

The South African Residential Property Market: An Overview

Residential markets in South Africa behave very differently across a number of important performance indicators. Properties under R600 000 have been growing for several years.

South Africa's residential property market is the largest component of the South African property market, comprising the majority of property assets within the country, and an important component of household wealth. The South African deeds registry counts 6.7 million properties on its registry, worth R5.2 trillion¹. Of this, about 5.8 million registered properties, or 86%, are considered residential, ranging from sectional title and freehold properties, to estates; including government-sponsored homes, homes occupied by their owners or rented to others, and holiday homes; and found across the country, from rural areas, to mining towns, to small and secondary cities, to metro municipalities. Almost 60% of the total formal residential property market is found in the eight metro municipalities. Figure 1 shows the distribution of residential properties on the deeds registry by key market segments: properties worth under R300 000, between R300 000 and R600 000, between R600 000 and R1.2 million and over R1.2 million.

The majority of the residential property market – 63% in 2013 – includes homes valued at less than R600 000. Of this, two thirds (or 44% of all properties) are homes that are valued at less than R300 000, of which the majority are estimated to be government sponsored homes. When a detailed analysis was done in 2010, it was found that 24% of all residential properties formally registered on the deeds registry were government-sponsored homes: clear evidence of the significance of government's subsidised housing programme and the sheer volume of property assets transferred to qualifying beneficiaries since 1994.

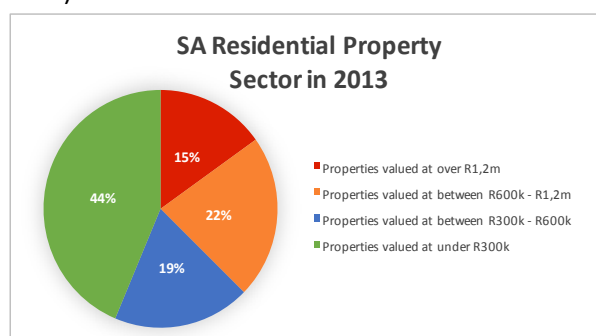


Figure 1

Every year, as new houses or residential properties are built (whether by government or the private sector, and whether for ownership or for rent), as existing properties are traded, or as old properties are converted into new uses, the size and composition of the residential property market changes. It is the role of the state to ensure that the property sector responds to the changing needs and affordability of our population, so that all residents in South Africa can realise their constitutional right to access to adequate housing.

Over the period from 2009 – 2013 we can see that:

¹This report was prepared for the Estate Agency Affairs Board by the [Centre for Affordable Housing Finance in Africa](#) (CAHF) on analysis from its Citymark dashboard. Citymark uses data from Lightstone (Pty) Ltd between 2009 and 2013, the most recent year for which full data is available. Given the lag in registrations, 2014 data can only be analysed in the last quarter of 2015. For this reason, Citymark tracks these property market dynamics through these segments twice annually. CAHF, and the Citymark dashboard, is supported by the National Housing Finance Corporation.

- The entry-level and affordable market segments, involving properties valued at under R600 000, are growing faster in number and value than other segments;
- There is much more market activity in these segments than previously understood;
- Lending and credit access has an impact on the growth and value of housing markets, across the board; and
- The presence of two housing markets is clear – the property market segments involving properties valued below R600 000 behave very differently than those segments where properties are valued over R600 000. What can be done to close the gap and build the missing rungs of the housing ladder?

What is the state of South Africa's residential property market?

In 2013, of the 5.8 million registered residential properties in South Africa, about 3.8 million, or 63%, are estimated to average up to R600 000 (Figure 2, the size of the lines represent the total number of properties in the segment). This number has grown by 5% (green and blue lines) since 2009, compared to 3% growth in the higher value (red and orange lines) segment (Figure 3). The most rapid growth has been in the lowest market segment, properties valued at less than R300 000, clearly indicating the impact of government's subsidised housing programme, and suggesting a shift is taking place in the composition of South Africa's property market, with the proportion of lower value properties increasing relative to the rest of the market. This is appropriate given the income distribution of the population, and reflects good policy attention at the bottom end.

