

ACCESS housing

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exploring innovation in housing
finance for the poor in Africa

Township property market growth

The growth of township property markets has hit the headlines in the past few months, especially around the release of Lightstone Risk Management's first residential Township Property Index in September.¹ The report is a great development for property analysts, housing financiers and home owners: it is an under-researched market and news of growth is exciting. But what does it all mean, and is the good news 'good' across the board?

In 2004, the FinMark Trust published a study into the workings of township residential property markets.² That study found that property markets in former black townships throughout South Africa were dysfunctional, with low levels of churn and low returns. The study highlighted a number of barriers including a thin market with insufficient supply of affordable housing, limited availability of finance, poor titling especially among old township and RDP stock; a difficult transactions process and limited information (i.e. few estate agents, etc.) to facilitate sales. Former black township areas were found to under-perform when compared with their non-township counterparts, and variation from one township to another, as illustrated in the table below, was significant.

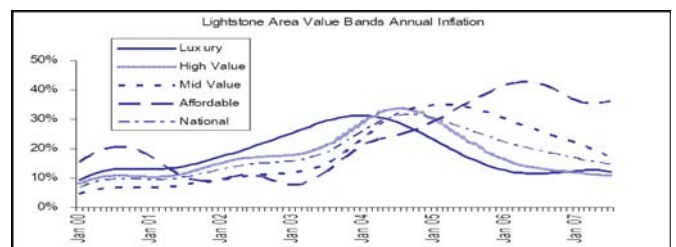
Suburb	Diepkloof Ext	Protea North	Elita Park
Total proclaimed erven	896	3094	3665
Median erf size	390	242	185
Secondary registrations as % of total proclaimed erven	13	16	14
Secondary registrations as % of total registrations	84	72	67
Bond registrations as % of secondary registrations	75	81	37
Total PIP as % of secondary transactions	19	11	67
Median purchase price	R 104,000	R 95,000	R 17,000

In the above table, the TRPM study compares the median purchase price of three township areas: Diepkloof Extension and Protea North in Soweto, Johannesburg, and Elita Park in Khayelitsha, Cape Town, all three privately developed, bonded housing neighbourhoods. From a similar analysis

which looked at 18 different township areas across three metros, the TRPM study determined that there was significant variation between property markets which are not only attributable to locational factors. For example, in Elita Park, the 67% of transactions being properties in possession appeared to have a significant impact on transaction value and the 'market' price. This neighbourhood variation is something that none of the current property monitors are tracking.

The Lightstone township index tracks sales prices of 1,4 million so-called "township properties back to 2000. The first such index of its kind, it responds to a growing recognition that township properties are the most recent growth area in South Africa's property market and there are great returns to be had. (Unfortunately Lightstone does not publish how it defines "township", other than that the category does not include what Lightstone calls "affordable" (areas with average values below R250 000), which in terms of Lightstone splits the data, fall outside "township" areas.)

Indeed, the Lightstone index shows dramatic annual price inflation in SA "townships", from just under 5% in 2000 to 39% in March 2007³ – and notes that this is well above the national index which shows growth of 18%, and also above the 36.4% price inflation defined in July 2007 for the affordable market⁴.



¹ Download various Lightstone property reports from www.lightstone.co.za

² To access all the TRPM reports, go to <http://www.finmarktrust.org.za/themes/trpm/trpm.asp>

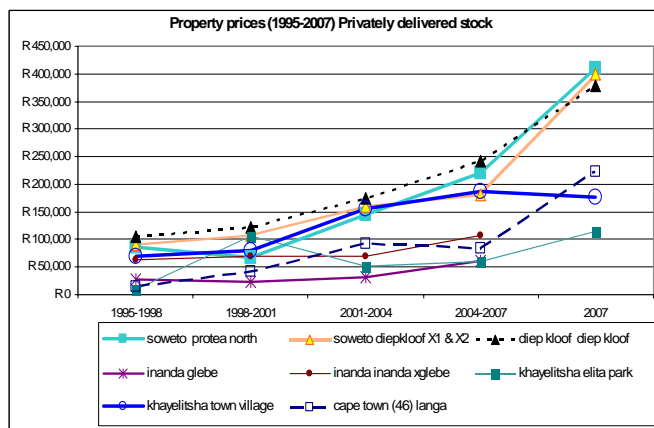
³ <http://www.lightstone.co.za/Uploads/Lightstone-TownshipHousePriceIndex.pdf>

⁴ <http://www.lightstone.co.za/Uploads/201107WealthBandsNovV1.pdf>

Access to housing finance: what would it look like when it works?

