AFFORDABLE HOUSING IN CAPE TOWN

Rob McGaffin

August 2017

Affordable for whom?

Cape Town Monthly Household Income	Black African		Coloured		Asian		White		Other		Total	
	Num	%	Num	%	Num	%	Num	%	Num	%	Num	%
No income	85 427	19.2%	37 399	10.4%	1 542	10.8%	19 522	8.4%	2 627	14.5%	146 517	13.7%
R 1 - R 1 600	120 800	27.2%	53 104	14.8%	965	6.8%	7 445	3.2%	2 754	15.2%	185 068	17.3%
R 1 601 - R 3 200	102 325	23.0%	55 849	15.6%	966	6.8%	8 633	3.7%	3 051	16.9%	170 824	16.0%
R 3 201 - R 6 400	64 708	14.5%	66 488	18.5%	1 459	10.2%	18 853	8.1%	2 919	16.2%	154 427	14.5%
R 6 401 - R 12 800	35 420	8.0%	62 286	17.4%	2 149	15.1%	37 117	15.9%	2 376	13.1%	139 348	13.0%
R 12 801 - R 25 600	20 520	4.6%	47 952	13.4%	2 852	20.0%	53 255	22.9%	2 046	11.3%	126 625	11.8%
R 25 601 - R 51 200	10 835	2.4%	26 390	7.4%	2 564	18.0%	51 619	22.2%	1 452	8.0%	92 860	8.7%
R 51 201 - R 102 400	3 122	0.7%	6 889	1.9%	1 240	8.7%	26 190	11.2%	577	3.2%	38 018	3.6%
R 102 401 or more	1 615	0.4%	2 257	0.6%	523	3.7%	10 151	4.4%	268	1.5%	14 814	1.4%
Unspecified	9	0.0%	15	0.0%	6	0.0%	41	0.0%	2	0.0%	73	0.0%
Total	444 781	100.0%	358 629	100.0%	14 266	100.0%	232 826	100.0%	18 072	100.0%	1 068 574	100.0%

75%

(Census, 2011)

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Affordable for whom?

- But we need to segment and understand the sub-markets better…not all households are the same
- Yes, income is important but so is age, stage of life, size, location etc.

Saying we have a

- Subsidy
- "Gap"
- Bonded

Housing market

…is like the Unilever marketing people saying...

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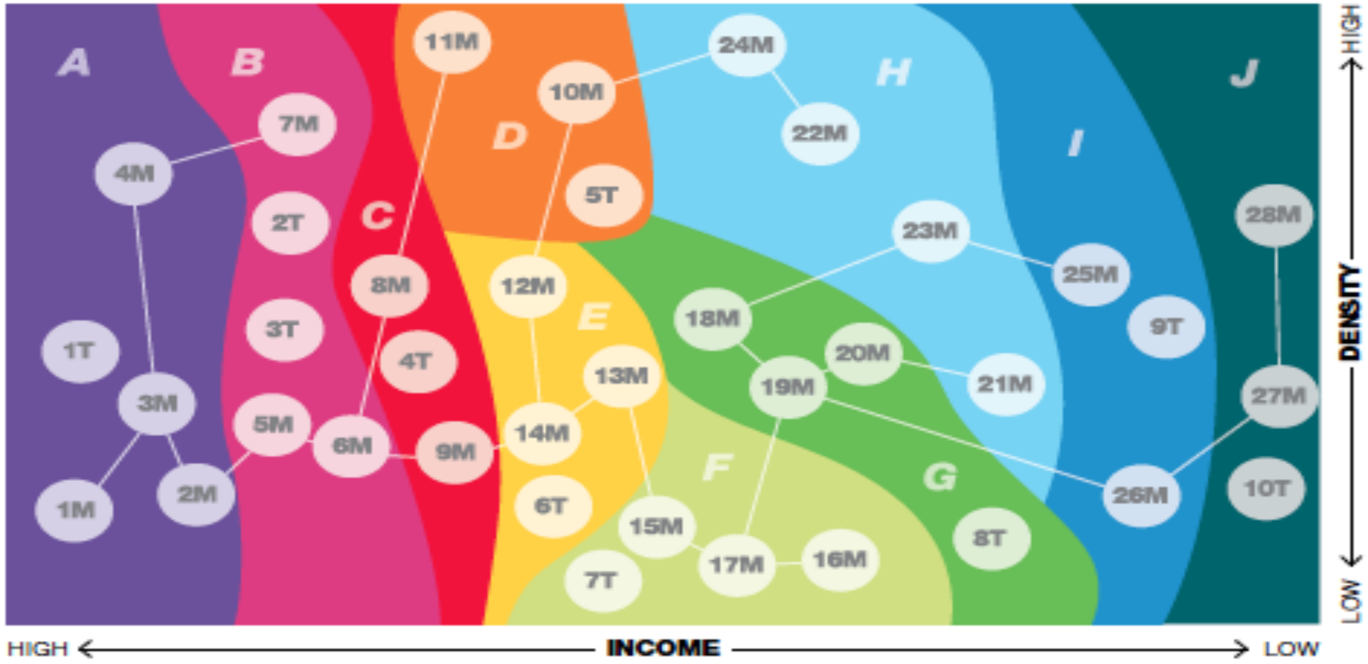
The Family Tree

