The State of Housing Finance in South Africa

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ABSTRACT

This article sheds the light about the nature and scope of problems that impede the housing finance process in South Africa. This paper is based on the findings of a national study commissioned by the National Housing Finance Corporation (NHFC) in the second half of 2000. The principal objective was to investigate obstacles that hinder the delivery of housing at scale to the lower-and-moderate income market in South Africa. The investigation focused mainly on the prospective buyers within the target income group of R1000-R6000. The methodology adopted for the preliminary investigation was to scan through available documentation and also to capture typical issues that should be further investigated and substantiated with the detailed questionnaire to arrive at a high level organizational and functional structure of the housing delivery system in South Africa. The conclusion is that; almost half of the market feels ill equipped to make informed purchase decisions and large percentage lack information on financial products and that there is a huge demand for housing stock to the lower-end of the market. Recommendations are therefore provided in this regard.

1. Introduction

1.1 Background to the Study

Firstly, it should be borne in mind that South Africa's Housing Policy is based on seven key strategies:

- Stabilizing the housing environment
- Mobilizing housing credit
- Providing subsidy assistance
- Supporting the peoples housing process
- Rationalizing institutional capacities
- Facilitating speedy release and servicing of land
- Coordinating State investment in development

Thus, the National Housing Finance Corporation (NHFC) was established by the government to search for new and better ways to mobilize finance for housing, from sources outside the state in partnership with the broadest range of organizations.
The NHFC initiated an investigation into current situation of the housing financing and delivery system of South Africa. A review of the housing financing and delivery system of South Africa was necessary to find out if there are any blockages in the system with the view to come up with an alternative solution on how to improve the system to make it more effective. The overriding purpose of the primary data was to investigate blockages in the housing finance and delivery process. The target market was defined as *would be buyers*[1] in the lower and moderate-income group, who have not succeeded in a purchasing a home.

Given the country's relatively smooth transition to democracy, South Africa is in the privileged position of having new policy that reflects many of the tenets contemporary development thinking. Although clear policy directions have been set, many South African policy instruments are still flexible. It is also evident that policy, particularly housing and land policy – has shown significant adjustments in its mechanisms of implementation in the past five years. Hopefully this process of refining policy in response to an assessment of its impact and an ongoing monitoring, evaluation and review, will continue into the future.

2. Government

The constitution of South Africa, 1996, lays a new foundation for housing in South Africa. Housing is now a fundamental human right embodied in section 26 of the Constitution stating that every citizen of the country has a right to have access to adequate housing.
The Department of Housing's White Paper (1994) sets out a National Housing Strategy, along with key substantive approaches to housing delivery and a list of interventions necessary to ensure that delivery occurs. More specifically, it states that the "Government aims to establish a sustainable housing process which will eventually enable secure tenure, within a safe and healthy environment and viable communities, in a manner that will make positive contribution to a non-racial, non-sexist, democratic and integrated society within the shortest possible time frame".

[1] All people who wanting and trying to buy or build a house/flat, not limited to first buyers but also people who already owned property and were wanting to trade or down size. Joint income R1000 and R6000 and at least three months period trying to buy prior the research with processes undertaken i.e., put your name on a waiting list, contacted estate agent, contacted developer etc.

2.1 Department of Housing

The national housing policy is encapsulated in the Housing White Paper and the Housing Act (1997) in which government commits itself to attaining adequate shelter for all South African citizens. It is evident from the budgetary allocations, that the provision of shelter is a medium term national priority.

Two common policy themes can be identified in South African housing policy:

- Adequate shelter for all; and
- Sustainable human settlement development

3. Demographic Overview

3.1 The demand for housing

3.1.1 Population

In 1996, South Africa had a total population of 40.6 million. Out of this total, only 13.8 million (34%) has been regarded as economically active.
A total of 4.7 million (11.5%) of the economically active group was unemployed.
See table 1 below for further illustration.

