Findings: Msunduzi Municipality

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High-level Market Overview

Housing Performance Index

Affordability and the Housing Gap

Leveraging Equity
Msunduzi’s housing market has fluctuated a great deal in the past few years and has slowed down more recently. After 2008 housing performance rebounded solidly but has levelled off since 2010. The affordable sector has ticked up slightly, so that growth in both sectors is the same.

Msunduzi’s affordability ratio is 3.9, meaning that to afford the average house would take almost four times the average income. This is above the national average of 3, and the highest of all the metros studied. Msunduzi’s housing gap (of R706 000) is the highest gap of the nine municipalities. Finding ways to improve affordability will be a challenge.

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.

Msunduzi has the lowest number of residential properties and households of the South African metros, and has the lowest ratio of households to formal properties among the top nine.

In 2012, Msunduzi had the lowest number of sales transactions and yet the 3rd highest average residential sales prices according to the deeds registry. Its average household income is the 4th lowest, leading the small metros, but high prices make it the least affordable metro of all nine member metros.

Msunduzi is one of two metros whose lower priced markets lag the overall housing growth: markets considered ‘affordable’ are less active than the overall market in several key performance indicators.

Leveraging equity. Average home equity in Msunduzi is R380 000 (about 54% the average housing gap of R706 000), which helps to increase affordability. Equity rates of 40% are in line with the national average. Over five years, equity in the overall market has grown 20%, but equity in affordable areas has grown at twice that rate (40%), presenting an opportunity for homeowners of affordable properties to capture that value and leverage higher priced homes.

Understanding Housing Markets in Msunduzi, South Africa
Msunduzi’s market overall is slowing down compared to other metros

Msunduzi’s post-2008 response has fluctuated a great deal.

While all cities in South Africa experienced post-2008 compression, Msunduzi’s market has fluctuated more than most. Perhaps as a result, the last two years show a steady drop in sales and a spike in sales prices. Msunduzi has the fewest number of sales of all metros, as well as the most significant drop in sales and in bonded sales, although its percent of bonded sales is above average (perhaps due to the high sales prices). New registrations have spiked and trended down perhaps due to efforts to register existing government-sponsored housing stock.

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.

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

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Benchmark</th>
<th>Index Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value: percent change in amount</td>
<td>6.8%</td>
<td>25%</td>
</tr>
<tr>
<td>Price: percent change in amount</td>
<td>56.6%</td>
<td>25%</td>
</tr>
<tr>
<td>Transactions: percent change in number</td>
<td>-13.8%</td>
<td>15%</td>
</tr>
<tr>
<td>Bonded sales: percent change in number</td>
<td>-16.9%</td>
<td>15%</td>
</tr>
<tr>
<td>Churn: percent change in rate</td>
<td>-14.1%</td>
<td>10%</td>
</tr>
<tr>
<td>New registrations: percent change in rate</td>
<td>-5.6%</td>
<td>10%</td>
</tr>
</tbody>
</table>

1. New 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?
Msunduzi’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 those local areas whose housing markets are growing faster, in line with or slower than the city overall.

The green areas* include several areas of interest for expanding housing opportunities, such as parts of Edendale, Bombay Heights, and Northdale. This is very important in exploring specific areas of opportunities in cities whose markets might be slower overall.

Highlighting those growing areas where property values are less than R500 000 reveals that overall, 11 of the 29 growing suburbs in Msunduzu (38%) are in affordable areas.

*Note that several large green areas surrounding the outskirts of Msunduzi is a single mainplace called “Msunduzi 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.
Msunduzi’s affordability is among the most challenging of all nine metros

In Msunduzi, it takes on average almost four 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 R706 000.

AFFORDABILITY BY PROPERTY VALUE VERSUS INCOME

The average household earns R9582 monthly, which means it can afford a R244 000 home. However, the average sales price in Msunduzi is R706 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.

Msunduzi’s affordability ratio is the highest among all metros, meaning it is the least affordable, in part because of its below-average household income (the lowest of the largest five metros).

Some areas considered ‘affordable’ by value are not affordable when based on the affordability ratio. If incomes are taken into account, Msunduzi’s affordable suburbs drops by half, from 32 (33% of all suburbs whose average value is less than R500 000), to 14 (15% of all suburbs, with an affordability ratio of 1:1 or less). This is the real affordability gap, which most residents know intuitively and can now be measured at the local level.
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 Msunduzi

In Msunduzi, while equity values in homes over R500 000 is two-and-a-half times 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 49% in properties over R500 000, the rate is between 89% and 94% in homes under R500 000. While 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 MSUNDUZI**

Homeowners in upper income housing markets often use equity from their existing homes to close the gap: in Msunduzi overall, homeowners can afford 26% of the average sales price, yet on average have about R434 000 with which to fill that gap. This means that the average family who applies the average equity to purchase the average house must still borrow an additional R326 000.

Lower income homeowners, by contrast, can apply on average R186 000 towards the value of a new home, in addition to what their income can support (about R146 000). Adding this to the average equity enables lower income homeowners to almost double their purchasing power. This highlights the growing strength of equity to leverage lower income families up the housing continuum.

<table>
<thead>
<tr>
<th>Applying equity to fill the gap</th>
<th>City Overall</th>
<th>Lower income*/Under R500 000 properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Average household income</td>
<td>R9 582</td>
<td>R5 749</td>
</tr>
<tr>
<td>(b) Average affordable sales price</td>
<td>R244 000</td>
<td>R146 205</td>
</tr>
<tr>
<td>(c) Average sales price</td>
<td>R950 000</td>
<td>R254 000</td>
</tr>
<tr>
<td>(d) Housing gap (b-c)</td>
<td>(R706 000)</td>
<td>(R107 795)</td>
</tr>
<tr>
<td>Affordability ratio (c/b)</td>
<td>3.89</td>
<td>1.74</td>
</tr>
<tr>
<td>(e) Average equity</td>
<td>R380 000</td>
<td>R186 000</td>
</tr>
<tr>
<td>(g) Remaining gap/surplus (d-e)</td>
<td>(R326 000)</td>
<td>R78 205</td>
</tr>
</tbody>
</table>

*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 three times as fast as in Msunduzi 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.

The highest growth in equity since 2007 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. In doing so, it is 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.