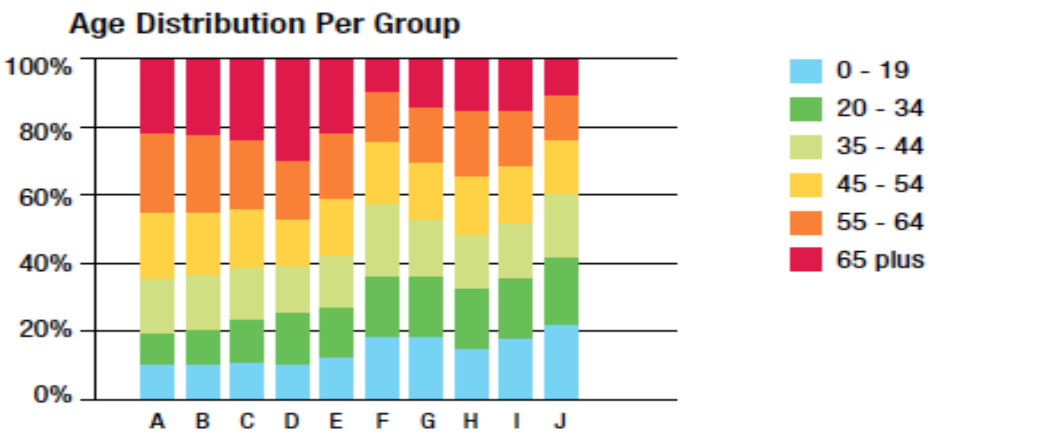
How to interpret the family tree

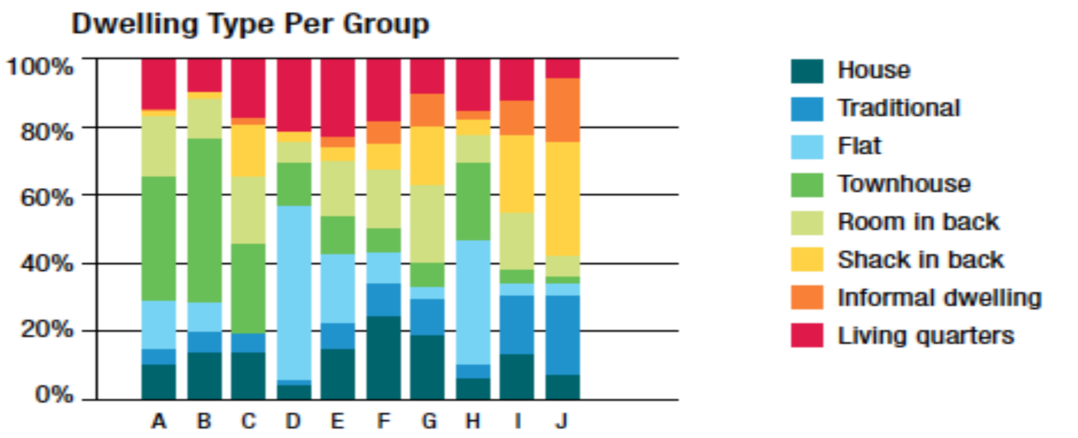
The family tree runs roughly from high to low income as one moves from left to right and high to low density from top to bottom. Cluster 4M can therefore be described as "high income, high density". The linkage indicated on the family tree shows which customers are closest in profile. Cluster 4M – high income, high density, (exclusive cluster homes and expensive but small homes) – is relatively close to cluster 7M – slightly lower income, high density, (cluster homes and townhouses).

