The State of Housing Finance in South Africa

by Vuyisani Moss

ABSTRACT

This article, based on the findings of a national study commissioned by the National Housing Finance Corporation (NHFC) in the second half of 2000, sheds light on the nature and scope of problems that impede the housing finance process in South Africa. The principal objective was to investigate obstacles that hinder the delivery of housing at scale to the lower- and moderate-income markets in South Africa. The investigation focused mainly on prospective buyers within the target monthly income group of R1,000 to R6,000. The methodology adopted for the preliminary investigation was to scan through available documentation. In addition, the detailed questionnaire was aimed at identifying typical issues that should be further investigated and substantiated to arrive at a high level organizational and functional structure for the housing delivery system in South Africa. The conclusion: almost half of the market feels ill equipped to make informed purchase decisions, a large percentage lack information on financial products, and there is a huge demand for housing stock at the lower-end of the market. Recommendations are therefore provided in this regard.

Vuyisani Moss is a research analyst with the National Housing Finance Corporation (NHFC), Johannesburg, South Africa.

INTRODUCTION: BACKGROUND TO THE STUDY

First, bear 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 people's 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 the current situation of the housing finance and delivery system of South Africa. The review was necessary to find out if there are any blockages in the system and to develop alternative solutions to improve the system and 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 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 of 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.

Government

The 1996 Constitution of South Africa 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."

Department of Housing

The national housing policy is encapsulated in the Housing White Paper and the Housing Act (1997) in which the 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 the South African housing policy:

- Adequate shelter for all
- Sustainable human settlement development

DEMOGRAPHIC OVERVIEW: THE DEMAND FOR HOUSING

In 1996, South Africa had a total population of 40.6 million. Out of this total, only 13.8 million (34%) were regarded as economically active. A total of 4.7 million (11.5%) of the economically active group was unemployed.

Table 1 South Africa's Demographics (1996 Census)

POPULATION	40,583,573	100.0%
ECONOMICALLY ACTIVE	13, 785, 494	34.0%
EMPLOYED	9, 113, 845	27.5%
UNEMPLOYED	4, 671, 649	11.5%
TOTAL HOUSEHOLDS	9, 059, 570	100.0%
DWELLING SATISFACTORY	7, 479, 206	82.6%
DWELLING UNSATISFACTORY	1,580,364	7.4%

Source: Statistics South Africa

HOUSING AFFORDABILITY

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 households as "poor," having a monthly household expenditure of R353 per adult equivalent (UNDP, 1998). Inflating that to 2000 results in a breadline of R392.

Table 2 shows that, presently, in the income bracket below R1,200 affordability is driven purely by the subsidy. Assuming land development costs of R7,500 per stand and house costs of R350 per square meter, a resultant product of 24 square meters can be delivered. This does not make provision for any adverse circumstances (geo-technical, slopes, etc.) and also assumes a scale of delivery of a minimum 1,000 units per contract.

A household earning R1,000 to R1,500 should be able to borrow approximately R8,000 and maximize the subsidy, resulting in the ability to buy a house double the size of the previous group. For those households with monthly incomes in the range from R3,500 and up to R8,000, the subsidy falls away, but the household is still able to acquire a house in the region of 40 square meters to 60 square meters at monthly bond repayments varying between R1,300 and R2,300 per month.

Beyond the incomes R8,000 per month there is no real problem in accessing finance and the factors influencing decisions to buy.

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, respectively.

Houses Completed 1994–2000

The number of houses completed or under construction as supplied by the Department of Housing between 1994 and 2000 was reported at 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 households earning between R1,500 and R2,500 due to the difficulty of this market in obtaining top-up finance, and 7.5% to the income groups earning 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 are under construction, and more than 5 million people have been housed since 1994[2]. However, another 2 million to 3 million units are still needed, as there is still a backlog of 7.5 million people who need proper shelter.

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, has declined significantly in buying power. The point is that, it has become less affordable for households to purchase the same size and quality of house in 2001 as was built in 1996.

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

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

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 the government and the banking sector, banks were expected to extend housing finance linked to the capital subsidy program.

Despite the general perception that big banks are not servicing the low- to medium-income market, stakeholders in the affordable housing sector[3] expressed the opinion that the major banks are still the biggest providers of affordable housing finance. However, it is difficult to quantify that statement. Figures currently 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.

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.