Table1: South Africa's demographics as at 1996 Census

POPULATION	40, 583, 573	100%
ECONOMICALLY ACTIVE PEOPLE EMPLOYED	13, 785, 494 9, 113, 845	34.0% 27.5%
PEOPLE UNEMPLOYED	4, 671, 649	11.5%
TOTAL NUMBER OF HOUSEHOLDS	9, 059, 570	100%
DWELLING SATISFACTORY	7, 479, 206	82.6%
DWELLING UNSATISFACORY	1, 580, 364	7.4%

Source: Statistics South Africa

3.12 The Affordability of Housing

In 1998 the human poverty index for South Africa was 20.2% (UNDP, 2000). This index is comprised of deprivations in three areas of human life, longevity, knowledge and a decent standard of living.

The Income and Expenditure Survey conducted by Statistics South Africa in 1995 reveals that the poverty headcount ratio (that is the percentage below $1 a day) was 18.2%. The same survey indicates that the poverty gap ratio stands at 5.8%. The poverty line in South Africa can be defined by considering the poorest 40% of the household as "poor", giving a monthly household expenditure of R353 per adult equivalent (UNDP, 1998). Inflating that to 2000 results in a breadline of R392.

Table 2: Affordability of Housing

Income	Group	Average Monthly Income per household		Household Breadline Income	Affordability: Disposable Monthly Income per household	Bond Repayment per household at percentage of income of:	Bond Interest Rate, with Prime at:	Theoretical Bond Amount at interest rate of:	Subsidy	Total Property Value	Product Description: Land Cost	Building Rate	Approx. House Size
From	To	1996	2000	2000	2000	25%	14,5%	20%	2000	2000	2000	R/m2	m2
0	0	0	0	1 192	0	0	120.0%	0	16 000	16 000	7500	350	24
1	500	251	329	1 192	0	0	80.0%	0	16 000	16 000	7500	350	24
501	1000	751	985	1 192	0	0	40.0%	0	16 000	16 000	7500	350	
1001	1500	1251	1 641	1 192	449	818	21.8%	8 205	16 000	24 205	7500	350	24
1501	2500	2001	2 625	1 192	1 434	658	20.5%	19 688	9 500	29 181	12500	1 300	13
2501	3500	3001	3 937	1 192	2 746	904	19.5%	54 167	5 000	59 167	12500	1 300	36
3501	4500	4001	5 250	1 192	4 058	1 312	18.5%	75 407		75 407	12500	1 500	40
4501	6000	5251	6 890	1 192	5 699	1 723	17.5%	1 03 787		103 787	16000	1 672	50
6001	8000	7001	9 187	1 192	7 995	2 297	16.0%	145 182		145 182	16000	2 246	60
8001	11000	9501	1 2467	1 192	1 1275	3 117	15.5%	207 104		207 104	16000	2 696	70
11001	16000	13501	1 7716	1 192	1 6525	4 429	14.5%	309 963		309 963	25000	2 200	130
16001	30000	23001	3 0183	1 192	2 8991	7 546	13.5%	557 336		557 336	30 000	2 300	200
30001	30001	30 001	3 9369	1 192	3 8178	9 542	13.0%	758 933		758 933	40 000	2 400	300

Table 2 above shows that, presently in the income bracket R0-R1 200 affordability is driven purely by the subsidy. Assuming land development costs of R7 500 per stand and house costs R350/m2, a resultant product of 24m2 can be delivered. This does not make provision for any adverse circumstances (geo-technical, slopes, etc.) and also assumes a scale of delivery of minimum 1000 units per contract.

A household earning R1000 to R1 500 should be able to borrow approximately R8000 and top the subsidy up to result in a house double the size of the previous group. Above R3 500 and up to R8000 household income –the subsidy falls away, but the person is still able to acquire a house in the region of 40m2-60m2 at monthly bond repayments varying between R1 300 and R2 300 per month.

Beyond R8000 per month there is no real problem in terms of accessing finance and the factors influencing decisions to buy.