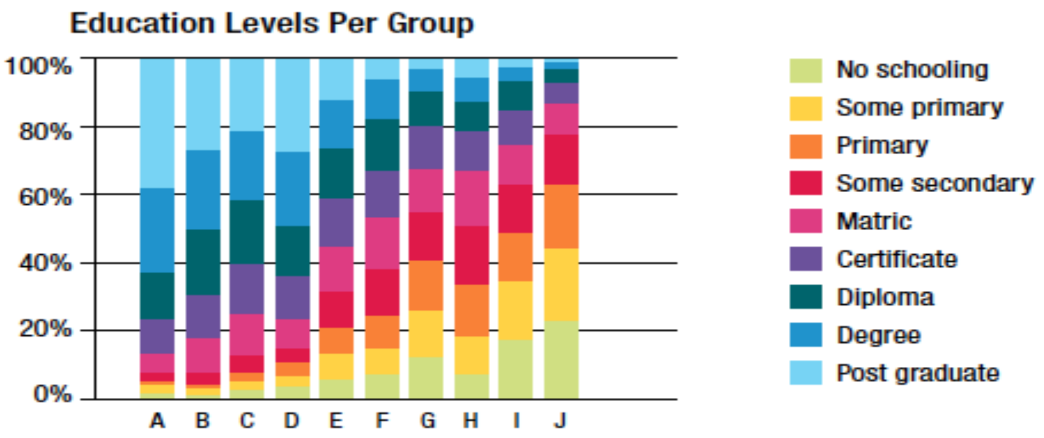


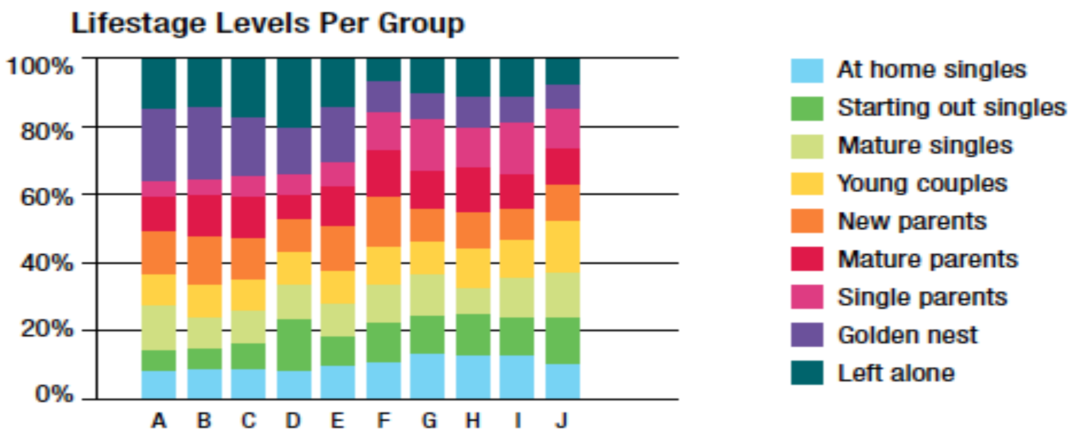
clusterplus

ESTATE
UNIT


Age Distribution Per Group
100%
80%
60%
40%
20%
0%
A B C D E F G H I J
0 - 19
20 - 34
35 - 44
45 - 54
55 - 64
65 plus


Dwelling Type Per Group
100%
80%
60%
40%
20%
0%
A B C D E F G H I J
House
Traditional
Flat
Townhouse
Room in back
Shack in back
Informal dwelling
Living quarters


Education Levels Per Group
100%
80%
60%
40%
20%
0%
A B C D E F G H I J
No schooling
Some primary
Primary
Some secondary
Matric
Certificate
Diploma
Degree
Post graduate


Lifestage Levels Per Group
100%
80%
60%
40%
20%
0%
A B C D E F G H I J
At home singles
Starting out singles
Mature singles
Young couples
New parents
Mature parents
Single parents
Golden nest
Left alone

Affordable for whom?

