

Why the Housing Market is Broken...Is it?

Rob McGaffin
2018

The market is not building enough (affordable) housing...

Estimated number of households	= 1 200 000
Estimated number of formal houses	= <u>880 000</u> (incl. shared)
<i>Estimated shortfall</i>	= 320 000

Estimated household growth	= 1,8% p.a.
Estimated house growth as a % of households	= 1,1% p.a.

Need between 30 000 – 40 000 houses p.a., building between 8 000 – 10 000 p.a.

(Own calculation – STATSSA, CoCT)

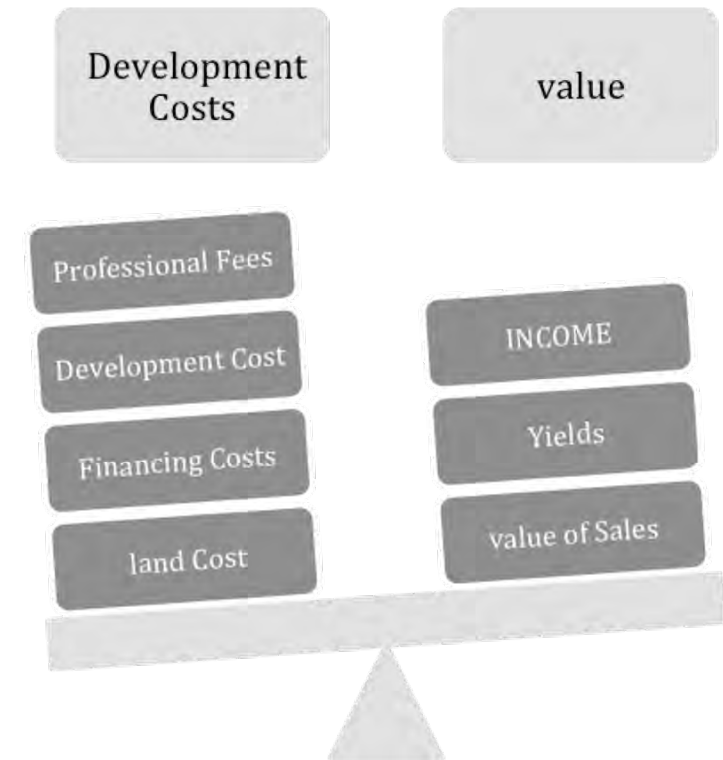
So why is this currently so difficult to achieve?

The “*value vs. cost*” equation is working the wrong way

Rental yields **5 – 7%**

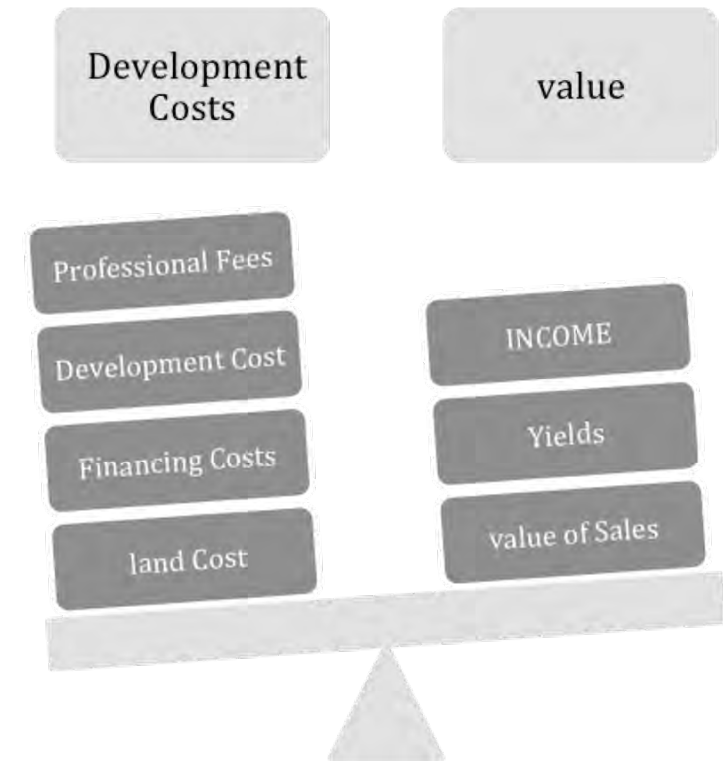
VS

Cost of finance **10 – 15%**



Drivers of Value

- Income (reduces values at lower end)
- Scarcity (increases value at upper end)



Value is a Function of Income

- Entry level NEW market house costs between R400 000 – R500 000
- Assuming 90 – 100% financing, 25% of income, at 11,5% over 20 years = a R17 000 p.m. disposable income household, say a R20 000 p.m. gross income

(Not a completely true reflection of affordability as some households have housing assets they can sell.)

Census 2011:

- 26% owned and paid off
- 21% owned and partially paid off



Some equity
towards next house

See CityMark

CENSUS 2011 HOUSEHOLDS		
Monthly GROSS Household income	Total	
No income	146 517	14%
R1 - R3183	355 892	33%
R3183 - R6367	154 427	14%
R6367 - R12,817	139 348	13%
R12,187 - R25,633	126 625	12%
R25,633 - R51,200	92 860	9%
R51,200+	52 832	5%
Unspecified	73	0%
Total	1 068 574	100%

NIDS 2014/15 HOUSEHOLDS		
Monthly Household NET income	Total	
<R3,500	345 875	33%
R3,500 - R7,000	259 378	25%
R7,000 - R15,000	247 810	24%
R15,000 - R20,000	57 284	6%
R20,000 - R40,000	90 865	9%
R40,000+	39 365	4%
Total	1 040 577	100%

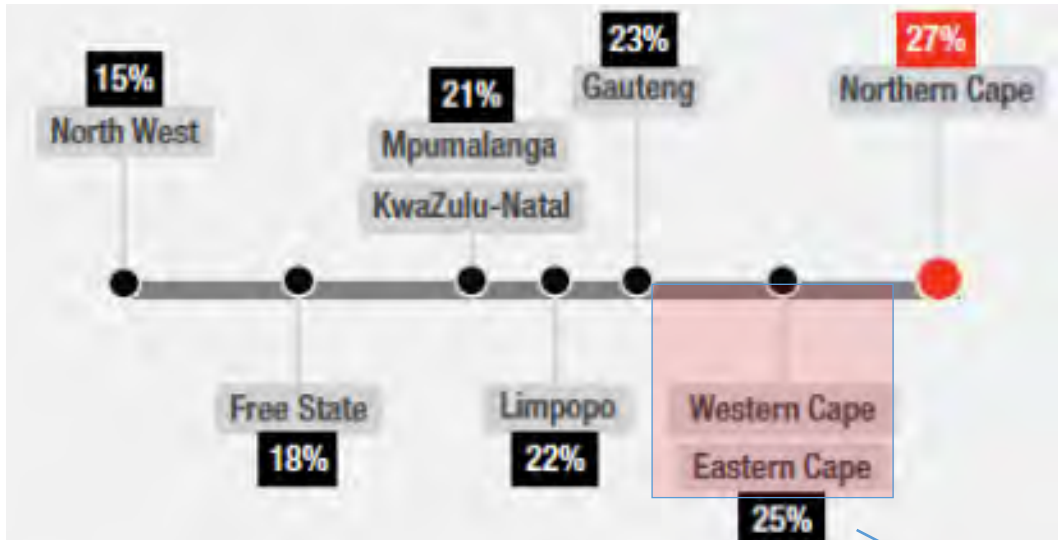
AMPS 2015B HOUSEHOLDS		
Total MONTHLY HOUSEHOLD Income (before tax & other deductions)	Total	
<R3,500	173 588	18%
R3,500 - R6,999	224 854	23%
R7,000 - R15,000	298 348	31%
R15,000 - R20,000	83 623	9%
R20,000 - R40,000	143 506	15%
R40,000 +	49 869	5%
Total	973 787	100%