4 Expenditure on housing from the budget

According to the Budget Review 2000, the medium expenditure estimates of national expenditure on housing and other social services constituted 5.9% and 6.1% for the period 1999/2000 and 2000/2001.

4.12 Houses Completed 1994-2000

The number of houses completed or under construction as supplied by the department of Housing between 1994 and 2000 was given as 996, 552. It was assumed that 90% of this was allocated to people earning less than R1 500 per month and spread according to the population profile. The remaining 10% was assumed to be allocated at 2.5% to R1 500 to R2 500 due to the difficulty of this market obtaining top-up finance, and 7.5% to the income groups R2 500 to R3 500 who have better access to top-up finance.

Presently, unofficial figures reveal that 1, 129 million houses have been completed or under construction and more than five million people having been housed since 1994[1]. However, another two-three million units still needed, as there is still a backlog of 7.5 million people who need proper shelter.

4.13 Affordability and Inflation bites

The subsidy per lower income bracket has remained basically the same since the inception of the housing subsidy scheme, but due to inflation, reduced significantly in buying power. The point is that, it has become less affordable in 2001 to afford the same size and quality of house as was built in 1996.

Thus, we (NHFC) recommend the refinement of the subsidy policy and we encourage housing finance institutions to play a lead role in lending for low-income households.

5 Strategy of the Major Banks Lending in the Low Income Housing Market

5.12 General Approach to Low Income Housing

Traditionally, Absa, Standard Bank, Nedbank and First Rand have been the main providers of housing finance in South Africa. Under the record of understanding in 1994 between government and the banking sector, banks were expected to extend housing finance linked to the capital subsidy programme.

[1] All this with secure tenure, running water, sanitation and electricity.

Despite the general perception that big banks are not catering for the low to medium income market, stakeholders in the affordable housing sector[2] expressed the opinion that the major banks are still the biggest providers of affordable housing finance. It is however difficult to quantify that statement. Figures presently provided on mortgage loans do not make any distinction between income levels of borrowers. The market share of the four big banks is 76.3 % of all mortgage loans.

The market share figure for the overall mortgage industry are the following[2].

	R bln	%
Absa group	64.0	32.1
First Rand	18.1	9.1
Nedcor	36.6	18.4
Standard Bank	33.3	16.7
Others	47.5	23.7
Market	199.5	100.0

May 2000

Standard Bank and Absa (on its own and through its stake in Unibank) are seen as the most active players in the affordable housing market. Absa has acquired a controlling stake in Unifer, the holding company of Unibank. Shifting its affordable housing activity to Unibank appears to be Absa's new strategy.

Nedbanks' position, through Peoples bank is unclear at the moment. Peoples bank recently bought out NBC Fidelity Bank. This could be seen as a move toward affordable housing finance, since the NBC loan portfolio was mostly in that sector. However, Peoples bank appears internally focused with no clear product strategy.

First Rand has visibly withdrawn from the affordable housing market. The bank offers no bond under R100 000-R150 000. This is clearly un-affordable for most low and even middle-income household. Assuming a minimum loan of R100 000 at current prime rate (13.5%) over the standard period of 20 years, a household would need a monthly income of R5, 565 to be able to fit the affordability requirement: the monthly installment of R1 391 should not be more than 25 % of gross income.

[2] Developers, real estate agents and brokers
[2] Banking sector report, May 2000.

Big banks have also grown their micro loans portfolio, part of it being used for housing projects. These banks have been able to attract a significant part of the market despite being latecomers in micro finance. Standard bank, for instance, has a micro finance book of over R1 billion. Determining though which part of the micro finance book is used for housing is very difficult.