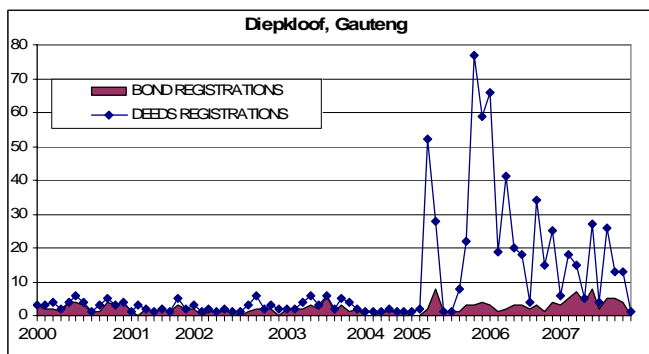
The TRPM study suggests, however, that such growth is not uniform across neighbourhoods. While Soweto's property prices may be rising rapidly, this may not be the case for other townships.

FinMark Trust and Urban LandMark have been working with Metonymy, a data management company, to access current deeds office data of the 18 townships studied in the 2003/2004 TRPM study. A review of the data from eight privately developed neighbourhoods that were reviewed in the TRPM study reveals the following:



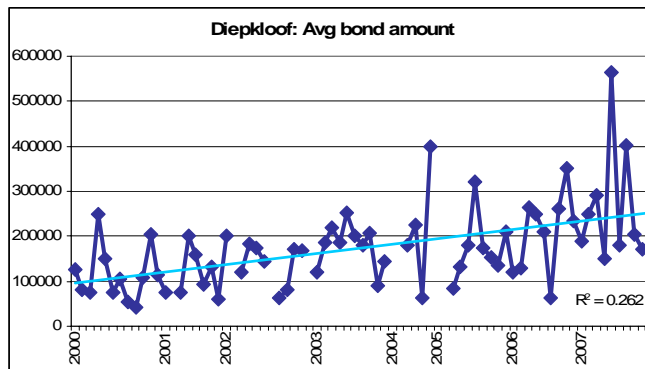
In the above graph, the Johannesburg townships of Protea North, Diepkloof and Diepkloof Extension are trading at prices almost double than those realised in Khayelitsha and Langa in Cape Town, notwithstanding the relative strength of Cape Town's property market. Elita Park, also in Khayelitsha, continues to lag behind other markets. The overall trend seems to compare well with the Lightstone index.

The following graph considers the number of total deeds registrations per month, and the number of those that have been financed with a mortgage, in Diepkloof, a Soweto neighbourhood in Gauteng.

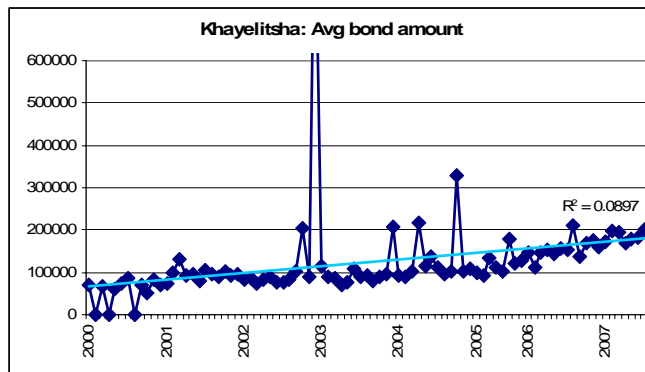


In Diepkloof, the number of transactions suddenly picked up from 2005, with some months of high volume. Bonded registrations as a component of this remained limited, less than 10 a month, but have also increased in volume. This aligns well with the introduction of the FSC in 2003.

