsored developments, and informal settlements (not on the deeds registry).

The implied demand for housing is high. The current estimated housing backlog is almost four times the current total of the town's current total formal residential properties. Demand creates opportunities for new housing supply to be positioned between the existing segregated markets to better integrate the town's spatial, income and housing markets.

7.2 Policy implications

Government can use this existing investment to identify areas of future development and entice private sector participation. Existing **Government investment in housing can be leveraged** to guide new development opportunities, if and when those homes can be sold to new buyers and the proceeds used to purchase new housing further up the housing continuum. For example, **Government might prioritise new development between Government-dominated and private markets** for more integration mixed-income sites, and fills spatial gaps within the town.

Encouraging the expansion of financing to lower income families will allow for those homes to be sold, and the proceeds used to support housing development further up the housing continuum.

Rapidly changing housing demand driven by mining activities makes a strong case for prioritising quality rental housing. If rental housing is well-situated and convenient to transport and centrally located in dense areas, it can bring social and economic cohesion to housing markets over the longer term.

7.3 Quick Definitions:

Market Size: the total number and distribution of important aspects of areas, including average home prices; home values; total households in order to inform the potential scale of housing intervention strategies and the impact of proposed development schemes.

Property Value Segment: in order to better understand the performance of housing markets, data has been grouped into four property value bands: properties valued under R250 000; between R250 000 and R500 000; between R500 000 and R1.2 million and over R1.2 million. This helps one to understand the various trends and strengths inherent in each segment, and to see how properties are integrating across the housing continuum, especially over time.

Government-sponsored Housing: housing which was created through some Government intervention, from site and infrastructure provision, direct construction or finance, such as Site & Service, RDP and BNG. While these homes are not recorded as such on the deeds registry, their presence is estimated based on surrounding registrations, timing, prices and volume of activity.

Freehold / Full Title: a permanent and absolute tenure of land or property by a person or entity (such as a corporation or trust) with freedom to dispose of it at will. Freehold or full title describes the assumption of full ownership rights when one owns a property, often including the building and the land it is built on.

Sectional Title: separate ownership of units or sections within a complex or development. These are often comprised of mini subtype houses, semi-detached houses, townhouses, flats or apartments and duet houses. These are governed by the Sectional Titles Act and managed by a body corporate comprised of elected representatives of the sectional title owners in the development.

Absorption: the pace with which homes to be developed might be sold in a specific market during a given period of time. This can be calculated by dividing the total number of available homes coming on line by the estimated number of sales per month, often based on the rate of sales nearby.

Households to Properties Ratio: the total number of households (as reported by the census) divided by the total number of residential properties on the deeds registry. This is a quick, easy relative indicator of household density and formality of a suburb as compared to other areas.

7.4 Market Size and Government Investment in Housing

Market size measures the distribution of home prices, households and values in order to inform the potential scale of housing intervention strategies, and the impact of proposed developments on the surrounding area. It can also reveal the impact of Government investment in housing markets. Comparing the distribution of values to the housing performance map, several moderate income areas are growing faster than the municipality.

Encouraging the resale of Government-sponsored housing is an important means of expanding housing options – for the sellers, who can move up the ladder with the equity from the sale of their property, to the first time homebuyer purchasing the existing home. More activity in these markets will also raise the value of the home, often a family's most valuable asset.

7.5 Market Size by Value

A diverse approach to housing options for mine employees may help to expand the diversity and distribution of housing options across town. Placing these housing options in between isolated suburbs can help bring markets together.

7.6 Market Size by Property Type

Understanding the distribution of households and incomes within Fetakgomo helps to inform scale, development impact and programme targets.

Census data is useful as the only source of demographic information consistently available at the suburb level, and provides interesting insights into local differences.

Areas with high levels of renters very often have the highest household incomes. We suggest these high levels of renters might be the combination of higher income executives who rent, as well as support staff who live in backyard accommodation.

Ratios of households (from StatsSA) to properties (from the deeds registry) can show degrees of limited supply or informality. Informal settlements generally have high populations, few registered properties, and low incomes.

Sometimes sectional title ownership can present affordable housing options through shared costs of living space and convenient locations.