Table 2 Housing Affordability

INCOME GROUP		*AFFORDABILITY*									*PRODUCT DESCRIPTION*		
		Average Monthly Income per Household		*Household Breadline Income*	*Disposable Monthly Income per Household*	*Bond Repayment per Household at Percentage of Income:*	*Bond Interest Rate with Prime at:*	*Theoretical Bond Amount at Interest Rate of:*	*Subsidy*	*Total Property Value*	*Land Cost*	*Building Rate*	*Approx. House Size*
From	To	1996	2000	2000	2000	25.0%	14.5%	20.0%	2000	2000	2000	R/m2	m2
0	0	0	0	1,192	0	0	120.0%	0	16,000	16,000	7,500	350	24
1	500	251	329	1,192	0	0	60.0%	0	16,000	16,000	7,500	350	24
501	1,000	751	985	1,192	0	0	40.0%	0	16,000	16,000	7,500	350	24
1,001	1,500	1,251	1,641	1,192	449	410	21.5%	8,205	16,000	24,205	7,500	350	24
1,501	2,500	2,001	2,625	1,192	1,434	656	20.5%	19,681	9,500	29,181	12,500	1,300	13
2.501	3,500	3,001	3,937	1,192	2,746	984	19.5%	54,167	5,000	59,167	12,500	1,300	36
3,501	4,500	4,001	5,250	1,192	4,058	1,312	18.5%	75,507		75,507	12,500	1,560	40
4,501	6,000	5,251	6,890	1,192	5,699	1,723	17.5%	103,787		103,787	16,000	1,872	50
6,001	8,000	7,001	9,187	1,192	7,995	2,297	16.5%	145,182		145,182	16,000	2,246	50
8,001	11,000	9,501	12,467	1,192	11,276	3,117	15.5%	207,104		207,104	16,000	2,696	70
11,001	16,000	13,501	17,716	1,192	16,525	4,429	14.5%	309,963		309,963	25,000	2,200	130
16,001	30,000	23,001	30,183	1,192	28,991	7,546	13.5%	557,338		557,338	30,000	2,300	230
30,001	30,001	30,001	39,369	1,192	38,178	9,842	13.0%	768,933		768,933	40,000	2,400	300

Source: National Housing Finance Corp.

Table 3 Market Share of Overall Mortgage Industry

	R billion	*%*
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

Source: Banking Sector Report, May 2000

Nedbank's position, through People's Bank, is unclear at the moment. People's 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, People's 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 the range of R100,000 to R150,000. This is clearly unaffordable for most low- and even middle-income households. 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.

Big banks have also grown their microloan portfolios, part of it being used for housing projects. These banks have been able to attract a significant part of the market despite being latecomers to microfinance. Standard Bank, for instance, has a microfinance book of over R1 billion. However, determining which part of the microfinance book is used for housing is very difficult.

In summary, the banks have not been proactive in targeting 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 microfinance lending

Smaller Banks

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

- Extending housing products to their microfinance 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 microfinance. 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's total portfolio is R4.7 billion and represents 1 million customers throughout the country.

Small banks (Cashbank and Unibank) also provide housing loans guaranteed by pension funds. In that regard, the issue of "leakage"[4] is a concern. However, small banks are reliant on national development finance institutions (DFIs) such as NHFC for funding of their housing loan portfolios.

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, in turn, have been required to improve their mobilization of funds strategies to bear responsibility to the lower end of the market through large-scale funding. This evidence is supported well when one looks at the key blockages that have been identified:

- Perceptions from end-users[5] reveal that far too little new stock is being created, other than the government-subsidized housing units.
- More than half (56%) of prospective 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 the first point of call.
- A large percentage (41%) of the market felt that financial institutions would not provide credit facilities for housing due to their low income.
- Nearly a third (31%) were unable to access credit for housing from financial institutions because they are informally or self-employed.
- Nearly a third (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 financing.
- Only 38% applied for finance, with 13% being successful (5% of the overall market).
- Of those who did not approach banks, 17% said they were ignorant or lacked information about banks and their products.

Savings Profile

The savings profile revealed the following:

- Two-thirds (66%) of the target market indicated that they had saved money specifically to buy a house.
- The average period for which the target market saved for a house was 24 months.
- The average amount saved was R8,702.
- The money saved for a house was most likely to be held in a bank account (60%) or a stokvel or post office savings account (12%).

Table 4 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.

Table 4 illustrates the average cost of a house, as estimated by the prospective buyers themselves. Looking at the column for the monthly income bracket of R1,000 to R2,600, the estimated purchase price is R55,900 with an estimated required deposit of R16,036 (29%) and average monthly repayments of R1,718. This far exceeds savings, even after two years. The table shows that an affordable deposit for such a house is actually R8,576 (15%) with affordable monthly repayments of R700.

The data illustrate how end-users are ill-equipped and uninformed about issues of savings, affordability and purchasing. Table 4 shows that end-users do have a measure 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 households re-prioritize their budgets to eliminate less essential debt items (see Figure 1). Based on the demand, creation of new housing stock in the price ranges and sizes desired by the homeowner, and the lack of available housing stock in the range of R60,000 to R100,000, has an adverse impact 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.