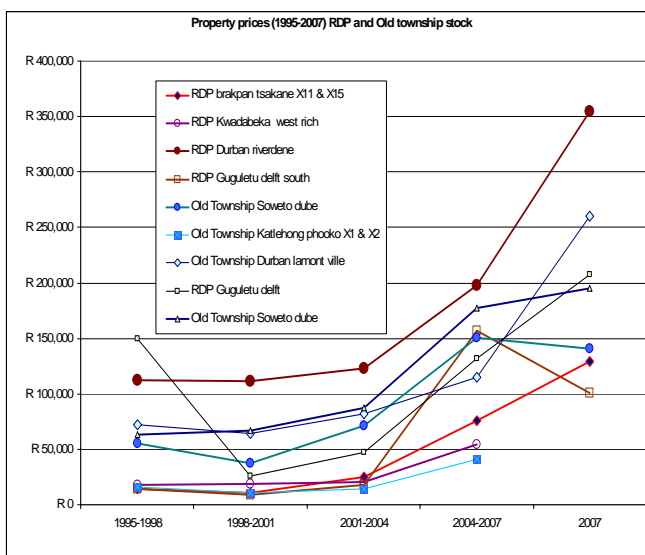
The following graph illustrates that the average bond amount over the period has been steadily increasing, having more than doubled between 2000 and 2007.



The degree of increase in Diepkloof is more significant than in Khayelitsha, a Cape Town township. There, property price appreciation appears to be more steady, less erratic, but also less dramatic, with prices growing from a low of about R50 000 in 2000 to a high of just under R120 000 in 2007.



The following graph considers the appreciation of state-subsidised stock: RDP and Old Township.



Access to housing finance: what would it look like when it works?

Again, a dramatic increase is evident from about 2004, in both RDP neighbourhoods as well as Old Township neighbourhoods. The variation in price between the highest performer among the state-subsidised townships analysed, Durban –Riverdene, and the lowest in 2007, Cape Town-Gugulethu South, is significant, in the order of R250 000. Durban Lamontville is the best performer of the old township stock, fetching prices in 2007 of over R250 000.

From this very limited analysis of the data, state-subsidised properties do appear to be performing as the housing assets that policy has envisioned. That said, the slope of the increase also suggests that this performance is limited to a few areas – meaning that the supply of resale stock is insufficient to support demand. If more areas were trading, the rate of increase would presumably be less. A future analysis will need to compare performance across all RDP properties and the 850 000 or so Old Township units that exist throughout South Africa to test if this is the case for all beneficiaries.

There are many more questions that one would like to see answered by the data. For example: how do transaction prices relate to the prevailing housing affordability in specific neighbourhoods? What is the health of prevailing transactions – what is the average LTV on bonded sales transactions, and what is the level of properties in possession being seen in specific areas? Does the development of new housing stimulate sales of existing housing? And so on.

FinMark Trust and Urban LandMark are committed to pursuing the affordable housing story through a detailed and focused review of deeds office data on a neighbourhood by neighbourhood, and housing type basis. Within 2008, it is hoped that we will be able to launch a house price monitor that explicitly explores the affordability of housing, whether available in former black townships or elsewhere, throughout South Africa.

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FSC Update

New figures for housing lending in the FSC space have been obtained from the Banking Association (note, these figures have not yet been audited by the FSC Council).

Between January 2004 and the 30th of September 2007, lenders have made targeted investments of R25,9 billion.

The table for numbers of mortgages, fully guaranteed (pension-backed) and unsecured loans is set out below. Data for this period with respect to wholesale and development loans has not been provided.

Unaudited Banking Association figures of FSC bank lending for housing				
Product	Number originated (Jan 04-30 Sept 07)	%	Value (R million)	%
Mortgage	178 400	28%	24 314	68%
Fully Guaranteed	222 300	35%	4 271	12%
Unsecured	230 000	36%	1 410	4%
Wholesale	Not provided		3 101	9%
Development loans	Not provided		2 506	7%
Total	630 700	100	35 602	100

The value of loans extended to date is R35,6bn, not far short of the R42 billion target being sought for the end of 2008. More interesting, however, is the growth in delivery since the last time these numbers were reported, as illustrated below.