(CAHF, 2016)

Based on these figures, about 80% of the population falls beneath R20 000

However, figures need to be escalated to 2018, *therefore estimated that 70 – 75% below R20 000*

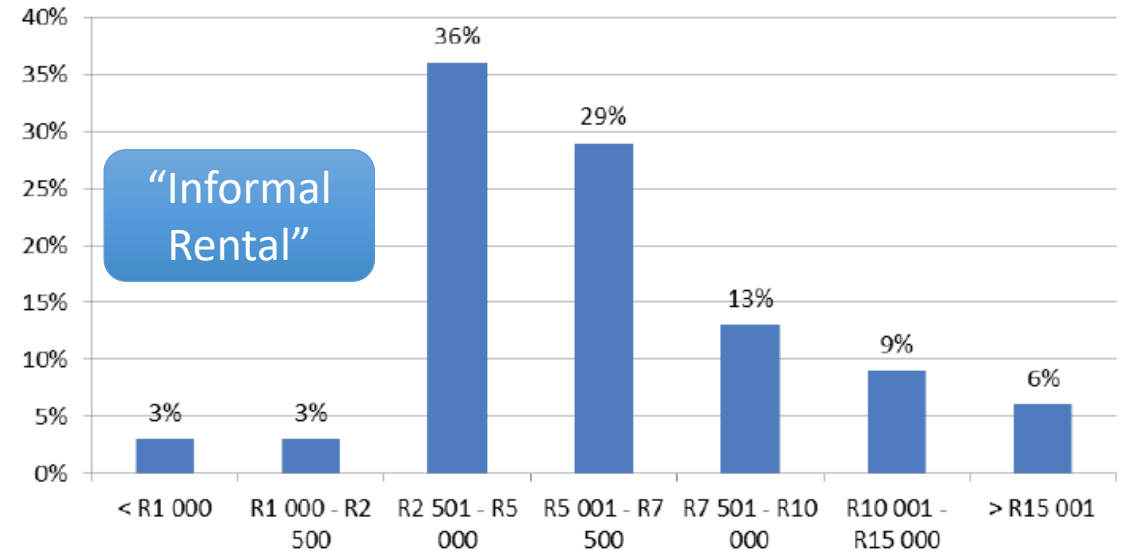
Rent to Income Ratio (Adapted Payprop, 2016)



(Percentage spent on housing, Gallow et al, 2011)

1	2	3	4	5	6	7	8	9	10
82.70%	86.30%	84.10%	84.80%	83.50%	82.60%	80.10%	79.40%	75.57%	73.49%
17%	14%	16%	15%	17%	17%	20%	21%	24%	27%

Western Cape Rentals (Adapted Payprop, 2016)



At 25% of income = **R0 – R5 000** rental p.m.

But average rental in Cape Town is **R8 000** p.m. and **R15 000** p.m. in the CBD (Rode, CCID, Payprop)

All Rentals

Less than R5 000

property24 For Sale To Rent Developments Commercial Calculators Advice List Privately Login Sign Up

To Rent Cape Town Search

Property Type 3 Min Price Max Price Beds Baths Monthly

Property to Rent in Cape Town

Property to Rent > Western Cape > Cape Town

Sea Point Green Point Cape Town City Centre Camps Bay Mouille Point
Claremont Rondebosch Gardens Waterfront Constantia
Clifton Three Anchor Bay

More suburbs in Cape Town

Order by: Default Showing: 1 - 20 of 3122 City Trends

Showing: 1 - 20 of 3122

property24 For Sale To Rent Developments Commercial Calculators Advice List Privately Login Sign Up

To Rent Cape Town R 5 000 Search

Property Type 3 Min Price R 5 000 Beds Baths Monthly

Property to Rent in Cape Town

Property to Rent > Western Cape > Cape Town

Wynberg Athlone Salt River Cape Town City Centre Lotus River
Maitland Penlyn Estate Harfield Village Clifton Heathfield
Surrey Estate Pinelands

More suburbs in Cape Town

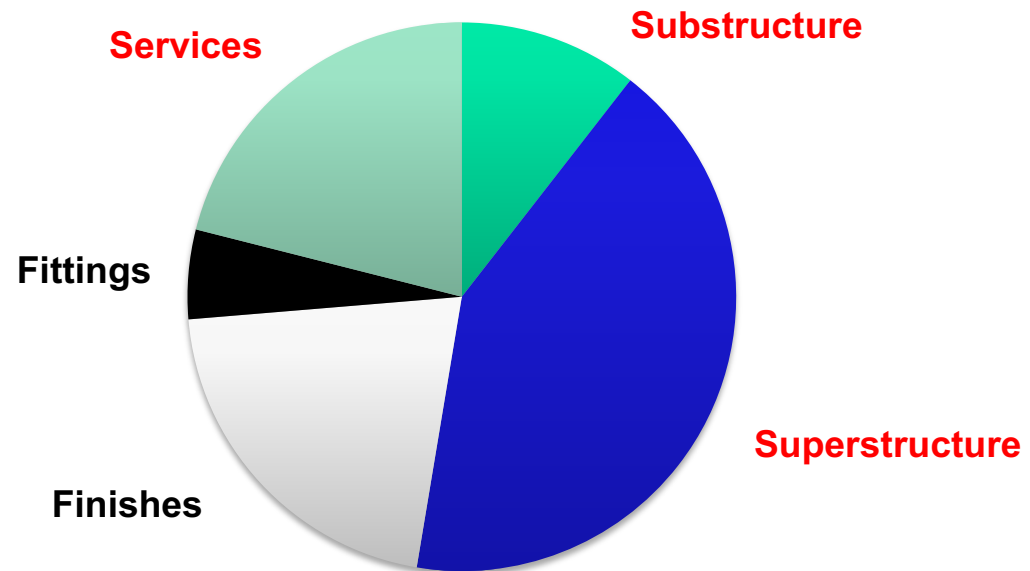
Order by: Default Showing: 1 - 19 of 19 City Trends

Showing: 1 - 19 of 19

(Property 24)