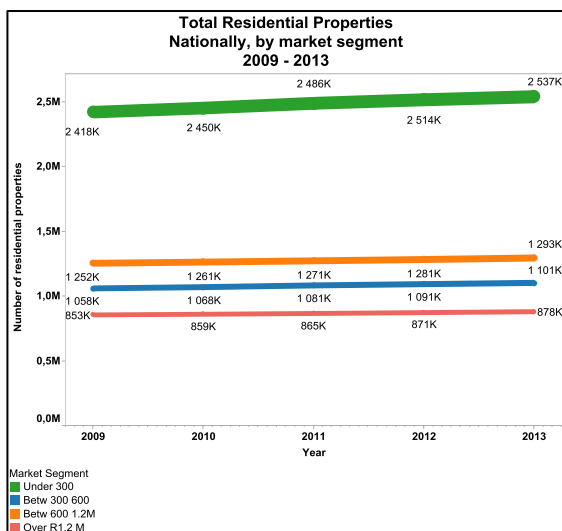


Figure 2

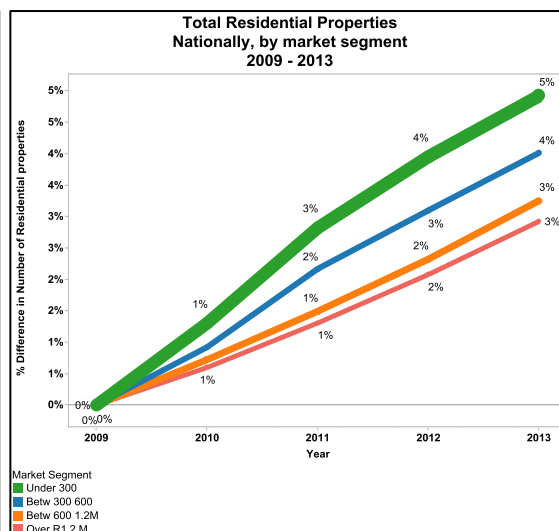


Figure 3

Not only has the *number* of properties in this segment grown significantly, but the *value* of this market segment has also grown faster than any other segment each year since 2009².

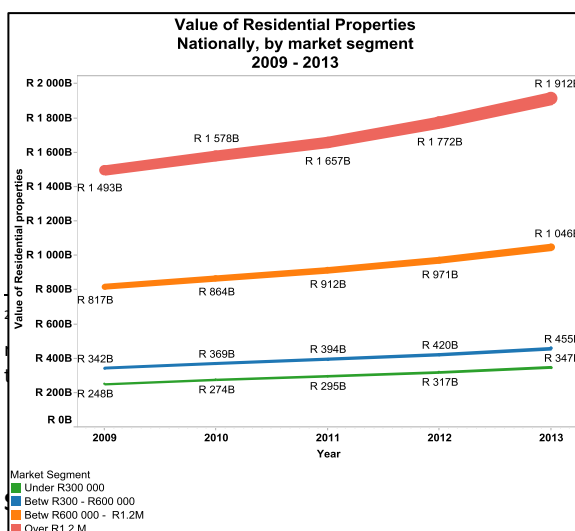


Figure 4

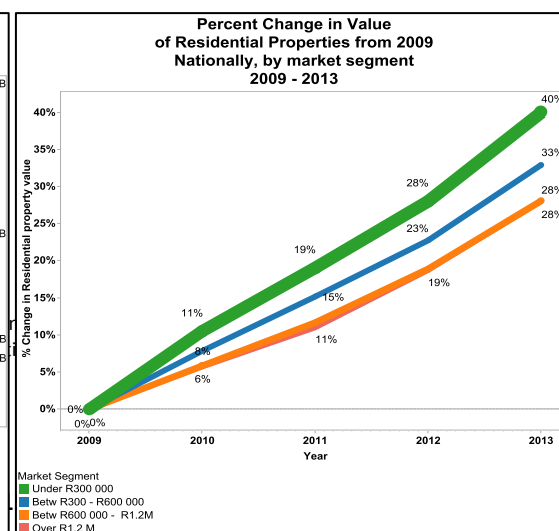


Figure 5

In 2013, properties valued over R1.2 million comprised about 50% of the total value of the residential property market (Figure 4), while properties under R600 000 represented about 21% of the total value of all residential property. However, since 2009, while properties over R600 000 have increased in value by almost 30%, those properties under R300 000 and R600 000 have grown in value by 40% and 33% respectively (Figure 5). It is likely that this is due, in part, to the slowdown in the years after 2008's credit recession, which had more of an impact on upper-priced homes than lower priced ones (due to their greater reliance on credit).

Within the metros¹, property values have increased slightly slower than property values expressed for the country overall, but lower-value market properties (green and blue lines) have still appreciated faster than any other segment. Properties under R300 000 and R600 000 (Figure 6) have increased in value by 38% and 32% respectively, versus by 28% for both upper-market segments. The growth of property value outpaces interest on savings, salary increases, and most businesses, and shows homeownership is among the most powerful ways of moving up the economic ladder.

Figure 7 shows average property values by market segment, which shows the dramatic gap between the upper-market segment and lower-market properties. In 2013, there was a R2 million difference between the average upper-market home value and the segment below R300 000. However, the gap between the lower segments are closer, showing perhaps a greater chance for household economic mobility as families sell their homes in order to purchase a new home in a higher market segment.