8. Market Activity

8.1 Key Findings

Generally, bonded sales in lower markets are an extremely small portion of the bonded market. Sales continue to be dominated by repeat sales, with several new housing sales. Property value (the home's worth) and sales prices are closely related in active markets. In less active markets, sales prices are significantly less than their suggested value.

8.2 Policy Implications

Focus on **increasing access to lending**, determining what barriers exist to make credit more accessible, either through lower cost products, more flexible terms, and/or inclusion of existing debt into a mortgage loan product. These products should be tailored to meet the needs of the lower income markets.

Create financing products which can **bring down the cost of quality rental housing** as an affordable alternative to homeownership for lower income families.

8.3 Quick Definitions:

Market Activity: performance of key housing property market indicators over time, such as sales, bonds, registrations and churn.

Market Share: the portion of the market according to certain indicators, such as loans, types of properties, or property values.

Property Value Segment: in order to better understand the performance of housing markets, data has been grouped into four property value bands: properties valued under R250 000; between R250 000 and R500 000; between R500 000 and R1.2 million and over R1.2 million. This helps one to understand the various trends and strengths within each segment, and to see how properties are integrating across the housing continuum, especially over time.

Bonded Sale: a transfer of deed on the deeds registry with an associated bond from a lender, including the property as collateral for the bond.

New Sale / New Registration: the appearance of a residential property on the deeds registry for the first time. It might include new construction or previously existing units being recorded for the first time (such as previously built RDP homes).

Resale / Repeat Sales: the sale or transaction of a property which has existed on the deeds registry before (as opposed to a new sale or new registration).

8.4 Sales and Bonded Sales by Property Value Segments

Market share (the percentage of the total) by property value segment has changed since 2008, suggesting an evolving housing market. The relationship between sales and bonds shows the importance of access to credit to growing housing markets, in particular the lower valued segments.

When bonded sales under R500 000 drop, it may be due to credit indebtedness, which disproportionately impacts lower income borrowers, or lack of access to affordable homes with which to buy. Policies which help expand access to credit and provide more housing opportunities under R500 000 in the lower bands can expand sales within the band. Rental housing might also be a more suitable option.

8.5 Lending per Property Value Segments

Generally, lower property values experience the greatest drop in bonded sales, perhaps due to lack of access to credit or decreased supply of housing that falls within this segment.

8.6 Sales by Property Value Segments

Generally the higher valued properties have the most activity, while the lower priced homes experience minimal sales activity, a potential sign of disparities between active supply and steady demand.

Access to credit is a significant boost or barrier to housing market growth. While some suburbs offer a range of housing price options, pinpointing product prices and types to specific areas, especially considering local affordability is key to ensuring programme success.

8.7 Sales by New and Repeat Sales

An important distinction in market performance is the sale of new homes (which have never appeared on the deeds registry) and the resale of existing homes. **In most mining towns, new registrations are clustered in only a few suburbs**.

New sales can also show the recent registration of Government-sponsored housing investment. An important point is to recognise the impact of newly registered Government investment in housing. Registrations of these properties may be perceived as a market distortion, but the deeds issued on Government-sponsored housing represent real assets which now can be traded and loaned against, and are key to moving up the housing ladder. Thus, the housing market has in fact grown.

8.8 Market Activity amongst New and Repeat Sales

The **growth and maturity of housing markets can often be found by comparing new homes and resales over time**. Often volumes of new homes in prior years become resales in later years. Understanding how mining companies create new units helps to understand their existing and potential contribution to expand the local housing economy.

8.9 Sales by New Homes and Resales

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8.12 Total Sales by Property Value, change from the prior year

It is possible to see important market shifts by comparing the change in activity within particular property markets from one year to the next.

8.13 Change in New and Repeat Sales

Many of the developments built by the government are heading into their 8th year, and become eligible for resale by their owners. By understanding when those units come on line for resale, Government can align policies which encourage the sale and **development nearby, which can help leverage that prior investment, expand housing options and stimulate movement up the next rung up the housing ladder. Resales are an important means** of recycling existing homes to make available more housing options.

8.14 Average Property Values and Sales Price

The relationship between local sales prices and average property values can tell much about the activity and integration of supply and demand. Every house in a suburb has a value, determined by the number of sales, changes in prices, churn (repeat sales) and other factors present in a robust housing market. Only houses which have sold have sales prices, but this lowers the value of homes in markets with fewer sales.