- But we need to segment and understand the sub-markets better…not all households are the same
- Yes, income is important but so is age, stage of life, size, **location** etc.

Saying we have a
- Subsidy
- "Gap"
- Market

Housing market
…is like the Unilever marketing people saying...

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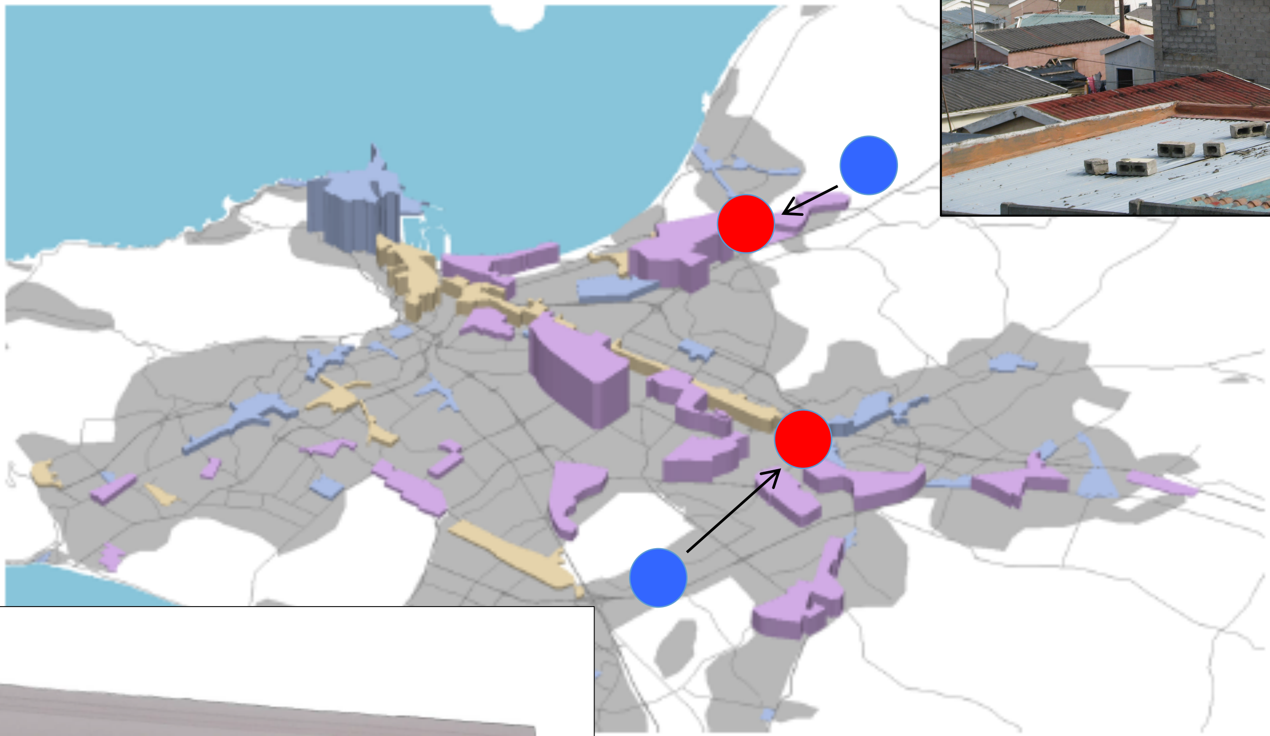

(ECAMP, 2015)

URERU Research…

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(ECAMP, 2015)

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THE CENTRAL CITY IN NUMBERS

The following figures give an overall viewpoint of private and public enterprise across the entire Central City as these stood in December 2016 when research undertaken[1] for this publication was analysed. These numbers are broken down further in Section 2 of this publication (containing high-level overviews of various sectors), as well as precinct-by-precinct in Section 3 in order to reflect the specific nature and characteristics of the four different "neighbourhoods" in the Central City.

THE VALUE OF CENTRAL CITY PROPERTY

R30 628 149 724

The City of Cape Town's most recent official property valuations report (as at 2016-17) shows the overall nominal value of all property in the CBD to be R30 628 149 724.