Property registrations in the metros

The number of new residential properties registered within South Africa's eight metro municipalities³ has been consistent over the past five years but its *percentage* of all new properties has increased steadily. Since 2009, the number of residential properties on the deeds registry overall has increased on average by about 65 000 properties per year (Figures 8 and 9), of which about 35 000 have been in the metros. The percentage of new properties in the metros, as a proportion of all new properties nation-wide, however has increased from just over half (56%) of the total in 2009 to almost two-thirds (63%) in 2013. Interestingly, of those new properties, most have been in the affordable segment, under R600 000 in value. 2011 was the most successful year in this regard, when 73% of new properties in the metro were in the affordable segment, under R600 000 (Figure 9). In 2013, however, less than two-thirds (62%) of new properties were under R600 000, possibly suggesting a slowdown in government delivery at the bottom end of this segment.

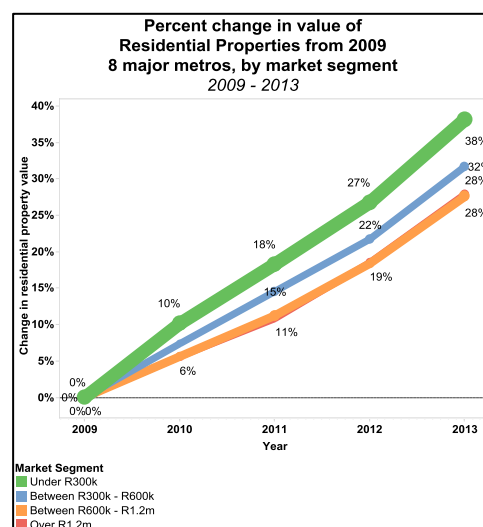


Figure 6

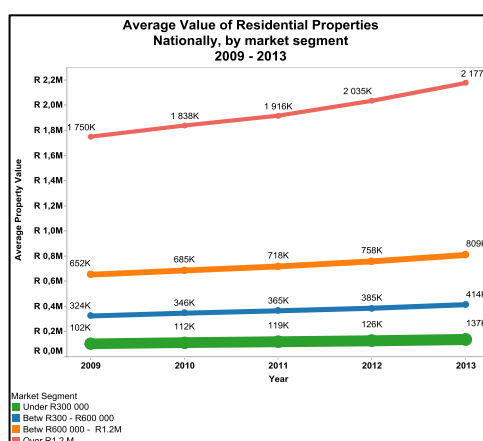


Figure 7

³ Buffalo City/East London, Cape Town, Ekurhuleni/Germiston, eThekwin/Durban, Johannesburg, Mangaung/Bloemfontein, Nelson Mandela Bay/ Port Elizabeth, and Tshwane/Pretoria.

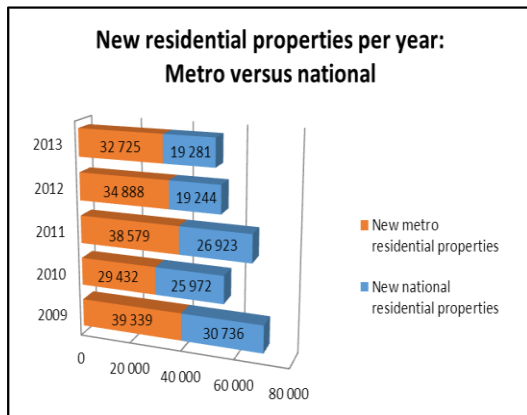


Figure 8

	2009	2010	2011	2012	2013
Change in properties nationally	70 075	55 404	65 502	54 132	52 006
Change in properties, 8 metros	39 339	29 432	38 579	34 888	32 725
Percent of new properties, nationally	56%	53%	59%	64%	63%
Change in properties under R600 000	26 278	21 256	28 218	24 135	20 346
Percent of new properties, metro	67%	72%	73%	69%	62%

Figure 9 Annual increase in number of properties, metros

How has this growth in properties and values in the lower-market segments impacted the sale and transfer of residential properties?

The increase in new residential properties on the deeds registry (summarized above) reflects the change in properties to residential, either through a change in use or (more commonly) new properties added. New residential property *transfers* however track the transfer of property ownership (by sale or registration) to residential homeownership by individual households. Residential property transfers are an important indicator of the rate at which the nation's overall property market is distributing to families, and in this process, building household wealth. These transfers include the conveyance of properties from the government to individual families through the government's subsidised housing programme. These homes, when formally recorded on the deeds registry, often become a family's most valuable asset, and as they are transferred or resold become an important means of allowing families to move up the housing ladder.