Rising sales prices in affordable areas can reflect improved access to credit, as well as increasing interest in the neighbourhood.

9. Lending Activity

9.1 Key Findings

Generally, bonded sales are almost entirely concentrated in housing and sales over R500 000. While the share of lending by each of the four major banks in the country has remained consistent, lending from non-traditional **lenders is consistently increasing, more so for properties under R500 000**, perhaps to make up for the lack of expanded lending by the existing institutions.

9.2 Policy Implications

Policies and programmes should **target expanding access to credit**, including the creation of new funds, with broader investment guidelines and possibilities, and small loan programmes with which to make financing more accessible to lower income households. **Loans to entice the development of more middle market housing** would create more integrated markets. Financing with which to build affordable rental housing options could offset some of the credit accessibility issues in the market overall.

9.3 Quick Definitions:

Lending Activity: the performance of key lending indicators over time, such as bond volume, new loans and bonded sales, by lending institution.

Portfolio Size: the total number and value of loans given out by particular lending institutions in the study area.

Property Value Segment: in order to better understand the performance of housing markets, data has been grouped into four property value bands: properties valued under R250 000; between R250 000 and R500 000; between R500 000 and R1.2 million and over R1.2 million. This helps one to understand the various trends and strengths inherent in each segment, and to see how properties are integrating across the housing continuum, especially over time.

Residential Bond: a loan made for the intention of acquiring a property, which is secured by the title to the property. These are determined by the property address and the timing with which bonds and sales transactions are recorded on the deeds registry.

9.4 Lending Over Time

Loan data taken from the deeds registry can provide lending activity by lender, which has grown consistently in the area. By comparing all loans held by each lender to the lending activity by lender per year, it is possible to note that while the lending in the area has consistently grown or decreased, the amount per year varies from lender to lender. The real game changer has been the infusion of "other lenders". These other lenders primarily include companies providing home loan benefits to their employees.

9.5 New Loans by Lender

As markets shift, different lenders respond in different ways. These maps show the previous bar charts on a map. By comparing all loans by lender and all loans made during the previous year, it's possible to see where lenders invested loans in the last year, and how that has changed from their overall portfolio in that suburb.

Non-traditional lenders, such as Government subsidiaries, private equity funds and employer lenders, have more flexible regulatory environments and more creative, competitive financing tools. It will be important for Government to engage these investors as well to ease access to credit, lower costs of financing and share in the commitment towards growing housing markets in the mining towns.

9.6 Market Share

Understanding market share at the local level is important to understanding the potential for end-user finance, where gaps might exist, and how to make the case for more lending. Comparing lending over time and by suburb also shows which lenders perceive value or risk.

10. Leverage

10.1 Key Findings

The presence of older **Government-sponsored units within the municipality represent an important opportunity to leverage that investment** in affordable housing in the years ahead, as owners seek to sell and move up the housing continuum, if opportunities are positioned properly. The value of these homes if sold in the private market can be applied towards the cost of a new home.

This situation can be used to drive developers to build more gap housing, and financiers to finance RDP acquisition loans.

10.2 Policy Implications

Policies should focus on enticing developers to build more housing in the gap market, and encourage lending to the RDP and other lower cost home markets. Sites could be prioritised, which connect these RDP neighbourhoods to other more active housing markets to encourage mixed income development.

To encourage an increase in the supply of gap housing, Government can **unlock sites, supply infrastructure or grants, or hook-up fee discounts**. Government can also reduce the cost of construction finance, which can all be passed down to the buyers in the form of lower sales prices.

Government can create programmes using funds pooled from a range of Government and private sector partners, which provide bonds for small properties, and offset risks through loan guarantees, loan loss reserves, and interest rate discounts. Funds can also organise to implement homebuyer counselling, debt consolidation and moderate rehab costs of the existing home to ensure loan performance of the portfolio.

10.3 Quick Definitions:

Leverage: the ability to use the percentage of the property that has been paid off as a down payment for another property.

Equity: the value of the residential property less the outstanding balance of the bond. This represents the value of ownership built up in a property, and is often used as the downpayment for the owner's next house purchased up the housing ladder.