In addition, to this, there is currently (conservatively) R12.065 billion of property currently under construction, planned or proposed for the Central City, to be completed by 2020 (and including those that were completed late in 2016).

1 The external and independent resources that have been used throughout this publication are cited in Sections 2 and 3, as well as in the acknowledgements at the end.

BUSINESSES IN THE CBD

The following indicate in which categories and subcategories the 3 061 entities doing business in the Central City operate. These exclude government facilities, which are listed elsewhere on these pages.

40 EMPLOYMENT & RECRUITMENT AGENCIES

97 EDUCATIONAL INSTITUTES & RESOURCES
- 82 Education
- 3 Libraries
- 12 Museums

92 ARCHITECTURE, ENGINEERING & SURVEYING
- 53 Architecture
- 32 Engineering
- 7 Surveying

217 FINANCE, INVESTMENT, INSURANCE & BANKING
- 30 Accountants
- 25 Business development
- 103 Financial services & banking
- 36 Insurance brokers
- 23 Investment companies

297 ENTERTAINMENT (INCLUDING CLUBS, THEATRES, BARS & EATERIES)
- 11 Adult entertainment
- 69 Bars & clubs
- 4 Conference venues inside complexes
- 209 Eateries (see more below)
- 4 Theatres or places of performance

54 FREIGHT, CUSTOMS BROKERING, SHIPPING & IMPORT/EXPORT
- 12 Freight forwarding & customs brokering
- 12 Import & export
- 30 Shipping companies

172 ACCOMMODATION & TRAVEL
- 65 Accommodation venues (including student hostels)
- 21 Embassies
- 86 Travel services

37 ART & DESIGN STUDIOS

58 PROPERTY & REAL ESTATE

678 LEGAL SERVICES (FROM ADVOCATE OFFICES TO LAW FIRMS)

79 COMMUNICATIONS, MEDIA & ADVERTISING
- 32 Communications & advertising
- 29 Film & TV companies
- 18 Media companies

28 GENERAL CORPORATE OFFICES (INCLUDING HEAD OFFICES)
- 7 Corporate head offices
- 10 Energy companies
- 8 Food companies
- 3 Mining companies

40 HEALTH & BEAUTY (INCLUDING SPAS & GYMNASIUMS)

96 MEDICAL PRACTICES

189 SPECIALIST SERVICES
- 5 Courier services
- 184 Other specialist services companies

102 NPOS, INDUSTRIAL COUNCILS & PARASTATALS
- 22 Industrial councils
- 39 Non-profit organisations
- 6 Parastatals
- 10 Political parties
- 25 Religious services/places of worship

654 RETAIL SALES, ADMINISTRATION, MANUFACTURING & DISTRIBUTION
- 19 Clothing manufacturers & distributors
- 627 Retail (see top right)
- 8 Retail administration

131 ICT & TELECOMMUNICATIONS (INCLUDING CALL CENTRES)
- 37 Call centres
- 71 ICT
- 23 Telecommunications

GOVERNMENT FACILITIES

THERE IS A TOTAL OF 182 GOVERNMENT FACILITIES, BROKEN UP INTO:

NATIONAL	PROVINCIAL	LOCAL
109	38	35
60%	21%	19%

Total number of government employees: 22 638

Total number of general public using these facilities daily: 29 317

RETAIL

Of the 627 retail outlets, the top 20 retail types are (by numbers of venues):

Clothing	137
Jewellery	75
Furniture, lighting & decor	56
Motor & related	49
Hair salons	47
Galleries	31
Cellphones & accessories	27
Specialty	26
Superettes (independent)	22
Electronic, photography & music	20
Health & beauty	19
Curios	17
Sports & outdoors	16
Books, cards & stationery	12
Liquor	12
Hardware & locksmiths	11
Department stores (national chains)	10
Printing, copying & lamination	10
Tailors	7
Eyewear/opticians	6

The balance of 17 outlets include those dealing in adult entertainment, plumbing & bathroom fittings, postage & courier, fabrics & haberdashery, auctioneers, DVD rentals, floristry, and educational toys.

COMMERCIAL & RETAIL SPACE

1 042 605m² total rentable commercial space available in the CBD, of which 105 319 was available at December 2016

91% the average occupancy rate across all grades of commercial property in Q4 2016 (up from 90% Q4 2015)

279 579m² total rentable retail space available in the CBD, of which it was estimated 95% was occupied as at Dec 2016

EATERIES

There are 209 eateries whose primary function is to serve food.