Figures 10 and 11 show the number of new transfers – properties which have never appeared on the deeds registry before – by market segment. While the percent of existing properties on the deeds registry under R600 000 is about 63%, since 2009, new transfers of properties valued under R600 000 nationally represent an average of 62% of all *new* property transfers on the deeds registry, and appears to be sustaining at this level. A majority of this is the government's significant investment in housing for the poor – it has been estimated that the government has provided between 2 and 3 million homes since 1994, of which only about half appeared on the registry⁴ (only those transfers that have been registered are included in the trends). The decline in the number of homes under R300 000 since 2011 is likely to be an indication of the slowdown of delivery in government-sponsored housing in that segment generally.

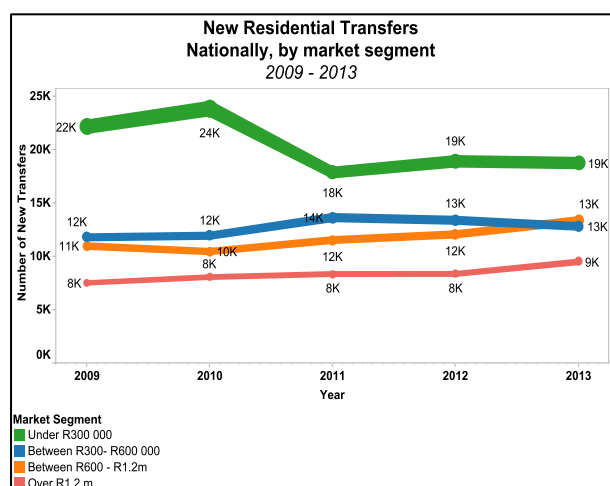


Figure 10

New Transfers	2009	2010	2011	2012	2013
Under R300 000	22 161	23 863	17 862	18 916	18 755
Between R300- R600 000	11 783	11 933	13 637	13 384	12 808
Between R600 - R1.2m	10 962	10 451	11 527	12 059	13 351
Over R1.2 m	7 506	8 052	8 342	8 348	9 483
Grand Total	52 412	54 299	51 368	52 707	54 397
Under R600 000 as % of total	65%	66%	61%	61%	58%

Figure 11 Annual number of new transfers, nationally

Source: South African deeds registry, via Lightstone (Pty) Ltd.

The table in Figure 11, above, shows new transfers across the country by market segment. Figure 12, below, shows new transfers in the eight metros. After a dip in 2011, new residential transfers for properties valued at less than R300 000 increased again to their 2009 level. Across the five years from 2009 – 2013, 62% of all new transfers were in the affordable market segment (properties valued at less than R600 000); over a third (36%) were in the entry-level market segment (properties valued at less than R300 000), most of which are government subsidised properties.

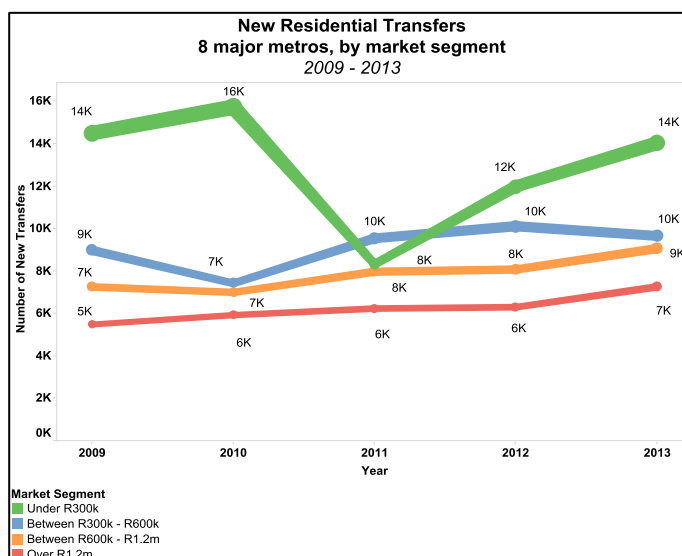


Figure 12

It is well known that many government-sponsored homes have not yet been placed on the deeds registry – the EAAB is actively dealing with this backlog in titling⁴. Thus, the total numbers shown are likely a significant *underestimate* of the total number of homes (formal residential properties, with and without title) that are being added annually. Registering these properties provides an important opportunity for households to realise the value of their housing asset and to eventually move up the housing ladder. As municipalities address the registration backlog, the true significance of this market segment and its growth will be increasingly evident. This represents an historic adjustment of the national housing market to more accurately serve the economic composition of South Africa's population.

How does new development impact market growth?