10.4 Equity Fills the Gap

Equity is the value of one's home less the amount owed to the lender. The average equity per suburb compared to the average sales price per suburb helps to show what portion of the sales price might be paid for by homeowners' equity. Thus, equity makes homeownership in higher priced neighbourhoods affordable, expanding housing options. Equity closes the housing gap for less affluent homeowners because their properties are less likely to have a bond, and those markets have experienced more appreciation of value. It is important to consider this value in addition to a homeowner's income.

Equity invested by homeowners also reduces risk by increasing their financial stake in their home. This is the same way upper income families move up the housing continuum, and is now available at scale for lower income families as well, thanks to the massive Government investment in homes for the poor. This requires financing to be made available for the lower income buyers, something to explore with lender partners.

While averages in such diverse housing markets are hard to consider meaningfully, the picture does indicate that purchasing power increases (and gaps close) when equity is taken into consideration.

10.5 Accessing Equity closes the Housing Gap and can Drive Demand

Understanding the difference in equity growth rates allows a better understanding of which property markets can be leveraged to support more new development. Many higher priced areas have experienced modest equity growth (grey areas) or loss (red areas) over the past five years. This may be due to increasing sales prices (rather than amortization as new buyers tend to have less equity, and this market has been very active recently). The greatest equity growth over five years (green areas and green lines) has been in less developed areas with fewer sales, and values have accrued to the existing homeowners.

Homes worth less than R500 000 typically have fewer loans, a faster-growing value, and an initial housing cost that was low or free (thanks to Government investment in housing). Homebuyers can reduce the amount they have to borrow through savings or the equity in their home, if they have an existing house which they can sell. This lowers their monthly payment or increases the price they can afford. Leverage is the practice of using this equity to increase their housing affordability. This indicator thus becomes very useful for meeting, and closing, the housing gap.

Constraints to using leverage in affordable housing markets include: the availability of credit for potential buyers to pay the full value of the house; maximizing the equity available to the homeowner; the availability of homes up the housing ladder to buy and in the case of RDP owners, the ability to sell Government subsidised stock (which comes with an eight-year resale restriction). Other constraints include household indebtedness, and the willingness of existing homeowners to sell their most important asset.

However, policies which address these constraints can expand the housing ladder in remarkably quick and cost-effective ways. Closing cost assistance, interest rate write downs, and loan loss funds all cost a fraction of new construction, and put the opportunity, and choice, in the hands of the homeowner, rather than the Government.

11. Affordability Profile

11.1 Key Findings

The mining town average affordability ratio is 4 - contrasted with the national average which is 3. In most mining towns, despite above-average monthly incomes, there remain large disparities among incomes and affordable housing access in certain areas within the municipality.

In some areas, sales prices used to determine affordability are very low, probably the result of lack of credit access, forcing sellers to sell for whatever cash might be offered regardless of how much the house may be worth.

11.2 Policy implications

Affordability constraints due to below-average incomes can be addressed through housing strategies and solutions, which propose **creative financing tools and** techniques, can reduce financial barriers (such as down payments, interest rates and principal requirements) as well as **unlocking equity, rather than simply trying to push costs down**.

Lowering the cost of financing can also increase the amount that can be borrowed, which can increase sales prices and the amount of equity a home seller will be able to access to buy their next home.

Lack of adequate affordable supply in areas with very low incomes can often be quickly addressed through the careful considered provision of well-located quality rental housing.

11.3 Quick Definitions:

Affordability: affordability is generally defined as the ability to allocate less than 25-30% of a household's monthly income towards housing costs. While upper income families' income enables them to cover the cost of producing and selling a housing unit and thus provides many housing options, lower income families struggle because their income often does not adequately cover the cost of producing and selling a housing unit. Supply is limited and others must collaborate to provide decent affordable housing.

Affordability Ratio: the purchasing power of local incomes to afford local sales prices. The local average sales price is divided by the target house price. This shows the relationship between local incomes and local sales prices – a larger number means that local sales prices are harder for local incomes to afford, implying a mismatch between local housing options and residents.

Housing Gap: the shortfall between the target house price a household can afford and the sales price (or construction cost) of a house. This can be calculated by the difference between the target affordable price and the cost or price of the house.

Target House Price: the sales price affordable to local households, which is calculated using the average area median income available for housing (25% of monthly income) using standard underwriting criteria (typically 20 year amortization at 11%, with 5% down).