Drivers of Costs

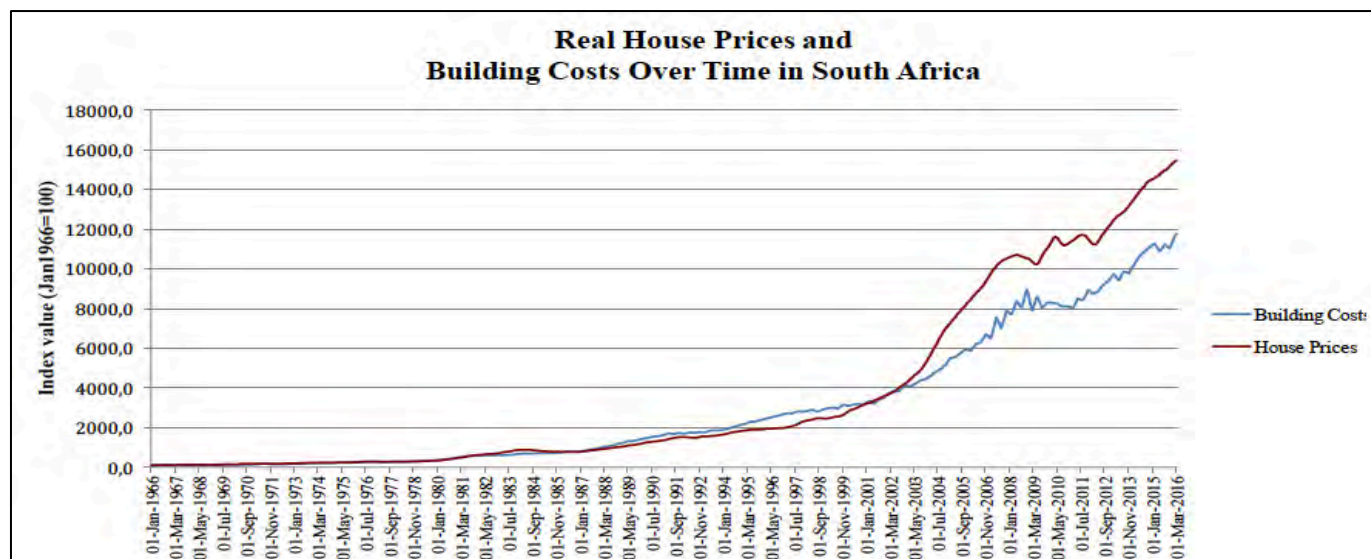
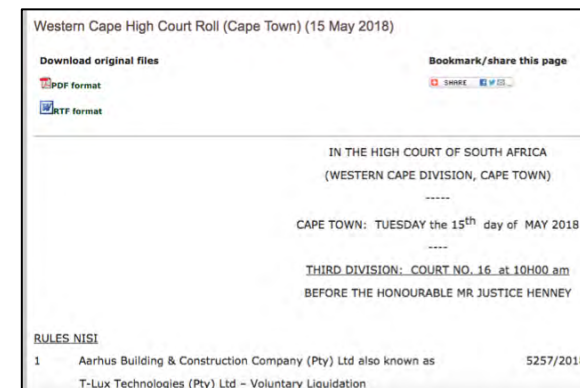
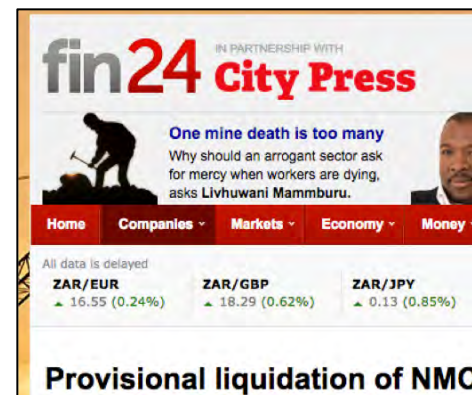
Value differs across the city, but costs are similar, except for land, size, fittings, finishes....



Drivers of Costs

Constructions costs:

- Building materials low (1,8%)
- Tender prices low (4%)
- **But:**
 - “State of the construction industry” ???
 - Exchange rate ???

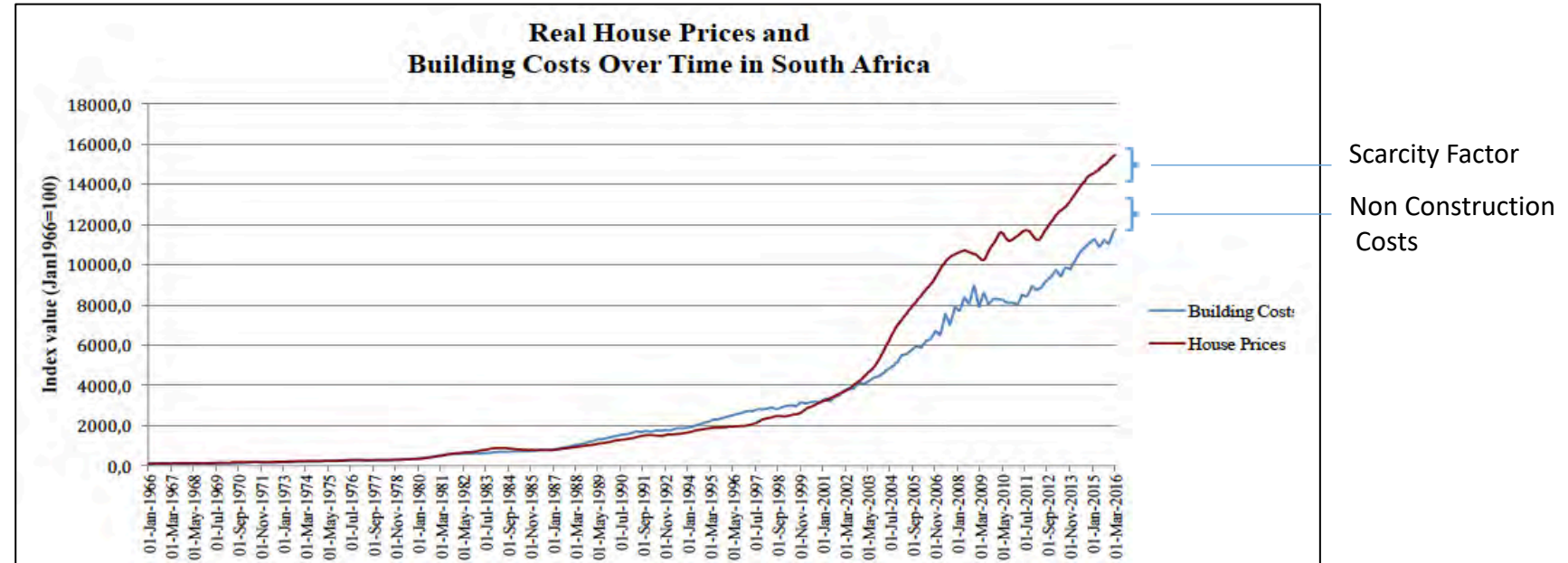


(Njokweni et al, 2016)

Drivers of Costs

Non Construction costs:

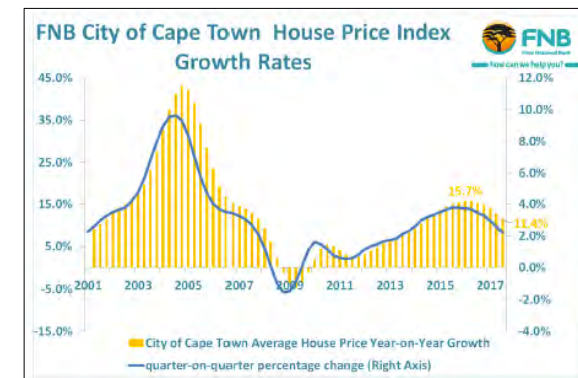
- Land
- Development process
- Standards
- Infrastructure
- Operating Costs