New properties fuel the growth of housing markets because there are more properties available to transact. Figure 13 on the left shows new transfers (blue) and resales (orange) nationally per year, by market segment per year since 2009; on the right (figure 14) new transfers and resales are shown by market segment in terms of the eight major metros. As expected, new transfers – transfers to individuals of properties which have not appeared on the deeds registry before – in the lowest market segment (properties valued below R300 000) far outweighs the proportion of resales, reflecting a housing market still in development in which more new stock is being added than stock being traded. The opposite is true in the higher value market segments, where there is already a

⁴ See <http://www.housingfinanceafrica.org/projects/rdp-assets-study/>.

substantial supply of housing – resales outstrip new transfers. Over time, healthy market growth and the success of government’s subsidised housing programme will lead to a point where transactions at the bottom end, and specifically the ratio between new transfers and resales, will look more like the top end, as households use the equity in their homes to climb the housing ladder.

Possibly less expected is the already high number of resales (orange) of existing homes under R300 000. In the metros, in 2011 and 2012, resales of homes below R300 000 actually *outnumbered* new transfers. This reflects the dip in government production, and reveals a consistent level of formal resale activity year by year. These repeat sales mobilise the equity in existing housing, which families can use to purchase homes up the housing ladder, expanding affordability and enabling market transactions. The growth in the resale market up the market segments shows the impact of increasing values of existing stock. Tracking these trends of growth and change becomes a key picture of an expanding housing ladder and improving asset wealth of property owners, very many of whom are beneficiaries of government’s housing subsidy programme.