11.4 Affordability

Actual affordability relies on understanding local household income to determine what is reasonably afforded by existing residents, how much of a gap exists and what is required to ensure more realistic affordability. The Affordability Ratio is determined by dividing the purchase price affordable to the average household income by the average sales price. **Nationally, it takes three times the average income to afford the average sales price; within the mining towns, this ratio averages 4**. This doesn't mean that families are paying that, it means that most homes on the deeds registry are not affordable to the majority of South Africans. But this indicator provides an important benchmark, by providing a sense affordability levels, and how well local markets might be meeting the needs of local residents.

Introducing new products or strategies are more likely to be sustainable if they are responsive to current residents. The target home price can also be compared to estimated potential per-unit construction costs to determine the amount of subsidy which may be required to build and sell the units to local residents.

11.5 Mind the Gap

It is important to relative measure affordability for each suburb in the target area in three ways: starting with the average income, it calculates the average sales price affordable to the average family using standard underwriting terms (5% down, 11% for 20 years, up to 25% of household income). It compares that to the area's average sales price; "Affordable Price Gap" shows the difference between the average sales price and the local target (affordable) house price.

These very high level indicators are useful when comparing affordability, to see which areas are more or less affordable. This helps to understand how housing strategies need to address affordability within the town, including what resources or policies might be required to help fill these gaps (i.e., affordable financing, buyer subsidies).

When affordability is an issue, perhaps equity of existing homeowners can help fund the gap. Policies will need to encourage the sale of lower cost homes that can allow housing purchases further upstream for lower income households.

11.6 Mapping Affordability

It is also important to consider local household income, or purchasing power, in order to understand affordability. These analyses do not take into account the indebtedness of potential buyers, an important factor in determining bond eligibility. Rental housing therefore, might be an important option towards providing well-located and professionally managed affordable housing in those areas.

The areas with no dots have no residential properties on the deeds registry – they are farms or open space.

12. Rental Index

12.1 Key Findings

Areas with greater density, modest incomes, and affordability challenges are more likely to support quality, professionally managed and affordable rental housing. Rental housing also provides flexibility to employers and workers as mining markets expand and contract from time to time.

12.2 Policy Implications

Due to the cyclical, commodity and demand-driven nature of these towns' primary industry, rental housing becomes a very important housing solution.

Rapidly changing housing demand driven by mining activities makes a strong case for prioritizing quality rental housing. If rental housing is well-situated and convenient to transport and centrally located in dense areas, it can bring social and economic cohesion and vibrancy to housing markets over the longer term.

Densifying housing markets requires infrastructure upgrades and financial mechanisms which provide for long-term affordability and sustainability.

12.3 Quick Definitions:

Rental Index: A tool used to measure the potential suitability of local areas for rental housing, as measured by a group of five indicators which support rental housing, including density; area median income; the affordability ratio and market growth as measured by the Housing Performance Index. A higher score implies greater success for rental housing.

Affordability Ratio: the purchasing power of local incomes to afford local sales prices. The local average sales price is divided by the target house price. This shows the relationship between local incomes and local sales prices – a larger number means that local sales prices are harder for local incomes to afford, implying a mismatch between local housing options and residents.

Area median income: the percentage of the average local income to the municipal average income, which allows for understanding the income relative to the market overall, and across many municipalities.

Housing Performance Index: the growth of the local suburb in six key housing market indicators as compared to the municipality growth. A higher number implies more growth.

Percent Households Renting: the number of surveyed households who rent divided by the total number of households, per StatsSA census 2011. This includes everything from bedrooms and backyard shacks to single family homes and sectional title units.

Population Density: the number of people per square hectare of the suburb, as provided by StatsSA.

Tenure: the terms under which land or buildings are held or occupied, e.g. rental, ownership etc.

12.4 Rental Housing: Driving an Affordable Housing Option

Rental housing is one of the most efficient and effective ways to provide affordable accommodation. In most South African towns, this means backyard shacks, an important but inefficient way of meeting overwhelming housing needs. While a social housing sector exists targeting lower income families in multi-unit buildings, these are primarily in large metropolitan areas. **Many private developers and investors are considering expanding significantly into the rental segment. If the demand is better understood, Government can meet housing backlogs quickly and affordably by promoting policies which target affordable rental housing**.