In summary, the banks have not been proactive in targeting the affordable housing but are still major players due to various factors such as:

- Political pressure (government, unions)
- Keeping Corporate Clients (agreement with employers)
- Getting Market Share of Micro Finance Lending

6 Smaller Banks

A few small banks are targeting actively the affordable housing market. They provide housing finance either through specific loans (Cash Bank), micro loans (African Bank) or both (Saambou, Unibank).
These banks have showed innovation by:

- Extending housing products to their micro finance clients
- Targeting smaller employers
- Forging alliances with big banks

Saambou, Unibank and Cashbank provide mortgage loans. Although their product might look similar to the big banks, their terms and conditions are more accessible. Mortgage bonds as small as R40 000 are provided although the typical mortgage would be between R60 000 and R150 000.
Most of these banks' primary business is micro-finance. African Bank does not propose any specific housing loan but estimates that 62 % of its payroll loans are used for housing and education purposes. African bank total portfolio is R4.7 billion and represent one million customers throughout the country.

Small banks (Cashbank, Unibank) also provide housing loans guaranteed by pension funds. In that regard, the issue of "leakage"[1] is a concern. Small banks though are reliant on national Development Finance Institutions (DFIs) such as NHFC for funding of their housing loan portfolio.

[1] Loan used for other purpose.

Although housing may be provided by a range of parties, the government is ultimately responsible for ensuring that housing opportunities are provided to all, especially the poor. The financial institutions have in turn required to improve their mobilization of funds' strategies to bear responsibility to the lower-end of market through large scale funding. This evidence is supported well when one looks through at the key blockages below that have been identified.

7 Perceptions of Key Blockages

* Perceptions from end-users[1] reveal that, far too little new stock is being created – other than the Government subsidized housing units.

* 56% of would be buyers could not find a home in the secondary property market while 64% were unable to find an affordable home to purchase.

* Perceptions that developers concentrate in market segment above R100 000, 43% use developers as first point of call.

* 41% of market felt that financial institutions would not provide credit facilities for housing due to their low income.

* 31% unable to access credit for housing from financial institutions because they are informally or self-employed.

* 29% were unable to access credit because of over-indebtedness
.

* Almost 17% believed that redlining of a desired area is a blockage

* Only 5% of the total market was successful in obtaining finance

* Only 38% applied for finance, with 13% being successful (5%of the market)

* 17% of those who did not approach banks said they were ignorant or lacked information about banks and their products

[1] Target Market or would be buyers

6.1 Savings Profile

- 66% of the target market indicated that they had saved money specifically to buy a house
- The average period that they had saved for was 24 months
- Average amount saved: R8 702
- 60% in bank account
- 12% in stokvel or post office savings

Table 3: Affordability of End-User

The following table provides a comparison of estimated and affordable housing costs across the respective income groups. The conclusion, based on these calculations is that affordability may not be a problem.

	Income Group			
Thinking about the house you want to buy	R1000-R2600	R2601-R4200	R4201-R6000	R6001-R10 000
Estimate purchase price	R55 900	R79 500	R86 400	R143 800
Estimated deposit needed	R16 036 (=29%)	R19 930 (=25%)	R22 713 (=26%)	R30 845 (=22%)
Affordable deposit	R8 576	R11 716	R13 876	R20 655
Estimate monthly payments	R1 718	R1 939	R2 011	R2 567
Affordable monthly payments	R700	R886	R982	R1363
Potential loan required	R47 324	R67 784	R72 524	R123 145