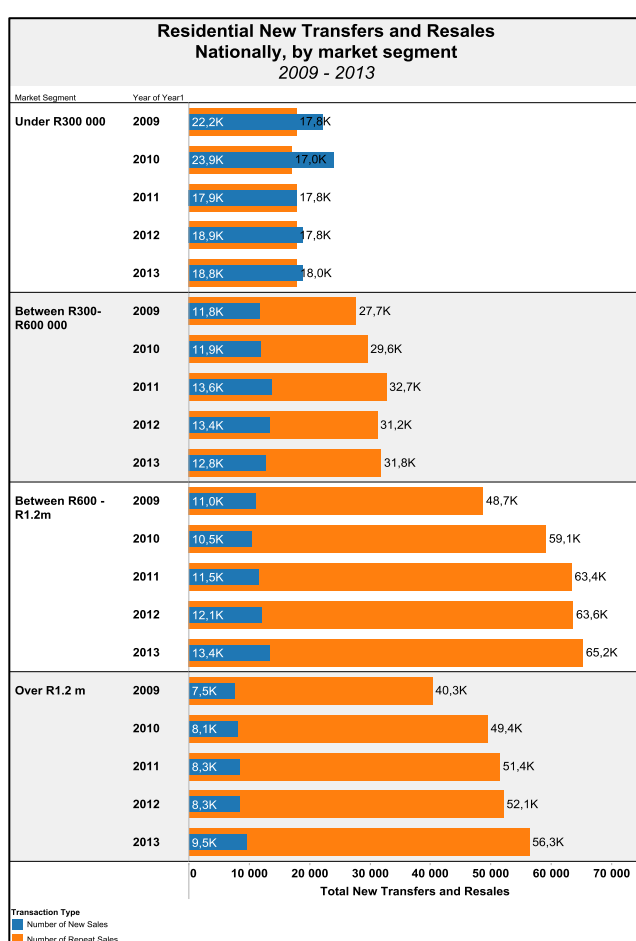


Figure 13

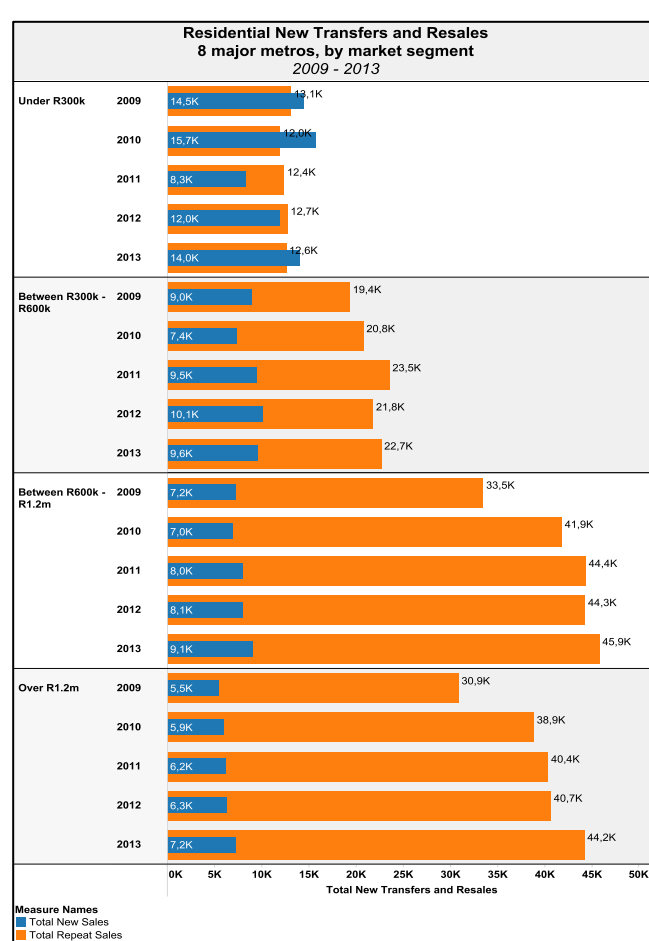


Figure 14

Comparing the *average* prices of new transfers and resale prices shows that prices are greater for resales than for new residential properties nationally (Figures 15 and 16) and within the metros (Figures 17 and 18) across all market segments. It should be noted that values represent all properties in an area or segment, while prices only reflect those properties which transacted in that period. Thus values tend to be more stable and less influenced by timeous external factors, such as interest rates and employment. Interestingly, new transfer values in the lowest market segment

averaged R113 000 nationally, less than the value of R131 000 (Figure 6 above) and often the household's subsidy amount rather than a market "price". However, the average *resale price* of residential property under R300 000 nationally is R150 000, 15% greater than the average property value. The relationships between value and price are much closer in the upper market segments, likely the results of a more informed marketplace and the impact of credit processing on calibrating value and price. How does credit impact sales prices and sales activity?

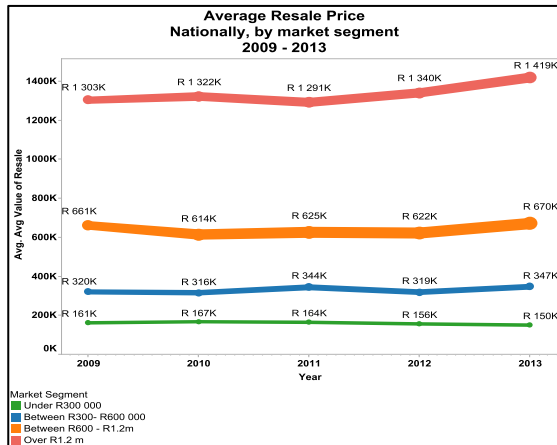


Figure 15

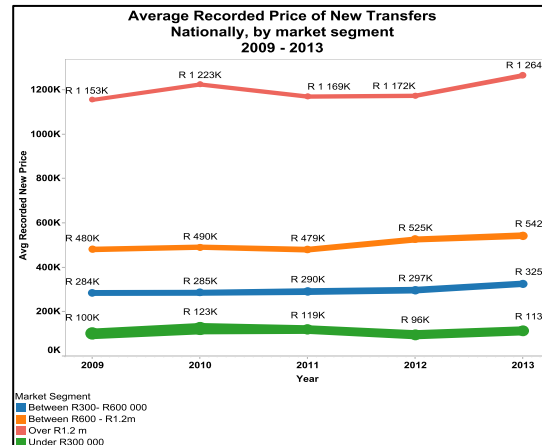


Figure 16

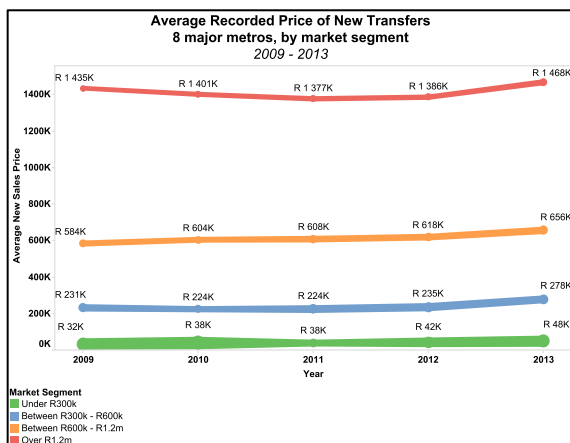


Figure 17

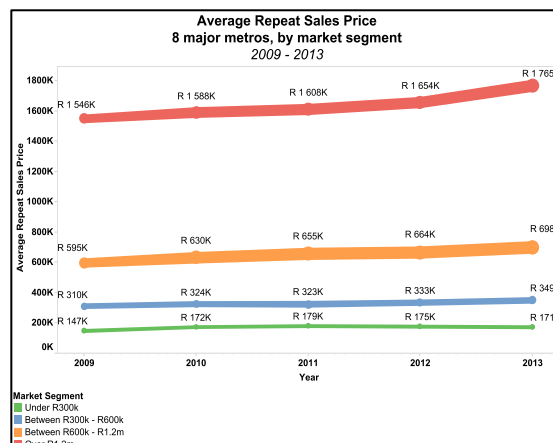


Figure 18

How has lending either been affected by or responded to the growth of values and volumes of properties in the lower market segments?