OF THESE:
- 131 or 62% are RESTAURANTS, of which 11 (8%) also function as bars/clubs
- 45 or 22% are FAST FOOD/TAKEAWAY OUTLETS
- 33 or 16% are COFFEE SHOPS

OF THESE:
- 69 or 33% are open after 18h00
- 16 or 8% are open seven days a week

LIVING IN THE CENTRAL CITY

There is currently a total of 57 RESIDENTIAL COMPLEXES, including those under construction as of 31 December 2016.

During 2016, a total number of 228 units were sold against a total value of R533m.

Average price per unit	Average size per unit	Average price per m²
R2.337m	71m²	R33 921

In December 2016, there were 116 units available to rent, against the following average rentals per month:

STUDIO/ BACHELOR	ONE BEDROOM	TWO BEDROOM	THREE BEDROOM
R10 808	R15 081	R22 280	R27 500

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25%

(Census, 2011)

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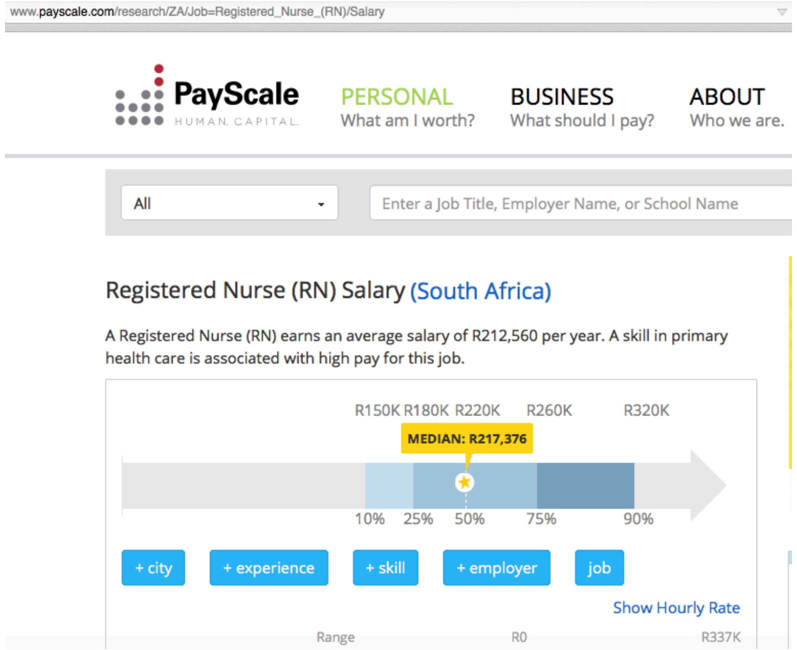
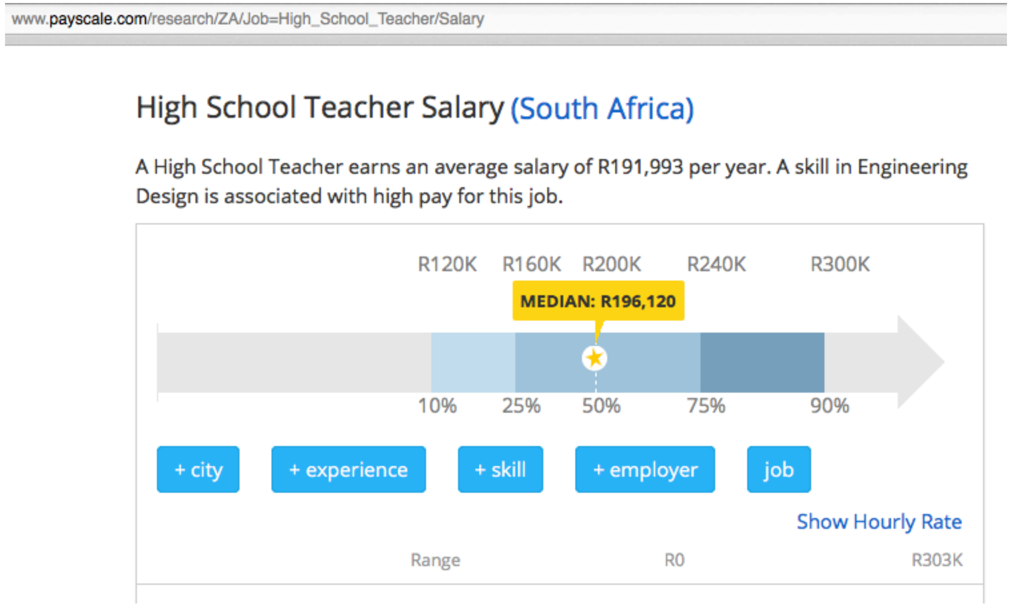
Affordable for whom?





