Conclusion and Key Concepts

Conclusion

Context is very important

Understanding the local housing market context is very important, not only for the facts it provides, but also for the perception it influences. Affordable housing markets – those areas or properties with values under R500 000 – are often perceived as weak, stagnant and risky. However, a very different reality appears when key market indicators of affordable housing markets are isolated and compared to overall markets.

New tools provide new insights

Understanding housing markets more carefully, at the local level, using various existing datasets can help municipalities expand opportunities, meet the needs of the residents, leverage prior investment, and maximise their own growth and sustainability. Three new ways of understanding urban housing markets can specifically help local governments:

- **Housing Performance** – affordable housing markets drive most of the growth in metro housing markets, and each local housing market presents unique opportunities;
- **Affordability and the Housing Gap** – affordability must be addressed at the local level, to better serve existing households and sustain their growth; measuring the housing gap locally helps to target effective policies and solutions;
- **Leveraging Equity** – equity can be used to close the housing gap to boost purchasing power and fill the housing gap, reduce risk and leverage government investment.

Upcoming Exploration

There are several additional areas of housing markets to explore:

- **Rental and informal markets**. Renting is a very efficient means of achieving affordability; understanding rental market performance will sharpen housing policies, diversify opportunity and market risk, and bring additional context to housing markets overall. Informal markets are a great indicator of how well the housing market is functioning overall.
- **Accessing municipal datasets.** The data that cities gather while performing their basic functions, such as building permits, valuation rolls and planning frameworks, can greatly inform housing market conditions and growth potential.
- **Impact.** Many cities with their partners have implemented significant innovations in housing policy, transit-oriented development efforts and special enterprise zones to expand housing opportunity. Measuring the impact of some of the best practices would encourage collaboration, leverage investment and expand markets.
- **Measure financial access.** Like other economic sectors, housing markets grow as access to credit grows. Therefore, understanding access to the range and diversity of financial products and inclusion can help in identifying barriers, innovating solutions and expanding markets.

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 Band

This refers to the aggregate of all properties within a certain rand value. Properties are aggregated by their **VALUE** to better understand the unique dynamics of these market segments. Values are divided into three bands: values under R250 000; between R250 000 and R500 000; and above R500 000. Generally, properties at or below R500 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.

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.

[8] This threshold was originally defined by the targeting parameters of the first phase of the Financial Sector Charter in which the financial sector committed itself to extending access to housing finance to lower income households.

[9] As of March 2014, the prime rate in South Africa was 9%. Typically, mortgage loans to borrowers in the affordable market are set at about 2% above prime, though in some cases are even higher. The interest rate charged on a mortgage loan relates to a range of factors, including the lender's assessment of risk. For this reason, interest rates vary from borrower to borrower. The rate used in this report (11%) is therefore purely indicative

Benchmark

An indicator that is calculated in the same way across a larger level (such as national or municipal levels) to compare with smaller areas (such as main places or suburbs). Benchmarks are useful for understanding the performance of housing markets because they provide a consistent means of comparing markets to each other and to larger areas. For example, local markets perceived as having modest appreciation rates may actually be growing quickly when compared with other areas, the metro or the country as a whole. Benchmarks are a key component of the housing performance index, which uses them to determine whether local areas or metros are changing faster than, about the same as, or slower than the metros or the country.

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Bonded Sale

A sales transaction transferring ownership of a property 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.

Churn

The total number of homes sold within an area over a one-year period divided by the number of homes within that area. Similar to turnover, churn represents active market interest, a large pool of eligible buyers and willing sellers, and ready access to mortgage financing. In affordable areas, lower churn can reflect reduced housing mobility rather than less marketability, as the result of fewer upward housing options for potential sellers, and less access to bond financing for potential buyers. Other indicators (such as bond rates or types, loan to values, equity rates and income) can help differentiate marketability from pent-up market mobility.

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 sell 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 transactions reflected on the

[10] In 2011, the CAHF released a study which highlighted that as many as 50% of all subsidised housing units delivered as part of the government's Reconstruction and Development Programme (RDP) or Breaking New Ground (BNG) policy, were not formally registered http://www.housingfinanceafrica.org/projects/rdp-assets-study/ Since then, the Department of Human Settlements has identified the title deeds backlog as a national priority issue. This is also highlighted in the ANC's 2014 election manifesto.

South African deeds registry. It is estimated that 25–50% of all properties in South Africa are not registered.[10]

Housing Continuum

The housing continuum 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 Share

Lenders track their market share by area and value carefully – too high market share could mean that they are at greater risk if values decrease, too low means that the lender may be losing business to competitors.

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, of which about 4000 are located in the nine major metros.

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.

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