Bonded sales – those property transfers coupled with a bond – provide an important influencing factor on the market activity of a neighbourhood or market segment. Access to credit increases a buyer's capacity to pay a market price which they, the lender and the seller agree is the value of the property at that moment in that context. Credit therefore facilitates transactions and increases prices and values (and protects the value of earlier bonds). Lack of access to credit decelerates transactions, keeps prices low and dampens the value and perceived value of properties, areas and market segments. It disconnects market supply and housing demand.

In light of the growth in the number and value of properties under R600 000, how have lenders responded to or driven these trends? Are lenders recognizing and perhaps generating some of the growth in the market?

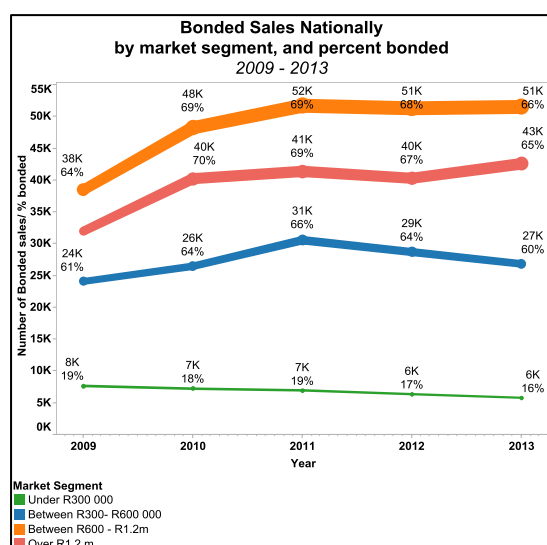


Figure 19

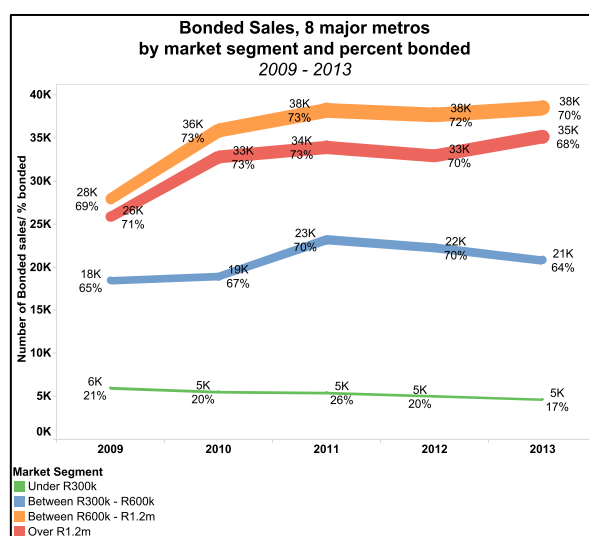


Figure 20

Figures 19 and 20, above, show the number of bonded transfers or sales (including both new transfers and resales) by market segment for the nation and the eight major metros and the percent of bonded sales (the width of each line represents the proportion of sales with that market segment relative to the others – thicker lines illustrate more sales). The largest segment of the market – those 63% of all residential properties under R600 000 – are revealed to have a significantly disproportionate share of bond sales. Bonded transfers under R300 000 are necessarily lower than for the other market segments because the majority of transactions here are new transfers of government sponsored housing – so, no bond is required because the house is given to a beneficiary for free. Still, even in that segment, bond transfers have declined every year since 2009. Plausible reasons for this include rising debt levels in the target market, and possibly a sense that government-subsidised properties are not yet part of the market. However, with access to bonds, home prices increase because buyers have resources with which to pay a more competitive price, causing sales to increase. Without access to credit, the pool of buyers drops, sales slow down, and values and prices stagnate. Bonded sales between R300 000 and R600 000 rose more strongly than in other segments in 2011, corresponding to an increase in the average resale price (Figure 15 above). If the lower-segment markets had access to appropriately designed and measured lending products, the price and levels of transactions might well increase in ways similar to the growth in values and prices of other market segments.

In what ways might lenders take advantage of the growth in the market to expand lending to lower market segments?