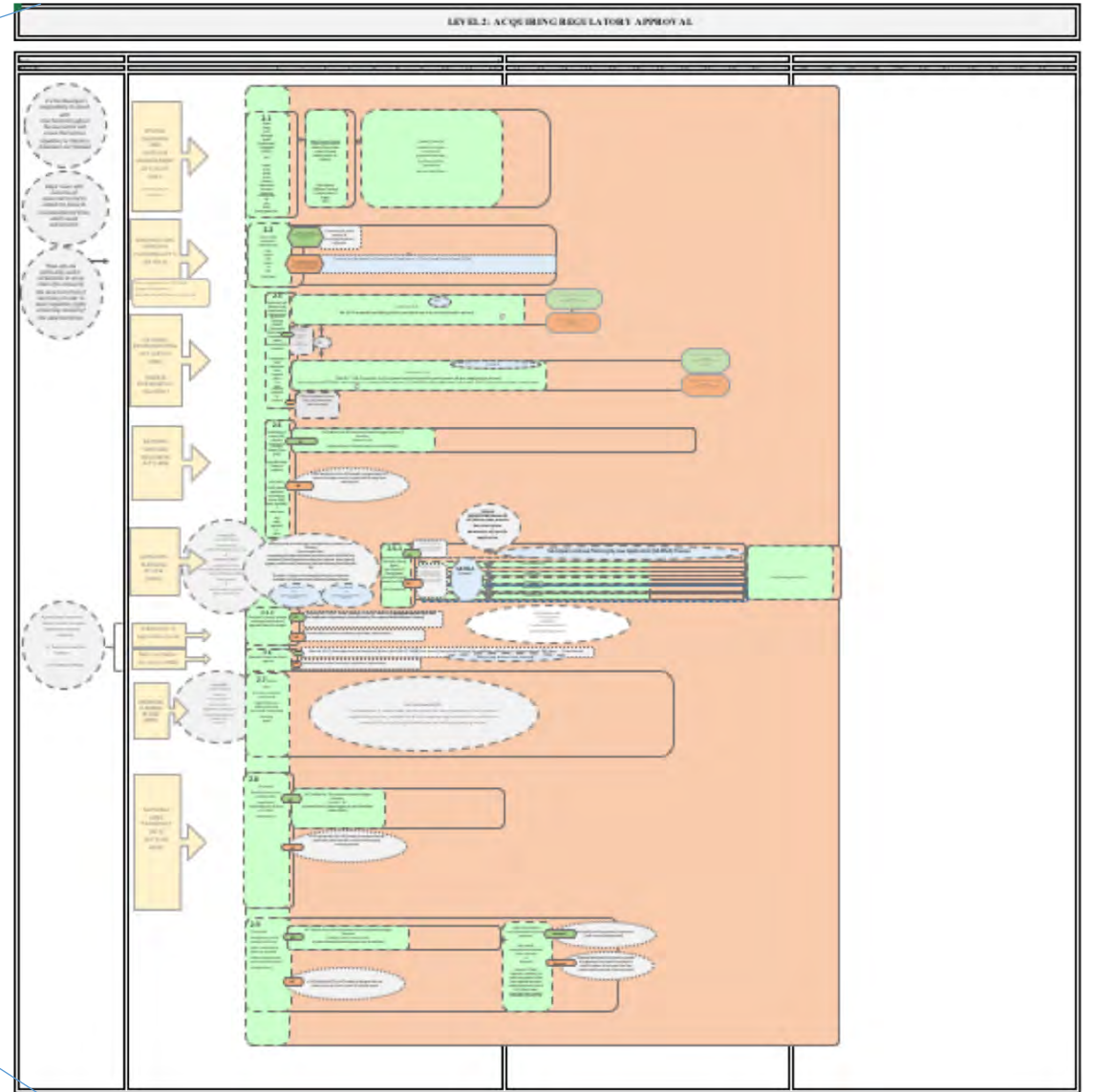
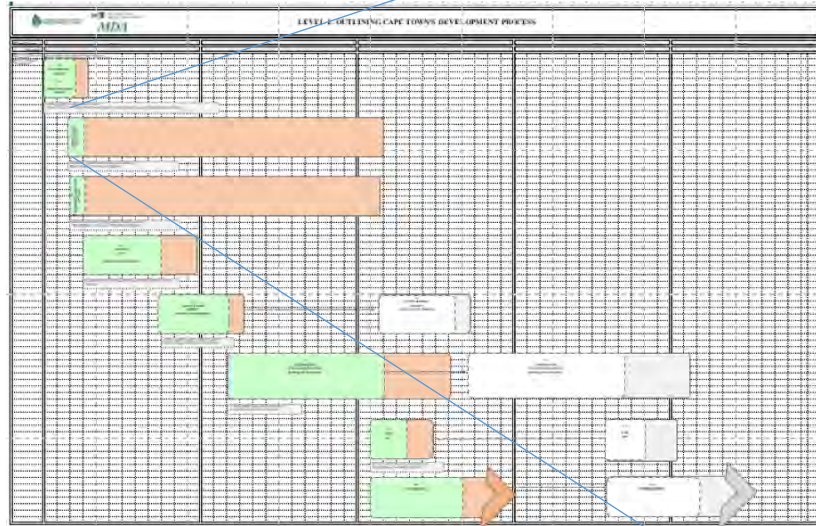
(Njokweni et al, 2016)