...UCT QS Graduate: R150 000
...Call Centre Operator: R100 000 – R120 000
(37 Call Centres in the CBD [CCID])

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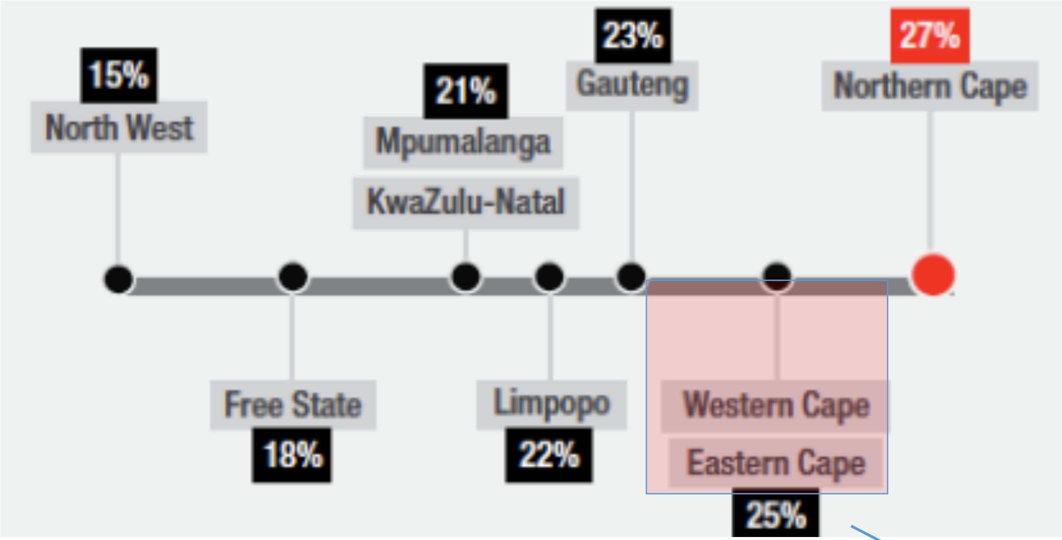
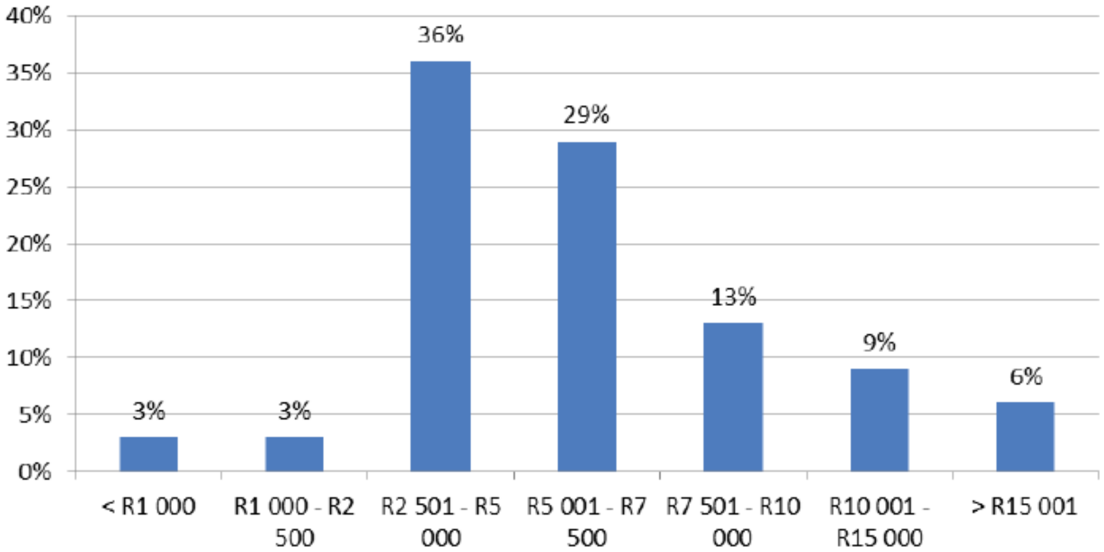
Rent to Income Ratio (Payprop, 2016)