Equity is the portion of the home value which exceeds the bond, that portion of the house that owners consider their ownership share. As values increase, and bond balances decrease over time⁵, the amount of equity in a home increases, which is why homeownership can be such a powerful means of lifting families out of poverty. For subsidy beneficiaries of course, once the house passes the 8-year period of the pre-emptive clause, the entire value of the house is equity. When a

⁵ Lightstone provides estimated bonds outstanding per area, using historic lending levels, timeframes and bond terms. Equity is measured by subtracting all bonds outstanding from all property values, by market segment.

homeowner sells a home, that equity is most often invested in the purchase of the new home, increasing their affordability and enabling them to climb the housing ladder into higher value housing, or reducing the bond required to purchase the house, thereby reducing monthly payments. By considering and tracking this equity in addition to income levels, lenders can help borrowers increase their buying capacity.

Figures 21 and 22 compare the growth in the value of average residential property equity for all residential properties (the red line) nationally and within the 8 metros to the growth of equity for residential properties under R600 000 (the green line) since 2009. The fact that equity for properties under R600 000 has grown more since 2009 is due to three factors – the faster rate of increasing values (shown above), the provision of free housing by the government (which with no bond is

therefore 100% equity), and the historic lack of lending (fewer bonds overall). To illustrate this, R100 000 worth of equity on a home under R600 000 would have grown to R142 000 by 2013, compared to R129 000 for a house in the market overall. In addition to expanding affordability and reducing default risk, a larger buyer downpayment reduces the loan to value ratio, an important part of a lender's underwriting criteria, as it reduces their risk of loss in the case of a foreclosure.

In Summary

Residential markets in South Africa are behaving in very different ways, across numerous property market indicators - growth in values and sales prices, transfer rates of new properties and resales, access to bonds and lending, and growth in equity. Comparing and trending indicators, it appears housing markets are operating in two different economies – those below R600 000 – largely government facilitated, growing quickly despite limited private investment - and those above R600 000, growing stably, with ready access to credit, and experiencing an uptick in activity. By understanding more about the strengths and characteristics of these sub-market segments, more nuanced and appropriate approaches can be devised to expand housing options more representative of present and future housing needs, thereby enabling property to improve household economic strength and well-being.

This can present new opportunities for developers, lenders and governments seeking new housing strategies with which to expand their mission and business model. This understanding can also inform governments of the most effective means of leveraging its investment in the bottom rung of the housing ladder to span the gaps between the lower segments, to promote lending and access to credit, and to ensure affordability while building an economic base for future generations. This creates a more robust market overall, which can in turn drive stable economic growth for more and more South Africans.

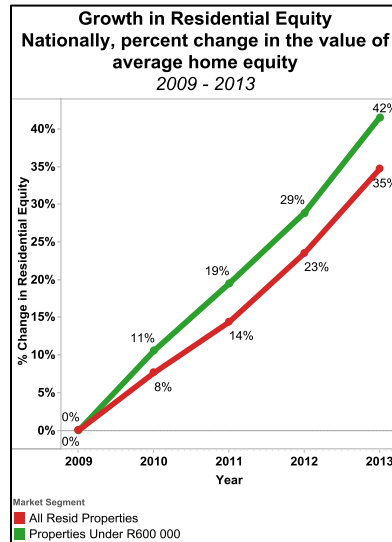


Figure 21

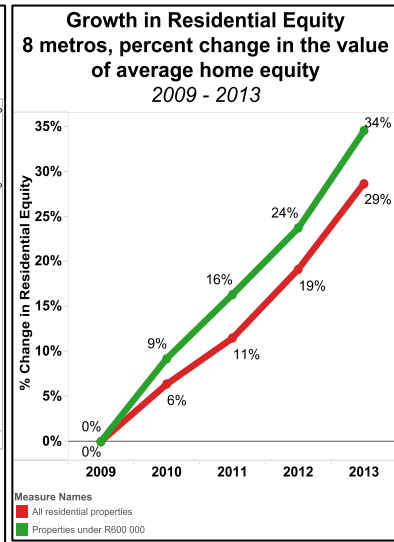


Figure 22

Key Concepts

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

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.⁸ 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.

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%⁹ 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.

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.

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.

BONDED SALE

A sales transaction transferring ownership of a property to an individual 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.

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 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.

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.

FORMAL HOUSING MARKET

A formal housing market is an area where owners trade in 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.¹⁰

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.

HOUSING CONTINUUM

The housing continuum, or housing ladder, 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.

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.

MARKET SEGMENT

This refers to the aggregate of all properties within a certain rand value. Properties are grouped by their **VALUE** to better understand the unique dynamics of these market segments. Values are divided into three bands: values under R300 000; between R300 000 and R600 000; between R500 and R1.2 million, and above R1,2 million . Generally, properties at or below R600 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 programs, above which potential buyers must access the unsubsidised housing market.

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.

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.

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.