Non Construction Factors

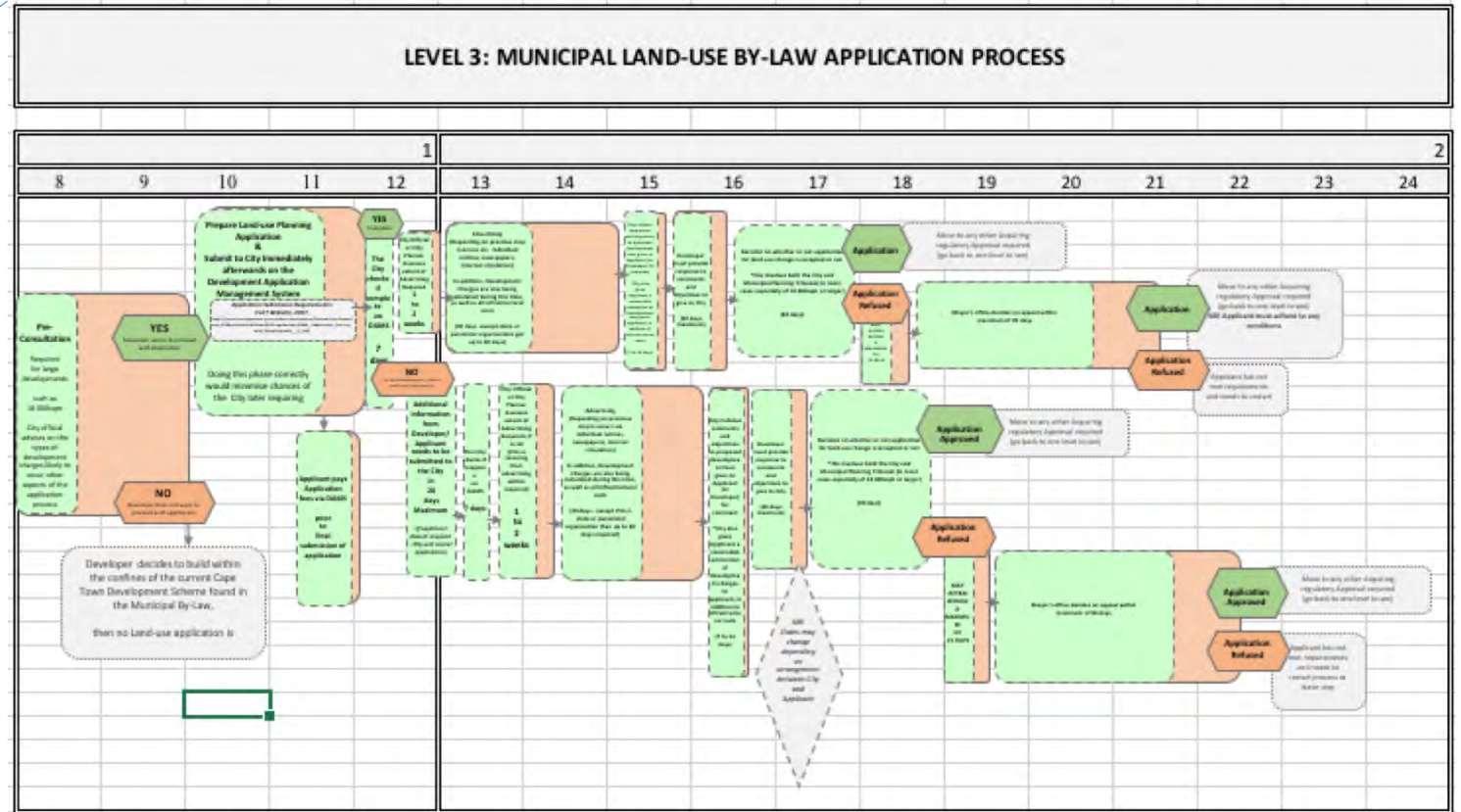
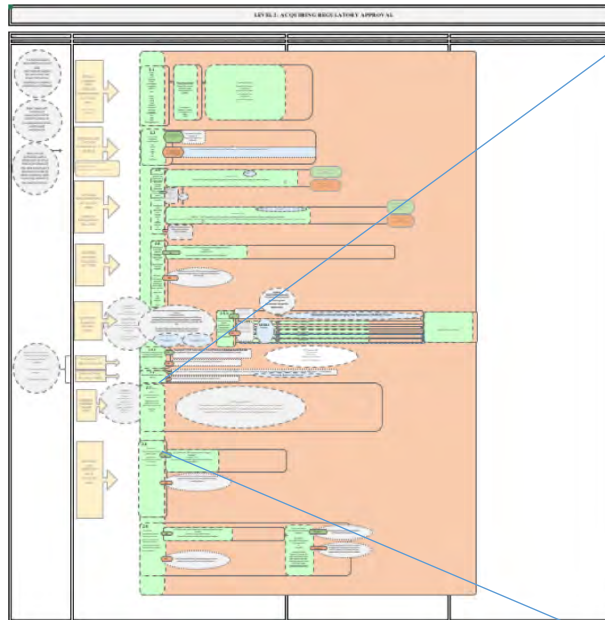
- Land prices are high because:
 - Residual Land Values of high house prices resulting from scarcity
 - Complicated "Land Production Process"
 - Tenure
 - Lack of title
 - High transaction costs
 - Rights
 - Infrastructure
- ...therefore, land with rights and infrastructure comes at a premium