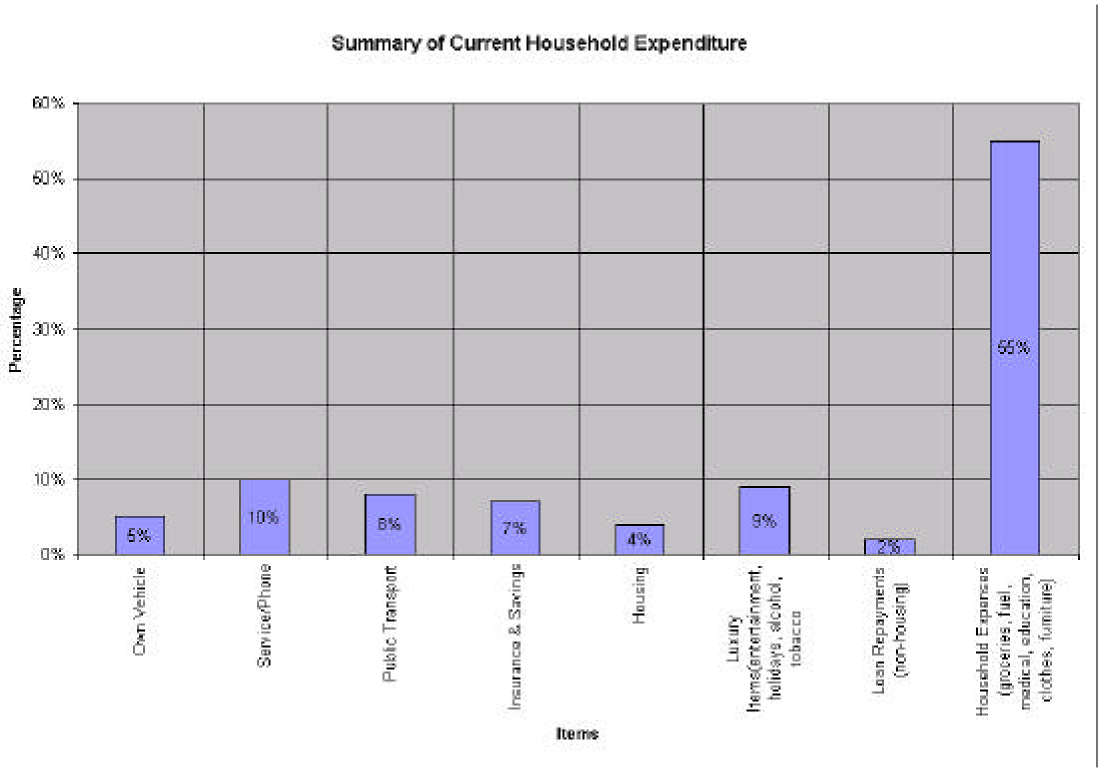
Potential affordable loan	R54 687	R69 219	R76 719	R106 484

Source: End user Survey 2000 Schematization by the Author

The table above illustrates the average cost of a house, as estimated by the prospective buyers themselves, taking the second top column of an income bracket of R1000-R2 600, the house costs R55 000 (estimate purchase price) with an estimate deposit needed of R16 036 (29%) with an average monthly repayments of R1 718. This far exceeds savings, even after two years of saving The fourth top row in the table shows that affordable deposit for such a house is actually R8 576 (15%) with affordable monthly repayments of R700.

This shows how end-users are ill-equipped and uninformed around issues of savings, affordability and purchasing. The table shows that –end-users do have an element of affordability and the ability to save towards purchasing a house but lack understanding about how the whole process works.

Hence in this regard, we recommend that re-prioritization of household budget to eliminate less necessary debt items[See Chart]. Based on the demand, creation of new housing stock in the price ranges and size desired by the homeowner as the lack of available housing stock in the range of R60 000 to R100 000 impact adversely on the potential growth of the housing secondary market for low and moderate income groups. Equally important, more information should also be provided to assist consumers.



8 Concluding Remarks

The low-and moderate-income households are often self-employed, their incomes vary greatly and are infrequent, thus result in little interest by commercial financial institutions to lend to this market particularly mortgages require payments every month for a long period of time. It is therefore recommended that, Banks should commit themselves to expanding levels and types of financial services offered to poor consumers. They should undo red-lining[1] which takes place regardless of the borrowers' creditworthiness or the condition of the house and also undo statements like, the poor will not keep up with repayments or that servicing transactions on such a small scale is unprofitable.

The effective monitoring of the recent approved Act, (The Home Loan and Mortgage Disclosure Act) which forces the banks to lodge full details of their approval or rejection of home loan is essential.
To sum up, the government must also beef up its financial institutions to provide the poor with easier access to loans.

[1] Banks moving out of certain areas or simply write off some areas including townships, certain inner city and even areas where middle-income homes are near shack settlements. Or they refuse to accept property in such areas as collateral.

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