# THE RESIDENTIAL

Although capital growth in the residential property market has slowed down in recent years, demand for residential property has remained strong at the lower end of the market. This has been driven by a shortage of housing and growing disposable income in less affluent households.

# PROPERTY SECTOR

South African residential property has become more affordable because of the decline in interest rates on housing loans, combined with a relatively strong and stable macro economy, which has encouraged and supported investment in the residential property market. This trend has been reinforced by a growing middle class since 1994.

Research by Urban LandMark showed that in 2007, the lower end of the market was experiencing price increases of about 30% per annum, while high-value housing was growing at just over 10% by 2007. The faster increase in the price of affordable housing, combined with a CPI inflation rate of 6%, meant that housing in this sector of the market was significantly less affordable by 2007 than it had been in the past.

In June 2007 the National Credit Act was implemented and this Act, combined with higher interest rates, further reduced the affordability of the housing market in general. Although there was strong growth in property prices in South Africa prior to 2008, it is important to note that this growth was not the same across all suburbs.

Some suburbs experienced above-average growth while others saw a decline in property prices.

Suburbs with falling prices offer an entry point to home ownership in well located areas for people who might not otherwise have been able to afford to live there, says Stephen Berrisford, Urban LandMark Governance Theme Coordinator.

*'The challenge for the public and the private sectors is to develop mechanisms to extend the formal market and improve affordability at the lower end'*

Unaffordable house prices are one factor that may exclude people from living in certain areas. But there are also other significant obstacles which poor households face when they try to move up the property ladder, out of township areas and into some inner city or suburban areas. There is an insufficient supply of houses in the 'Gap' market, which are affordable to households whose monthly income is too high to allow them to qualify for subsidised housing, but too low to be able to obtain a loan from a commercial bank. The stricter provisions of the National Credit Act have made it much harder for poor households with weak credit ratings to obtain loans.

Another obstacle is the fact that the secondary property market in low-income areas functions very poorly in comparison to more affluent residential areas. Problems in this market include lack of title deeds, difficulty obtaining rates clearance certificates, the low number of houses being offered for sale and few property professionals being able to guide people through the buying and selling process.

Upward filtering depends on, and also creates and reinforces, the existence of housing prices at different levels; and this range of different kinds of available property makes it possible for people to move into more expensive housing as their financial circumstances improve.

The formal property market is also affected by the institutional environment in which the market operates. The government can have a direct impact on this institutional environment, for example through town planning, transaction support services, environmental policies and transport policies. The efficiency with which different spheres of government carry out these functions has a direct impact on the way residential and commercial property markets function across all sectors. Government needs to design carefully

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structured housing subsidy policies and land use strategies; it should also develop and extend innovative ways to incentivise private investment in urban upgrading and densification.

There are practical steps to incentivise developers to invest in retail centres and transport interchanges, in ways that improve integration and offer greater economic opportunities to the poor. Through careful design, this type of investment in the commercial and retail sectors of the formal market can also serve to support the informal market.

Overall integration and mobility in the residential property market is improving slowly, and lower-middle income households are finding opportunities to locate closer to work and in areas which were previously unaffordable.

Informal markets are not well understood or acknowledged in the formal public and private sectors. Government often fails to recognise the important role the informal sector plays in the overall urban land and property markets. The settlements are often located close to employ ment opportunities and transport, as well as acting as a safety net when householders are hit by 'shocks' that weaken them economically and who need to remain close to the city. In these cases, informal settlements successfully offer flexibility in housing and land supply, which the state and private sector struggle to achieve.

For poor households especially, housing plays a crucial role as a social, economic and financial asset. As an economic asset, it provides an important way for small-scale landlords to generate income by letting out rooms or backyard shacks. These are usually small-scale survivalist enterprises. Although some home owners will borrow money to finance improvements to their houses, generally owners do not use their houses as security for loans.

Housing is also an important social asset, connecting the household with the community and serving as a base for the family. Township housing usually has stable ownership structures, with owners having little or no interest in selling their houses. Many of these are family homes that are often inherited, and the legal owners may feel obliged to keep the house for the benefit of the family.

This trend is changing as national chains recognise the market potential in low-income areas. Increasing the flow of money into and within townships reduces the overall levels of poverty, as more people are brought into the functioning market system.

Should government enable the necessary supporting structures, the increased income flow will stimulate the residential and commercial property markets and promote overall economic development in township areas. ■

***The most common problems in the township residential property market are:***

- **Restrictive town planning regulations**
- **Limited access to finance by households**
- **Limited housing stock available for trading**
- **Restrictions on trading government-subsidised housing**
- **As a result of these obstacles, property is commonly traded below market-related prices or improvement costs**
- **Transactions are mostly done informally, and not registered at the deeds office**