Development Process



Development Process



Standards

UDC 69.009.182
ISBN 0-626-08699-X

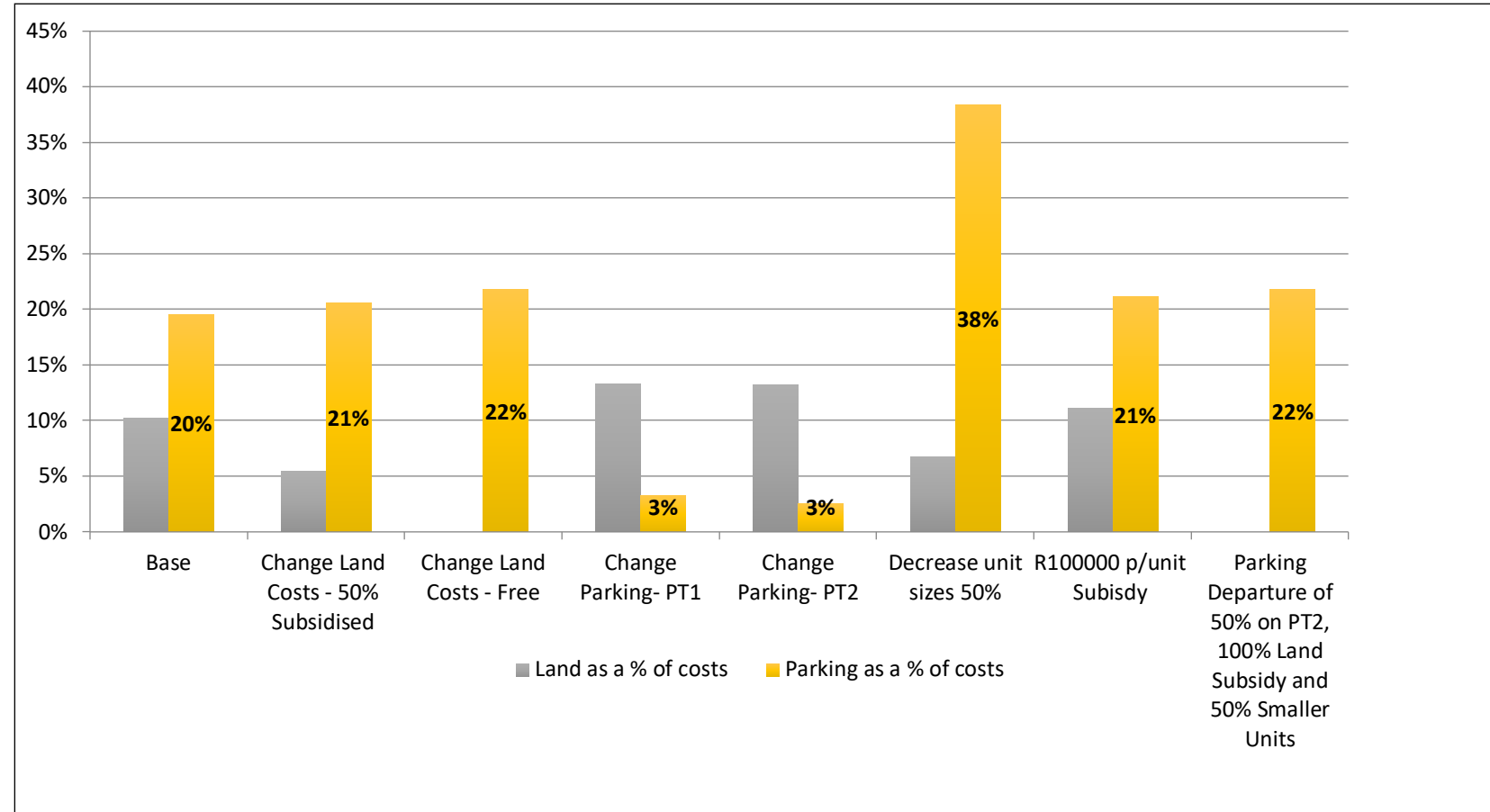
SABS 0400-1990

Please note that SANS 10400:1990 (Parts A, C, D, F, G, J, K, M, N, O, P, Q, S, T, V and W) have been superseded by edition 3.0 of SANS 10400-A:2010, SANS 10400-C:2010, SANS 10400-D:2011, SANS 10400-F:2010, SANS 10400-G:2011, SANS 10400-J:2010, SANS 10400-K:2010, SANS 10400-M:2011, SANS 10400-N:2010, SANS 10400-O:2011, SANS 10400-P:2010, SANS 10400-Q:2011, SANS 10400-S:2011, SANS 10400-T:2011, SANS 10400-V:2010, and SANS 10400-W:2011 respectively. All other parts in this publication are still current. For more information, contact info@sabs.co.za or sales@sabs.co.za.

SOUTH AFRICAN STANDARD

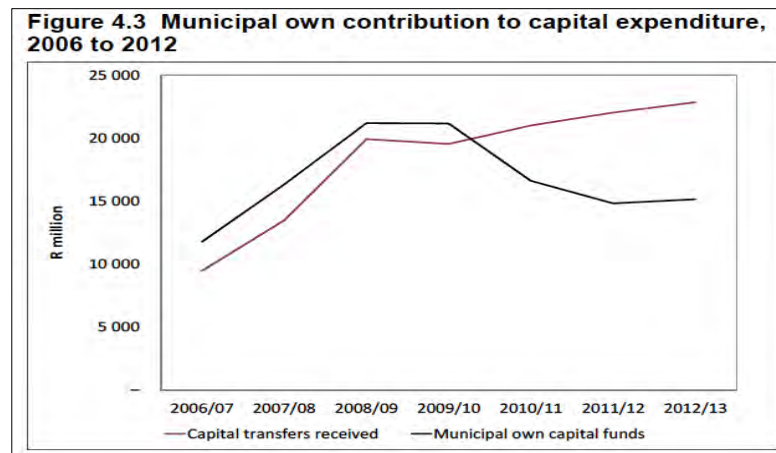
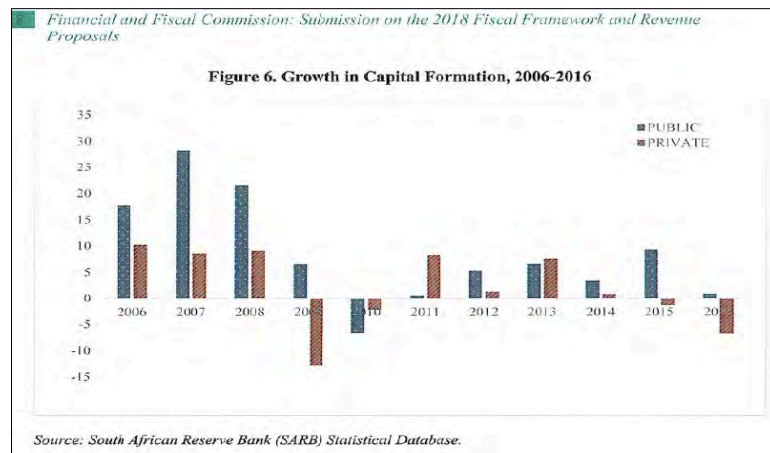
Code of Practice for

The application of the National Building Regulations

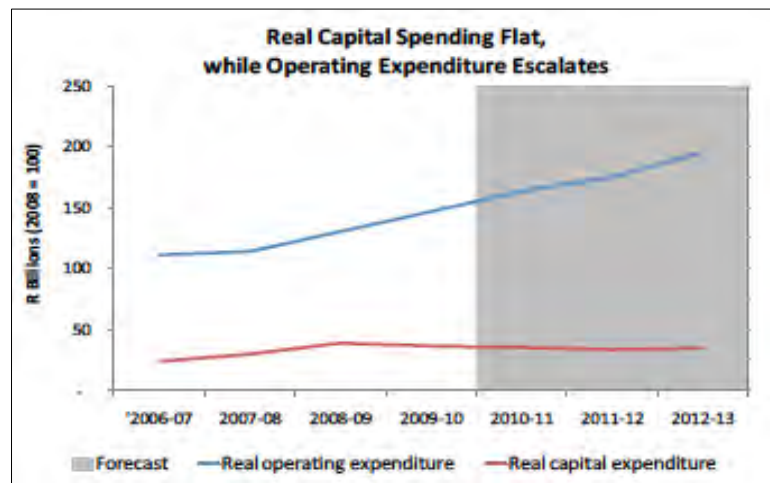


(CoCT, 2012))

Infrastructure



(Silberman, SACN)



(Silberman, SACN)

CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

Making progress possible. Together.