Unaudited Banking Association figures of FSC bank lending for housing			
Product	Number originated (Jan 04-Mar 07)	Number originated (Jan 04-30 Sept 07)	Growth (March – Sept 07)
Mortgage	156 900	178 400	21 500
Fully Guaranteed	171 500	222 300	50 800
Unsecured	179 200	230 000	50 800
Wholesale		Not provided	
Development loans		Not provided	
Total	507 600	630 700	123 100

Between March and September of this year, lenders delivered 21 500 mortgages in the FSC space. This number alone is dramatic: in the past, it was unlikely that this many ‘affordable’ properties would be delivered in any given year. Consider, for example, recent data on buildings completed and building plans passed:

	Reported Completed Buildings 2006		Reported Building Plans Passed 2006	
	31-79m ²	80m ² +	31-79m ²	80m ² +
W Cape	3195	6218	6407	7470
E Cape	2308	1350	2359	2684
N Cape	36	240	252	385
Free State	489	476	2555	1241
KZN	782	1465	1184	2989
North West	529	1439	1577	2275
Gauteng	13316	9158	20017	13992
Mpum.	364	1204	786	2516
Limpopo	305	568	912	1294
	21324	22118	36049	34846

In 2006, 21 326 buildings of between 31 and 79m² were constructed – a significant growth from the sub-20 000 figures of previous years. Building coming on stream, as suggested by building plans passed, promises to be even more significant in that category. And still, 36 049 new houses in one year is not enough to fill the 21 500 mortgages extended in the FSC space in three months.

The growth must therefore indicate a moving resale market, or possibly, households taking out mortgages on existing properties to finance home improvements.

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The growth of fully guaranteed (pension-backed) loans over the three month period is also significant: 50 800, or an average of 17 000 per month. These loans, as well as the additional 50 800 unsecured loans are more likely to be for home improvements than new stock. This too, is significant, however, as it creates a new supply of mortgageable stock for future transactions while also reflecting a level of faith in a property market to make home improvements viable.



A Cosmo City house, developed by RBA, in Gauteng.



A significantly improved RDP house in Vosloorus, Gauteng.



A standard RDP house in Embalenhle, Mpumalanga.

Announcement: HMF workshop

Growing Sustainable Housing Microfinance Options in Sub-Saharan Africa: Enhancing the relevance and scale of housing finance for the poor.

- *Date: 7-11 April 2008*
- *Place: Nairobi, Kenya*

Co-hosted by the FinMark Trust and Rooftops Canada (other funders are still being sought), the ACCESS to Housing Finance in Africa workshop of housing finance practitioners, will focus on housing micro finance. The workshop will be a problem solving initiative bringing together investors, financiers, and donors of retail housing lenders; experienced intermediaries (e.g. Microvest); and retailers (HMFIs, MFIs and NGOs). Key themes will include: state of practice; relevance; scale; and linkages. The workshop will stimulate a high level of interaction, so that participants can work together to find connections, and solutions to concerns raised from the different perspectives. The workshop will also showcase successes and the potential for housing micro finance. Practitioners will also be invited to set up displays setting out their particular organisation, how they operate in their particular context, and demonstrating current successes and challenges.

Problem Statement

Access to housing and access to housing finance by low income earners is a critical development issue facing most countries around the globe. UN Habitat notes the predominance of “two extreme outcomes of current shelter systems that are being witnessed today: affordable shelter that is inadequate, and adequate shelter that is unaffordable.”⁵ That report goes on to state that within the next 20 years it is unlikely that conventional sources of finance will be available in many developing countries for investment on the scale needed to meet projected demand for infrastructure and housing. With deficits in public budgets and the persistence of weak financial sectors, the situation seems untenable. In sub-Saharan Africa, this reality is especially dramatic.

