ACQUIRING

Trends & opportunities for affordable housing

Status of SA's residential property market

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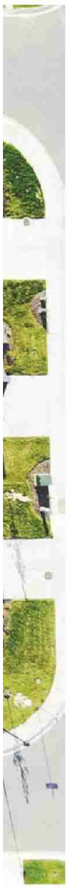
The Covid19 pandemic has laid bare the deep structural inequalities in South Africa, and the extensive vulnerabilities in our housing systems. With millions of South Africans living in insecure housing, the stimulation of the residential property market can not only increase the delivery of adequate housing, it can also play a key role in driving economic growth as part of a Covid19 economic recovery strategy.

As the Centre for Affordable Housing Finance (CAHF) has extensively documented, sustainable human settlements can significantly contribute to South Africa's economic transformation efforts. At a household level, home ownership is an opportunity for wealth creation and empowerment.

While the full impact of COVID-19 is still to be seen, it is anticipated that the housing affordability challenge and lack of low-income housing has been exacerbated by the pandemic. Deeds registry data, supplied by Lightstone, allows for a detailed analysis of affordability patterns, gap markets, and borrowing constraints in the residential property market. Although this data, analysed by CAHF, only extends to 31 December 2019 and therefore precedes COVID-19, it illuminates the state of the residential property market at the lower



end, and helps us to unpack the likely impacts of the pandemic on the country's housing sector, and to identify the areas of opportunity for affordable housing moving forward.

Overview of Market Segmentation

South Africa's residential property market was valued at R5.5 trillion at the end of December 2019. Although the bulk of the total market value is concentrated in higher market segments, most formally registered properties are in the lower end – 55% of properties (3.6 million) were valued at R600 000 or below.

Government delivery of affordable housing in the past two and half decades has had a profound effect on the residential property market. Subsidised housing makes up a large share of properties at the lower end of the market and assists in bridging the affordability gap for low-income households. In 2019, 94% of new housing stock in the entry market was government subsidised, with little to no private sector delivery for new units valued under R300 000. Private sector delivery of new units valued R300 00 to R600 000 was also very low in 2019. This trend is also evident in resale market activity.

A critical supply gap exists for the working class (properties valued between R300 000 and R600 000) and delivery in this segment has fallen almost 48% since 2015. So, while the high-end market remains in excess supply, the bottom end is still in structural supply-deficit. Weakening construction activity, triggered by COVID-19, could potentially result in a further decline in the supply of new residential units in 2020/21.

Record Low Interest Rates

Housing finance is vital in the housing delivery value chain and banks have an important role to play in providing housing finance to low-income earners. Data show that there are less bonded transactions for properties in the affordable market, suggesting low-income earners are largely excluded from the market.

In 2019, this was true for both new and resale transactions. Resale market data shows that key mortgage lenders, namely Standard bank, FNB, Absa, Nedbank and SA Home Loans (including Capitec), are largely financing properties valued higher than R1.2 million, and this has increased steadily in the last decade. The reverse is seen in the affordable segment with the number of properties financed with a mortgage declining. Over-indebtedness of households with other credit products, affordability levels or a lack of savings to enter the market partially explain this trend.

We are now seeing historically low interest rates which creates tremendous opportunities for a first step on the property ladder. Several rate cuts, during the COVID-19 induced lockdown, brought the prime rate to 7%, as of July 2020. FNB's sales activity shows that there is considerable uptake by first time home buyers, particularly in the low to mid value market. Although some market activity was due to pent-up demand due to the closure of the deeds office, the volume of new mortgage applications rebounded beyond pre-lockdown levels. Mortgage advances have also been progressive in recent months, given increased appetite for higher loan-to-value ratios and even 100% mortgages by the big banks. First time home buyers accounted for more than half of home loans in the second quarter of this year.

Affordability remains a key constraint for first-time (working-class) homebuyers, and cheaper finance means improved affordability and extended market reach within the affordable housing sector. When the prime rate was 8.75% in March, for example, a monthly income of approximately R12 200 was needed to acquire a R400 000 house (without a finance-linked government subsidy). With prime dropping to 7%, the same house becomes affordable to a household with a monthly income of R10 500.

Given the immediate challenges brought about by the COVID-19 landscape, the rate cut will assist homeowners to keep up with debt repayments on existing home loans. The banking sector has also been fundamental in supporting affected households with various temporary relief measures, such as moratoriums on loan and mortgage payments. In the current economic climate, a favourable lending environment and prime-linked mortgage loans could be a catalyst for lower residential property markets going forward.

Affordable Housing Key for Building a Resilient Post COVID-19 Era

A large and growing segment of the residential property market is made up of subsidy beneficiaries and lower income households. Across most of South Africa's cities, the gap in entry and affordable housing is absorbed in informal settlements and backyard rentals and through informal transactions of homes in low- value neighbourhoods.

In 2020, housing became a key site through which COVID-19 is experienced, and looking forward, the prospects for growing demand in the lower end of the affordable housing market are strong, as shrinking incomes necessitate cheaper housing options for households. CAHF estimates that housing construction and housing rental activities contributed 3.7% to national gross domestic product (GDP) in 2017 – almost as much as agriculture, forestry and fishing. For every Rand invested, R3.23 are delivered.

This means that housing construction and rental-related activities provide a significant stimulus to many other sectors of the South African economy. The housing sector thus creates opportunities for government, financiers, investors and households alike. Recognising the potential of the affordable housing market, and supporting it with the necessary investments, can facilitate the acquisition of adequate (low value) housing by low-income earners and allow households to move more easily from one property to another over time.

SOURCES CAHF

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