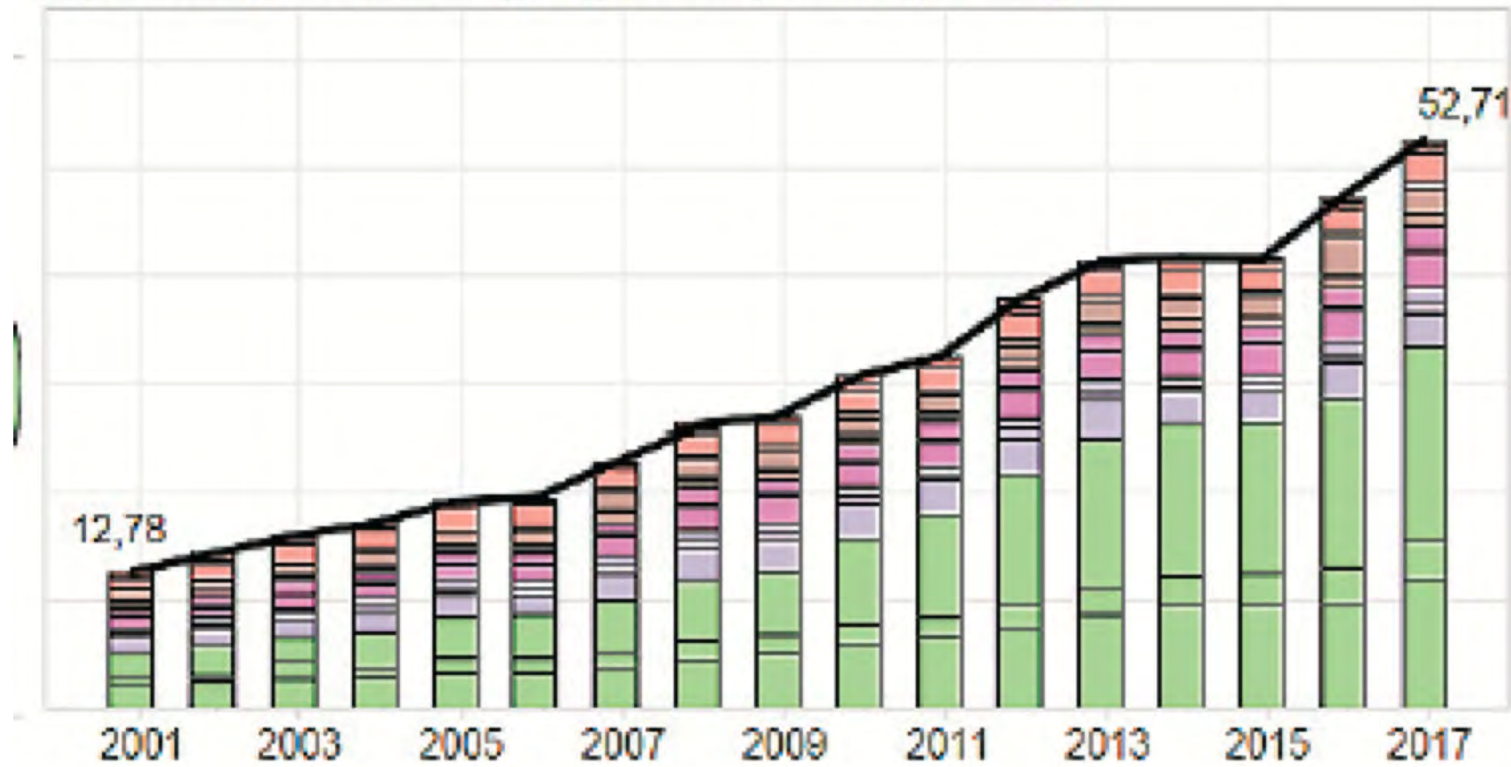
CITY OF CAPE TOWN DEVELOPMENT CHARGES

An Implementation Guide to the Development Charges Policy for Engineering Services for the City of Cape Town

28 November 2014

Operating Costs

Operating Cost category trend; Rand per sqm



So the Market is Broken

...It is not responding to a LEVEL of effective demand

OR IS IT?

Response # 1: Gentrification

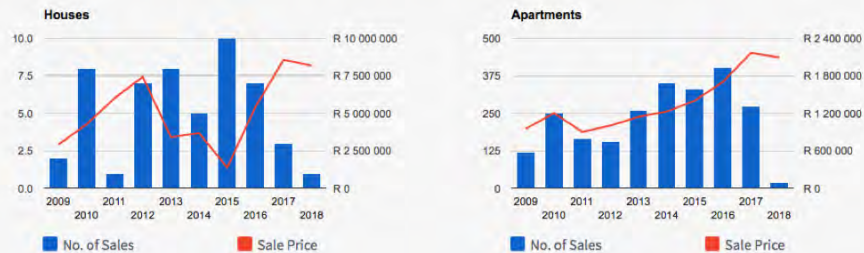
Cape Town City Centre Property Trends and Statistics

Explore these market trends to see the seasonal and long term changes in house prices and sales for **Cape Town City Centre**.

Sold Properties

[See all sold properties in Cape Town City Centre](#)

These graphs show the number of Houses and Apartments sold in Cape Town City Centre each year, and the average sale price.



(Property 24)

Unaffordable Prices



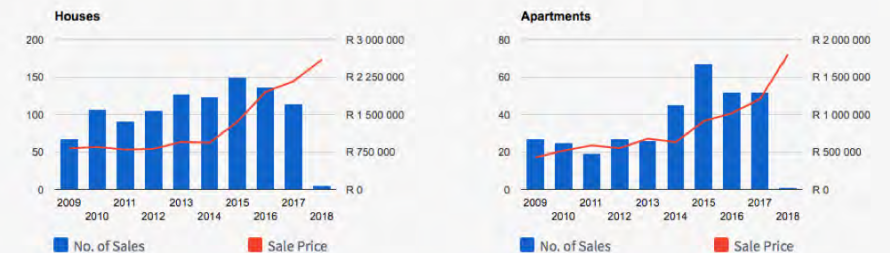
Woodstock Property Trends and Statistics

Explore these market trends to see the seasonal and long term changes in house prices and sales for **Woodstock**.

Sold Properties

[See all sold properties in Woodstock](#)

These graphs show the number of Houses and Apartments sold in Woodstock each year, and the average sale price.



Gentrification in surrounding suburbs

Estimated that over 100 000 filtered upwards out of the affordable market (6 years)

Response # 2: Smaller – “Micro Units”

VALUE		VS	COST	
Gross Rental	R5 000		Land	R4 000
Net Rental @ 30% OC	R3 500		Construction	R7 500
			Professional fees	
			Approvals	
			Finance costs	
			Marketing	
			VAT	
x 12	R42 000		Transfer fees etc.	R7 500
@ 11% loan	R381 818		Profit	R3 200
÷ 18m ²	R21 212m ²			R22 200/m ²

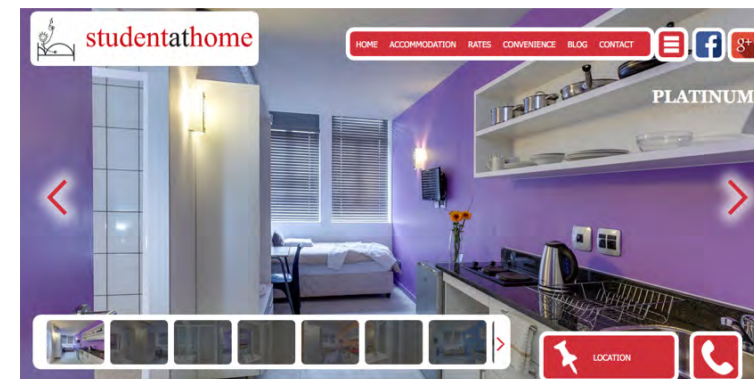
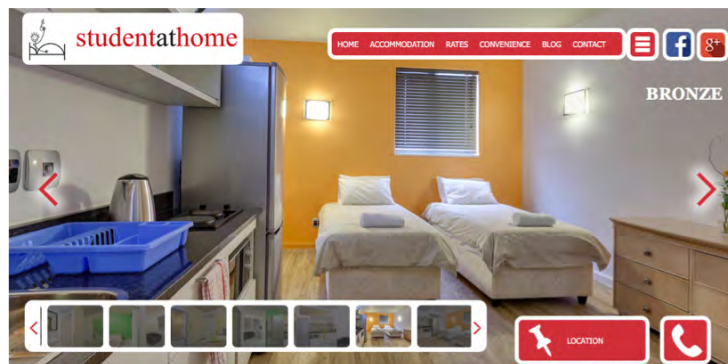
Reduce size

Increase density, public land etc.

