Findings: City of Tshwane

What’s inside

- High-level Market Overview
- Housing Performance Index
- Affordability and the Housing Gap
- Leveraging Equity
Tshwane has the 4th highest number of residential properties, the 5th highest number of households of all South African cities and the lowest ratio of households to formal properties.

In 2012, Tshwane had the 3rd highest number of sales transactions, and the 3rd lowest average residential sales prices according to the deeds registry (and the lowest of the top four metros). With the highest average household income, Tshwane is the most affordable major municipality.

Tshwane’s lower priced markets are driving housing growth: properties considered ‘affordable’ are growing faster than the overall market in several key performance indicators.

Housing Performance. After the slowdown in 2008, Tshwane’s housing market has grown faster than any other major metro. The strong growth of its affordable property sector is on par with the growth found in all affordable markets across the country.

Tshwane’s affordability ratio is 1.7, meaning that to afford the average house would take about twice the average income. This is below the national average of 3.0, and all other metros. Due to its high income and low affordability ratio, Tshwane’s housing gap of R286 000 is the lowest of the nine SACN member cities.

Leveraging equity. Average home equity in Tshwane is R362 000 (which exceeds the average housing gap of R286 000), which helps to increase affordability. Equity rates of 53% are lower than expected in such a fast-growing market. Over five years, equity in the overall market has grown by 9%, but equity in affordable areas has grown at four times that rate (46%), presenting an opportunity for homeowners of affordable properties to capture that value and leverage higher priced homes.

AREAS OF OPPORTUNITY

Close the lending gap by leveraging equity in markets with older affordable properties (e.g. RDP subsidy areas that are older than eight years) to encourage the development of new housing opportunities for homeowners in those areas (notably areas with high equity, low churn, low bond rates, low loan to value ratios).

Promote density and lower costs by prioritising growth opportunities in areas nestled within existing infrastructure.

Explore investments in low-income areas near or within existing high-cost areas, which will improve sustainability, accessibility, income integration and overall marketability.
Tshwane’s market overall is very active

Tshwane’s recent sales activity and new registrations point to a very active market

While all cities in South Africa experienced a post-2008 slowdowns, Tshwane rebounded faster and stronger than most. In 2012 it was the only metro where property values exceeded sales prices, due perhaps to a delay in the market’s recognition of its pace of growth (or fears of a housing bubble). Tshwane has the third highest number of sales of the nine cities but the greatest percent change since 2011. Despite this activity, bond levels dropped (but only slightly). New registrations spiked over time but continue a sharp upward trend. Low churn is likely due to new properties coming on the registry as sales occur.

The table below shows key performance indicators and the benchmarks – the levels of change and growth against which local neighborhoods are compared to determine whether they are growing faster, about the same rate or slower than the city overall. These performance indicators are aggregated to create the Housing Performance Index, described in the next section.

An index is useful because it conveys an area’s market strengths efficiently and compares larger and smaller markets more appropriately.

### Tshwane Housing Performance Index Indicator Benchmarks (2012)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Benchmark</th>
<th>Index Weight</th>
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<tbody>
<tr>
<td>Value: percent change in amount</td>
<td>5.5%</td>
<td>25%</td>
</tr>
<tr>
<td>Price: percent change in amount</td>
<td>-4.2%</td>
<td>25%</td>
</tr>
<tr>
<td>Transactions: percent change in number</td>
<td>11.5%</td>
<td>15%</td>
</tr>
<tr>
<td>Bonded sales: percent change in number</td>
<td>-0.9%</td>
<td>15%</td>
</tr>
<tr>
<td>Churn: percent change in rate</td>
<td>0.5%</td>
<td>10%</td>
</tr>
<tr>
<td>New registrations: percent change in rate</td>
<td>109.0%</td>
<td>10%</td>
</tr>
</tbody>
</table>

1New registrations may include existing residential properties, such as government-subsidised housing completed in the past but for which title deeds have only been transferred now. It is included as a key market indicator because the addition of those registrations represents new supply: growth in tangible formal assets which can be financed and sold.
Affordable markets drive municipal market growth

The HPI tracks six key indicators, which most effectively capture several key components of housing markets, and compares the results to the city to determine areas of growth or strength:

- Value: percent change in amount
- Price: percent change in amount
- Transactions: percent change in number
- Bonded sales: percent change in number
- Churn: percent change in rate
- New registrations: percent change in number

The HPI relates property markets performance by using the following profiles:

- 'Growing' areas exceed the city’s rate of change in any four of six key market indicators.
- 'Stable' areas meet or beat the city in at least three indicators.
- 'Slow' areas are growing at rates less than the city in two (or fewer) of the six indicators.

For example: A city considering strategies for acquiring or disposing of city-owned sites may use the growth profiles to decide which sites to retain and develop directly and which to tender, what type of development is best suited for each site and, over time, to assess the impact of these strategies. Larger scale, dense projects might be more appropriate situated in rapidly growing areas and more attractive to private developers; smaller scale approaches might be more successful in stable or slow growth neighbourhoods to smaller companies.