The problem is quite simple: throughout sub-Saharan Africa, income levels are such that the majority of households cannot afford to buy the least expensive house, even if mortgage finance were available. Research commissioned recently by the FinMark Trust in four countries has found that at best, 17% of the population in Zambia, Botswana, Namibia and Kenya might be eligible for mortgage finance – but even here, the cost of housing has meant that such solutions are still unrealistic.

It is within this environment that housing micro lenders have emerged as an important source of housing finance for low income earners whose access to more traditional forms of

⁵ UN-HABITAT 2005, Financing Urban Shelter: Global Report on Human Settlements 2005.

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credit is constrained both by their affordability, and the housing circumstances in which they live. Growing either from NGO movements supporting housing delivery for the poor, or micro enterprise lenders seeking to diversify their product range – or any other number of institutional models – “housing micro finance has emerged over the past decade as a crucial component in facilitating housing in slums and for low income groups.” (SINA Newsletter, Special Edition, February 2007)

However, large scale capital – institutional investors, commercial banks, and so on – struggles with the concept, as do some governments. Housing micro finance is perceived as being insignificant. The loans are small and the low-income target market is perceived as being inherently risky, demanding more intensive origination and servicing methodologies that are expensive. The housing process that such loans support is seen as overly lengthy and unable to reach the kinds of scale that the housing demand would suggest is necessary. And, its incremental nature is seen to undermine the long term quality objectives that the housing process is expected to realise. This is not the simple, over-the-counter loan approval that commercial lenders and other financial sector players are used to.

What has emerged throughout Africa, therefore, is a dual housing finance sector. On the one hand, there is a small, but energetic cadre of grassroots NGOs and lenders seeking to deliver housing finance solutions for their very low income and disadvantaged target markets. These lenders are still in their relative infancy, many with less than a decade of experience, and they struggle with key issues of technical capacity and the necessary capital to lend to the scale of demand they see. On the other hand, commercial lenders, international capital and others in the established financial sector are seeking to deliver mortgage finance in the emerging African markets. Their work is groundbreaking – in the process of delivering loans they are revising institutional and regulatory structures and stimulating housing production. And yet, this energy notwithstanding, the numbers are not as dramatic as might be expected: in the few countries in which mortgages are offered (and with the exception of South Africa), it appears that less than 1000 loans are delivered nationally, per annum. This is no where near the scale required to address the housing shortage in sub-Saharan Africa.

A key point of exploration and development, therefore, must be the alignment of these two housing finance sectors. While housing micro lenders offer products that are relevant to the vast majority of sub-Saharan Africa’s populations, commercial lenders and big finance have the capital they lack. Is there an opportunity for collaboration, and what might this involve? How might financial arrangements be structured? To receive such capital, housing micro lenders would also need to aggressively build their technical and operational capacity – are there players in the sector who might provide such support, offering a bridge between the two housing finance sectors? And if the various parties were

to engage in such a way, what are their respective expectations? These are the key questions that this practitioner’s workshop will address.

Day themes

- **The state of housing finance in sub-Saharan Africa:**
 - Scale and relevance of housing finance
 - Housing finance in various African countries
 - Critical issues facing housing microlenders
 - Presentation of Kuyasa Fund as case study
- **Getting housing on the ground:**
 - Different models/practices of housing micro finance
 - The need for housing support services
 - Case studies in break away groups
- **Scale lending**
 - Accessing capital
 - Operational capacity: growing the office
 - Building property markets
 - Benchmarks/ performance indicators for investors
 - Case studies in break away groups
- **A programme for the next five years**
 - Connecting local HMFIs to capital
 - Building operational capacity
 - Drawing in the housing link
 - Working together in sub-Saharan Africa

Cost

There will be no workshop fee. The workshop organizers will cover all costs of the conference (venue, meals, and materials) and are seeking funding for the travel and accommodation costs of HMFI practitioners and speakers so they can attend the workshop at no cost. Other participants are requested to finance their own travel, accommodation, and time. That said, the workshop is intended to be inclusive and organizers will consider applications for support on a case by case basis.

Comments, questions, and expressions of interest to participate are invited from housing finance practitioners. Organisations wishing to fund a portion of conference costs are also invited to contact the organisers.

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