Table 4 End-User Affordability

	MONTHLY INCOME GROUPS			
	R1,000–R2,600	*R2,601–R4,200*	*R4,201–R6,000*	*R6,001–R10,000*
Estimated 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
Estimated Monthly Payments	R1,718	R1,939	R2,011	R2,567
Affordable Monthly Payments	R700	R886	R982	R1,363
Potential Loan Required	R47,324	R67,784	R72,524	R123,145
Potential Affordable Loan	R54,687	R69,219	R76,719	R106,484

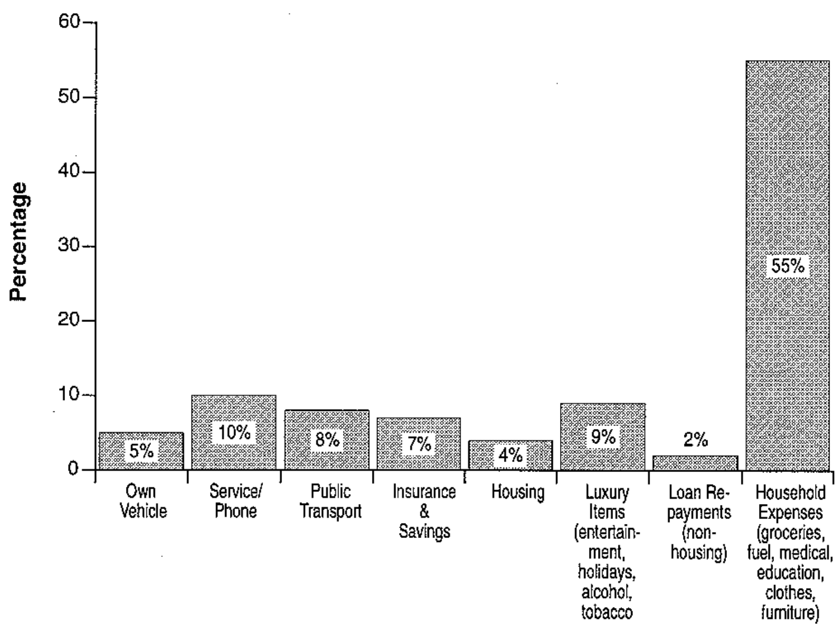
Source: End-User Survey 2000; Schematization by the author.

CONCLUDING REMARKS

The low- and moderate-income households are often self-employed; their incomes vary greatly and are infrequent. As a result, commercial financial institutions have little interest in lending to this market, particularly mortgages that 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 cease redlining[6] practices that take place regardless of the borrowers' creditworthiness or the condition of the house. Banks should also retrain personnel to guard against assumptions that the poor will not keep up with repayments or that it is unprofitable to service transactions on such a small scale.

It is also essential to effectively monitor the recently approved Home Loan and Mortgage Disclosure Act, which requires banks to lodge full details of their approval or rejection of home loans. To sum up, the government must also beef up its financial institutions to provide the poor with easier access to loans.

Figure 1 Summary of Current Household Expenditure



NOTES

[1] Would-be buyers are defined as people who want to and are trying to buy or build a house/flat. The group is not limited to first-time buyers but also includes people who already own property and want to trade or down-size. These prospective buyers have joint monthly income of R1,000 and R6,000 and have tried to buy for at least three months prior to the research. They have started the process, for example, put their name on a waiting list, contacted estate agent, contacted developer, etc.

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

[3] Developers, real estate agents, and brokers.

[4] Loans being used for other purposes.

[5] Target market or would-be buyers.

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

REFERENCES

Financial Mail, November 2000. "The Banks Can and Must Do Better."

http://www.banking.org.za/housing.

Pillary, Morgan (2001). "Strategy of Major Banks," (Unpublished Report).

Pillary, Morgan (2000). "Housing Finance Capacity in South Africa," (Unpublished Report).

Moss, Vuyisani and Morgan Pillary (2000). "End-User Survey and Studies."

Moss, Vuyisani (2001). "Assessing Accessibility to Housing Finance," June issue of *Housing in Southern Africa Journal.*

Moss, Vuyisani (2000). "Unblocking Finance for Affordable Housing in South Africa." (UNFAHSA), Field Trips (Unpublished Report).

National Department of Housing website http://www.housing.gov.za

NHFC Preliminary Status Quo Report, (2000). "Unblocking Finance for Affordable Housing in South Africa."

NHFC; CSIR; GTZ (2000). "Unblocking Finance for Affordable Housing in South Africa (UNFAHSA), Final Report."

Social Survey, (2000). "Understanding the Facts that Block Finance for Affordable Housing."

Statistics South Africa (1996–2000).

UNDP (2000). Human Development Report.