How the HPI is useful

Using the HPI provides an efficient way of understanding market strengths in three key contexts:

- **Appropriately site different development strategies.** Whether seeking the best location for particular development strategies or zones or considering options for a given development site, the HPI informs the appropriate location and scale of development options, how best to promote opportunities for investment, and improves the likelihood of market success and sustainability over time.

- **Improve understanding of market opportunity.** The market performance of each neighborhood can help policymakers and investors (developers, lenders, other partners) to understand patterns, learn what might influence the growth or stability of neighbourhoods and devise intervention strategies that build on the local areas’ unique strengths.

- **Measure impact.** The index’s behaviour over time can provide quick insights into the impact of past development interventions and initiatives. Did the area’s growth continue or stabilise after the mall or transit line was upgraded? How did the policy achieve its intended outcome?
Tshwane’s affordable areas drive housing market growth

Many lower-priced suburbs are growing faster than the city overall.

Mapping the Housing Performance Index at the suburb level reveals local areas whose housing markets are growing faster, in line with or slower than the city overall. The green areas\(^2\) include areas of interest for expanding housing opportunities, such as many parts of downtown Pretoria, Mamelodi and surrounding areas to the east, Atteridgeville to the west and much of Soshanguve, north of the central city.

Highlighting those growing areas where property values are less than R500 000 reveals that overall, 85 (or 40%) of the 213 growing suburbs in Tshwane are in affordable areas.

\(^{1}\)Note that the large green area surrounding northern Tshwane is a single mainplace called “Tshwane Non-Urban.”
Many local housing markets are not affordable to the average local income

Affordability is often considered as those properties with a value of R500 000 or less, reflecting the maximum home affordable to a family earning R15 000, the upper limits of many subsidy programmes. With the release of census results at the suburb level for the first time, several important aspects of affordability can be understood more clearly, most notably:

- Are local markets affordable to the people who live there?
- What is affordable?
- What is the housing gap?

The affordability of an area will depend on the extent to which the average income in that area can afford an average house in that area, using a typical mortgage bond (5% down payment, 11% interest over 20 years). Comparing local average incomes to local average sales prices produces an affordability ratio. Dividing the monthly bond payment on the average sale by the average monthly household income provides an affordability ratio, which shows by how much the local income must be multiplied in order to afford the average house: the higher the ratio, the wider the affordability gap. The housing gap is the difference between what the homeowner with an average income can afford and the average sales price in the area. This gap keeps housing markets from thriving.

For example: In an area where the average monthly income is R4 000, homeowners can afford a R100 000 house (assuming average bond terms). If the average sales price in that area is R200 000, it would require twice the average income, or an affordability ratio of 2 to 1. Subtracting the average sales price (R200 000) from the average affordable price (R100 000) gives a housing gap of R100 000.

How the Affordability Ratio is useful

Using this ratio as a shortcut to measure relative affordability will help to tailor housing solutions to local needs. By using the price-income relationship to determine affordability, local policymakers are able to measure more appropriately and apply affordability targets to local markets. Being able to determine affordability ratios and housing price gaps can:

- Create more affordable and sustainable housing developments that meet local residents’ needs by pinpointing prices more appropriately, or measuring the subsidy required to stimulate development.
- Support housing integration strategies in upmarket areas by encouraging developers to include affordable housing in exchange for incentives (such as targeting 30% of the units to the local area income in exchange for zoning approvals or density bonuses).
- Measure the effectiveness of cost-reducing strategies, such as land acquisition grants or discounts, construction alternatives, and other interventions to make housing more affordable at the local level.
- Improve the estimated costs and optimal location potential of integrated housing development schemes.
- Target affordable lending efforts more accurately, meeting the needs of intended customers more appropriately.
Tshwane is the most affordable municipality among the nine SACN member cities

In Tshwane, it takes on average 1.7 times the average income to afford the average house. The average housing gap (the difference between the average affordable home and the average sales price) is R286 000.

**AFFORDABILITY BY PROPERTY VALUE VERSUS INCOME**

The average household earns R15 566 monthly and is thus able to afford a R397 000 home (the highest of all nine metros). The average sales price in Tshwane is R683 000 (the 3rd lowest of the nine metros), which means the average housing gap is R286 000. The distribution of this gap can be shown two ways. In the map, ‘Affordable Suburbs by Property Value’, areas with average property values of less than R250 000 or between R250 000 and R500 000 are highlighted in green or orange respectively. In ‘Affordable Suburbs by Affordability Ratio’, darker red areas on the map indicate higher affordability ratios, or less affordability. Tshwane’s affordability ratio is below the national average because of the higher income earning potential.