Several conditions are crucial for the creation of successful and sustainable rental markets: density, high demand, and affordability. In order to sustain rental housing at scale, projects must be able to achieve density to keep costs down, and access ready markets, with good proximity to jobs, transport and educational opportunities to keep projects running smoothly. It is possible to bundle those indicators and find those areas primed for rental housing.

12.5 Locating Rental Housing Markets

With security of tenure through a lease agreement, residents have access to quality, accountable property management, and consistent utility access and can even build up their credit history with positive rent and utility accounts. Because rental housing providers must locate their properties competitively to ensure monthly occupancy, rental housing provides affordable access to transport hubs, jobs and community services.

13. Key Concepts

The definitions of the concepts used in this profile are set out in alphabetical order below.

13.1 Affordable

Traditionally, affordable refers to housing or areas with prices or values below the overall market which target below-average incomes. It is often defined as R500 000 or less (but can be higher or lower depending on intent) because this is the amount that a household earning less than R16 000 on average can afford, the target limit of many Government subsidy schemes. Affordability is the relationship between the cost of housing (a mortgage bond payment or rent) and the income of the tenant or owner. Affordable housing is that which can be rented or purchased within certain constraints in this report, with a mortgage equal to 28% of the borrower's income, at 11% over 20 years, with 5% of the sales price paid as down payment. Areas where the average income can afford the average sales price or more are considered affordable.

13.2 Affordability Ratio

This ratio measures relative affordability by comparing the **AVERAGE** sales price to the average income within the same area – higher ratios meaning less affordability. The average sales price is divided by the **AFFORDABLE** sales price, which is calculated as the present value of typical mortgage terms using 28% of the average income (95% of the average sale price, at 11% for 20 years). A ratio of 1 means that the average home price is exactly equal to the average household income. Ratios over 1 represent the number of times by which the average income must be increased to afford the average home.

13.3 Appreciation

The rate, or percent change over time between two values (most often price or value) is calculated by dividing the difference between the beginning and end values of the property in the timeframe by the beginning value. The result is the percent by which the property value or price changed. It is a valuable means of comparing the rate of change across very different property markets, areas or market sizes.

13.4 Average

The result obtained by adding several amounts together and then dividing this total by the number of amounts. For instance, average sales price is calculated by adding up all sales within an area and dividing this total by the total number of sales within an area. The average is useful for comparing and understanding different areas, market sizes, and property types.

13.5 Benchmark

An indicator that is calculated in the same way across a larger level (such as national or municipal levels) to compare with smaller areas (such as main places or suburbs). Benchmarks are useful for understanding the performance of housing markets because they provide a consistent means of comparing markets to each other and to larger areas. For example, local markets perceived as having modest appreciation rates may actually be growing quickly when compared with other areas, the metro or the country as a whole. Benchmarks are a key component of the Housing Performance Index, which uses them to determine whether local areas or metros are changing faster than; about the same as; or slower than the metros or the country.

13.6 Bonded Sale

A sales transaction transferring ownership of a property, which includes an associated mortgage bond used by the buyer to purchase that property and which the lender requires to be secured by that property. Bonded sales reflect lender investment in an area and perceptions of market strength and risk levels.

13.7 Churn

This refers to the total number of homes sold within an area over a one-year period divided by the number of homes within that area. Similar to turnover, churn represents active market interest, a large pool of eligible buyers and willing sellers, and ready access to mortgage financing. In affordable areas, lower churn can reflect reduced housing mobility rather than less marketability, as the result of fewer upward housing options for potential sellers, and less access to bond financing for potential buyers. Other indicators (such as bond rates or types; loan to values; equity rates and income) can help differentiate marketability from pent-up market mobility.

13.8 Equity

The value of ownership interest in a property, primarily the current **VALUE** of a property minus the current value of any bonds or other claims on the property. Equity value grows as mortgage balances are paid down and property values increase. Equity is realised when a house is sold and is most often used to purchase another property, by either increasing the amount available to purchase or lowering monthly mortgage payments (or both). Individual circumstances within neighbourhoods may vary widely, but areas with higher aggregate levels of equity represent greater opportunity for upward mobility, both for existing residents who can sell and invest the equity in a new home and for lower income households able to purchase the existing home.