Reduce specification & standards

Reduce specification, standards and holding period

Reduce uncertainty and holding period

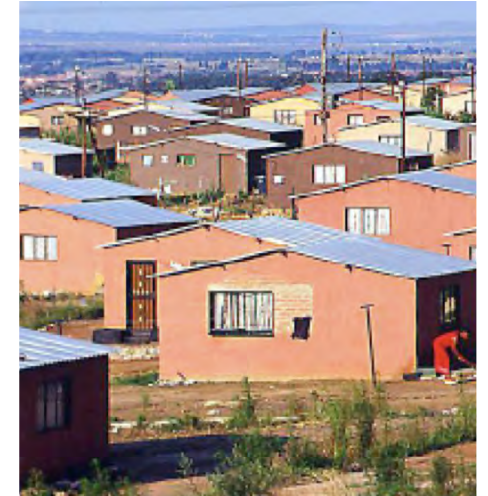


Response # 3: Back-yarding

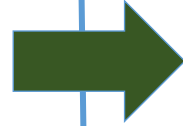


Response # 4: Redevelopment of Existing Stock

- Both through formal (legal) and informal channels
- However, this is not a binary position as often a degree of formality is achieved e.g. 6000 building plan applications in the Khayelitsha Planning District



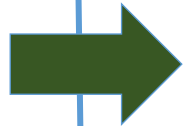
(Sapropertynews, CTCHC, Westerncapenews)



40% Return > Cost of Finance



25% Return > Cost of Finance





13 – 15% Return > Cost of Finance



Before construction



During construction

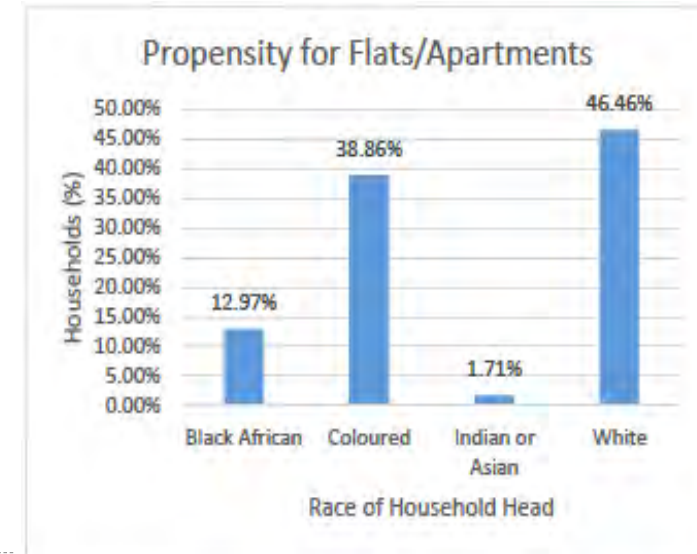


Completed project
(Timbercraft, 2017)

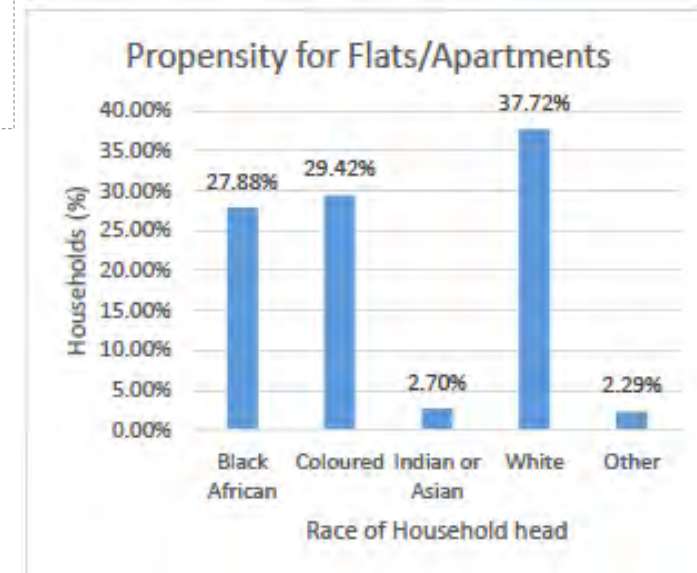
Advantages:

- Viable and therefore can be taken to scale:
 - Lower development costs:
 - No new land costs
 - Use existing infrastructure capacity
 - Use existing foundations etc.
 - Development rights usually in place
 - Smaller units = increased value per m²
- In the urban footprint:
 - Closer to existing work and other opportunities
 - Increased densities
 - Use of existing infrastructure
- Opportunity to retrofit dwellings with “Green Technology”:
 - Solar, grey-water etc.
- No subsidies
- Likely to result in better integration

Increased capital and operational efficiencies



2001



2011

(Lendor et al, 2015)

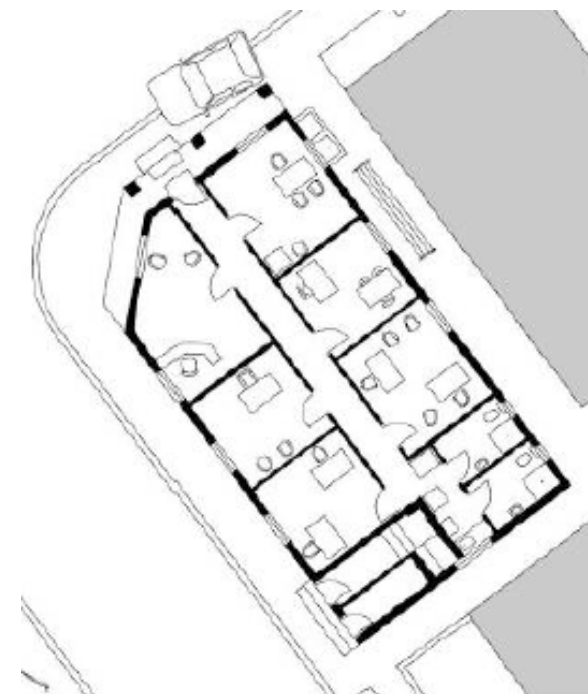
Strategy:

Address market & state failure to meet the EFFECTIVE demand of 75% of the population:

- Need to be able to viably deliver housing products at between R10 000 – R20 000/m² in well - located areas. Must address the “land production process”:
 - Land – state land?
 - Rights – process – multiple processes and approving authorities
 - Standards – assess cumulative impact/protect the “unprotected”
 - Infrastructure – LBF – Foreshore?
- Leverage existing stock
 - Majority of housing
 - Well-located
 - Allows for spatial transformation – equity
 - Thresholds for existing infrastructure and services
 - Potential – 485 000 single residential houses
 - Depreciated costs
 - Avoid many of the land production hurdles

Interventions:

- Ensuring infrastructure capacity
- Facilitating development rights
 - EIA/Heritage
 - Building plans
- Innovation in building materials
 - Light-weight
 - Cost-effective
- Innovations in technology
 - Solar, grey-water etc.
- Innovations in “small-scale” finance
- Innovations in design



(Wolff, 2011)



APPLICATION FOR A PERMIT

Section 34 / Section 27

TO DESTROY, DAMAGE, DEFACE, EXCAVATE, ALTER OR REMOVE FROM ITS ORIGINAL POSITION, SUBDIVIDE OR CHANGE THE PLANNING STATUS OF A PROVINCIAL HERITAGE SITE, OR A PROVISIONALLY PROTECTED PLACE,
OR

ALTER OR DEMOLISH ANY STRUCTURE OR PART OF A STRUCTURE OLDER THAN 60 YEARS

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