Some areas considered ‘affordable’ by value are not affordable when based on the affordability ratio. If incomes are considered, Tshwane’s affordable suburbs drops from 185 (38% of all suburbs whose
Leveraging Equity

Accessing equity closes the housing gap and drives demand

If a potential homebuyer has savings, or if they have an existing house which they can sell, the amount they need to borrow to buy a new house decreases, or the home they can afford increases. The funds that they can use to supplement the mortgage bond is called equity, and the practice of using this equity to increase their housing affordability is called leverage.

Leverage is among the most important ways for homeowners to expand their purchasing power. Leverage works best in flourishing housing markets, where:

- eligible buyers must be looking,
- lenders must be lending, and
- homes must be available to drive interest.

Constraints that exist most often in affordable markets include the availability of homes to buy, the ability to sell government subsidised stock (which comes with an eight-year resale restriction), credit accessibility, existing household indebtedness, and the willingness of existing homeowners to sell their most important asset.

By deducting mortgage loans from home values at the neighbourhood level, the resulting equity can be compared to the housing gap within those areas to determine the extent to which equity can help fill the local housing gap. This can entice development to stronger markets, expand housing options, and begin to open up markets in new ways.

How leveraging equity is useful

Leverage can be used to close the broader housing gap in less affluent areas and is a powerful lever for homeowners. Homeowners in affordable areas are less likely to have a mortgage bond on their home and so can convert more of the full value of their homes into new home purchases than indebted property owners. Equity levels imply greater market opportunity than incomes alone and can be a key consideration of local policy makers, lenders and even builders.

Using the equity from selling one’s home towards the price of a new house begins to fund the gap between the lower and upper average sales prices, bringing these market segments closer together, improving market accessibility and affordability (assuming that properties within that price range are available, in areas where these families wish to live). Accessing that leverage more effectively could unlock housing markets in affordable areas. Developers, lenders and municipalities could expand the viability of housing options in previously overlooked areas by more carefully considering local equity levels to fill the housing gap.
**Equity Levels in Tshwane**

In Tshwane, while equity values in homes over R500 000 is twice that of homes under R500 000, that equity has much more impact in lowering housing prices in affordable markets.

This chart compares the proportion of equity in the average home to the average sales price by value band. While average equity is 55% in properties over R500 000, the rate for properties under R500 000 actually exceeds the average sales price, in some cases by double. This is probably due to sales prices being well below the average property values. Although the rand values between those markets are vastly different, the value of that equity in affordable markets has much more impact in lowering housing costs.

### USING EQUITY TO EXPAND HOMEOWNERSHIP IN TSHWANE

Homeowners in upper income housing markets often use equity from their existing homes to close the gap: in Tshwane overall, homeowners can afford about 60% of the average sales price, yet have (on average) about R362 000 in equity to apply to that gap. In Tshwane, the average family who applies the average equity to purchase the average house has an additional R76 000 with which to expand their new housing options (the only metro not left with a housing gap). In contrast, lower income homeowners can apply on average R178 000 towards the value of a new home, in addition to what their income can support (about R163 000), which almost doubles their purchasing power. They have excess equity of R178 500 that they can apply to a new home. This highlights the growing strength of home equity to leverage lower income families up the housing continuum.

#### Applying equity to fill the gap

<table>
<thead>
<tr>
<th></th>
<th>City overall</th>
<th>Lower income (^1)/under R500 000 properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Average household income</td>
<td>R15 566</td>
<td>R9 340</td>
</tr>
<tr>
<td>(b) Average affordable sales price</td>
<td>R397 000</td>
<td>R237 500</td>
</tr>
<tr>
<td>(c) Average sales price</td>
<td>R683 000</td>
<td>R237 000</td>
</tr>
<tr>
<td>(d) Housing gap (b−c)</td>
<td>(R286 000)</td>
<td>R500</td>
</tr>
<tr>
<td>Affordability ratio (c/b)</td>
<td>1.72</td>
<td>1.00</td>
</tr>
<tr>
<td>(e) Average equity</td>
<td>R362 000</td>
<td>R178 000</td>
</tr>
<tr>
<td>(g) Remaining gap/surplus (d−e)</td>
<td>R76 000</td>
<td>R178 500</td>
</tr>
</tbody>
</table>

\(^1\)For the purposes of comparison, lower income is 60% of the area average income.
Equity Continues to Grow

Over the past five years, home equity values in affordable areas have grown five times as fast as in Tshwane overall.

Homes worth less than R500 000 typically have fewer loans, a faster-growing value, and an initial housing cost that was low or free (thanks to government investment in housing).

Just as homeowners use equity to expand their housing options, policy makers, investors and developers can more accurately assess the market feasibility of various housing options by tracking the growth and availability of homeowner equity at the neighbourhood level. This indicator thus becomes very useful for meeting — and closing — the housing gap.

Since 2007 the highest growth in equity has been in low-income areas with fewer bonds and faster appreciation rates. This information is useful for considering how outcomes might be different in those areas most eager for change. It is also important to acknowledge the presence of historical barriers, such as limited access to credit, lack of upmarket product to buy, and reluctance to sell one’s most valuable asset.