13.9 Equity Growth

The rate at which an owner or investor's equity value has changed over time, calculated by dividing the difference between the values of equity at the beginning and end of the period by the beginning year's equity value. Growth in equity (along with income levels) can be used to determine market potential, as equity significantly boosts the purchasing power of potential buyers. Circumstances that increase equity return include prices that appreciate faster than debt is paid down, less debt, and registrations of new properties with no debt.

15.10 Formal Housing Market

A formal housing market is an area where owners sell or otherwise transfer residential properties (which have been registered on the national title and deed registry) to willing buyers who become the legal owners of those properties. Housing markets also include residences that are rented, traded, bartered or otherwise swapped, or legally occupied. This report tracks formal housing markets, as it only uses actual sales reflected on the South African deeds registry. It is estimated that 25–50% of all properties in South Africa are not registered.

13.11 Government-sponsored housing

Housing which was created through some government intervention, from site and infrastructure provision, direct construction or finance, such as Site & Service, RDP and BNG. While these homes are not recorded as such on the deeds registry, their presence is estimated based on surrounding registrations, timing, prices, and volume of activity.

13.12 Housing Continuum

The housing continuum includes all ranges and options of housing, from temporary shelter and informal housing to the highest variety of housing ownership and occupancy models and prices. A continuum implies a continuous, connected marketplace of housing options, which serve the full range of conceivable housing demands as people's lifestyles and life circumstances change over time. In reality, most housing markets are an uneven distribution of housing supply and housing demand.

13.13 Leverage

Leverage is the practice of purchasing something by borrowing part of the total cost and is measured by the degree to which a buyer has borrowed funds to purchase a home. Also called gearing, leverage can be measured in several ways (such as loan to value or equity ratio), but all compare bond amounts to the housing value. Generally, homes or neighbourhoods that are highly leveraged are understood to be higher risk because owners lose less equity if they default. Areas with lower leverage rates are generally considered more attractive because lenders have less risk, while owners have more invested and have more potential **EQUITY** to invest in new housing options.

13.14 Market Segment

This refers to the aggregate of all properties within a certain rand value. Properties are aggregated by their **VALUE** to better understand the unique dynamics of these market segments. Values are divided into three bands: values under R250 000; between R250 000 and R500 000; and above R500 000. Generally, properties at or below R500 000 are considered affordable because the estimated monthly housing cost (R15 000 to R16 000) is considered the maximum income eligible for many Government subsidy programmes, above which potential buyers must access the unsubsidised housing market.

13.15 Market Share

Market share is the percentage of a market accounted for by a specific entity in that market. Lending market share is determined by the number of all loans in an area or bond portfolio, originated, or held by a single institution, divided by the total number of bonds in the area or portfolio. Market share can reflect the business model or the prevailing attitudes of particular lenders towards opportunity within certain areas. Lenders track their market share by area and value carefully: too high could mean that they are at greater risk if values decrease, while too low means that the lender may be losing business to competitors.

13.16 Rental Index

A score calculated for each suburb, to measure the potential suitability of local areas for rental housing, as measured by a basket of six indicators, which are more favourable towards rental housing. A higher score, between 1 and 10, implies a greater likelihood of success. These indicators include density; the number of households currently renting; area median income; the affordability ratio; households to properties ratio and market growth as measured by the Housing Performance Index. The index gives higher weight to aspects more suitable to rental housing, such as density and income, and moderate weight to the current number of households renting (as reported to the census), the local income as a percentage of the municipal median income, affordability (the relationship between local incomes and sales prices), and the number of households in the area to formal housing units on the deeds registry.

13.17 Suburb

A neighbourhood (within or beyond the central metropolitan area), with an identifiable name, often socially accepted borders and common characteristics. This report uses suburb boundaries as established and demarcated by StatsSA (and referred to in its documentation as sub-places). In 2011, there were about 22,000 sub-places within South Africa.

13.18 Value or Worth

The value of a property as determined by several factors, including recent comparable sales nearby; **CHURN**; lending activity in the area; specific and area property details, such as the size, age, and amenities. A property's worth is often related to the amount of information available to make an appropriate determination, which is a contributing factor in undervaluing affordable areas where details on formal market activity is inconsistent. This study uses Lightstone's (www.lightstone.co.za) proprietary valuation methodology to determine value.

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Notes

Notes

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