Western Cape Rentals (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%

At 25% of income = R3 500 – R5 000 rental pm

But average rental in Cape Town is R8 000 pm and R15 000 pm in the CBD (Rode, CCID, Payprop)

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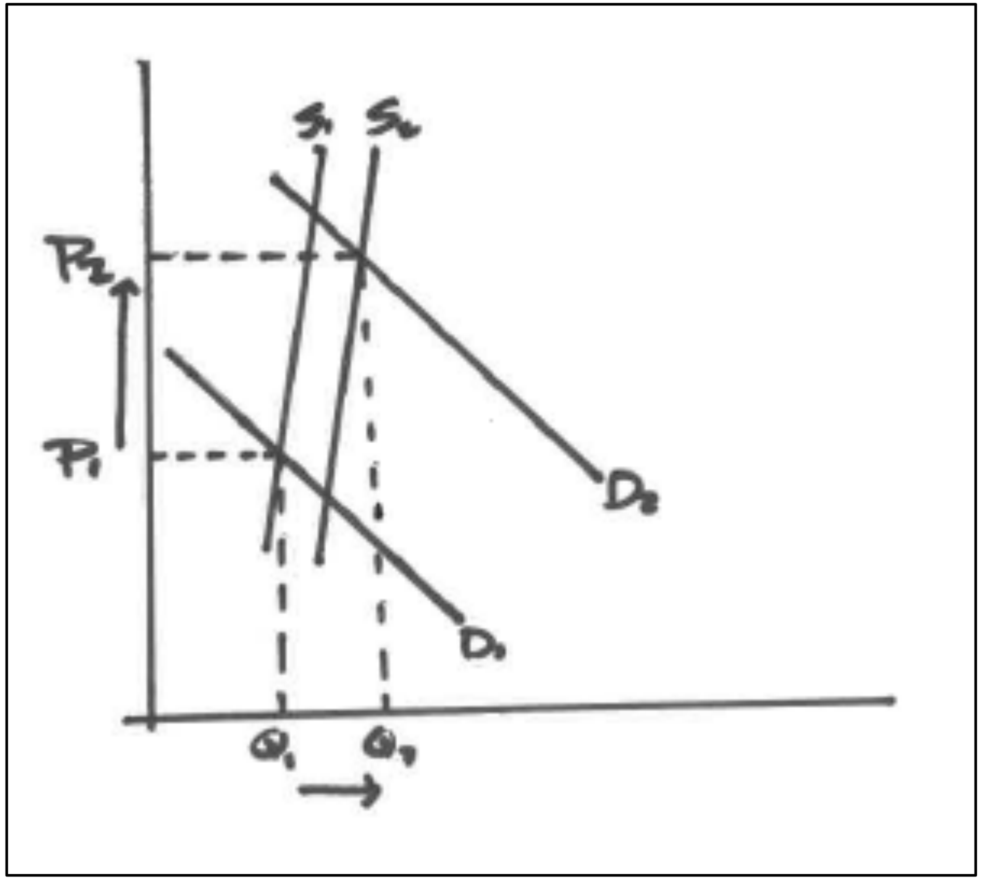
Why so expensive?

HOUSEHOLD vs HOUSING GROWTH		
	2017	5 Years
Estimated Number of Households*	1 200 000	1 311 959
Estimated Number of Formal Houses*	880 000	952 689
Estimated Shortfall (excl. over-crowding)*	320 000	359 269
Estimated Household Growth PA*	1,80%	
Estimated House Growth PA*	1,60%	
*Own calculation (STATSSA, CoCT)		
House Price Growth (Rode, Lightstone)	8 - 11%	
Rental Growth (Rode, Payprop)	7 - 10%	

Limited supply:



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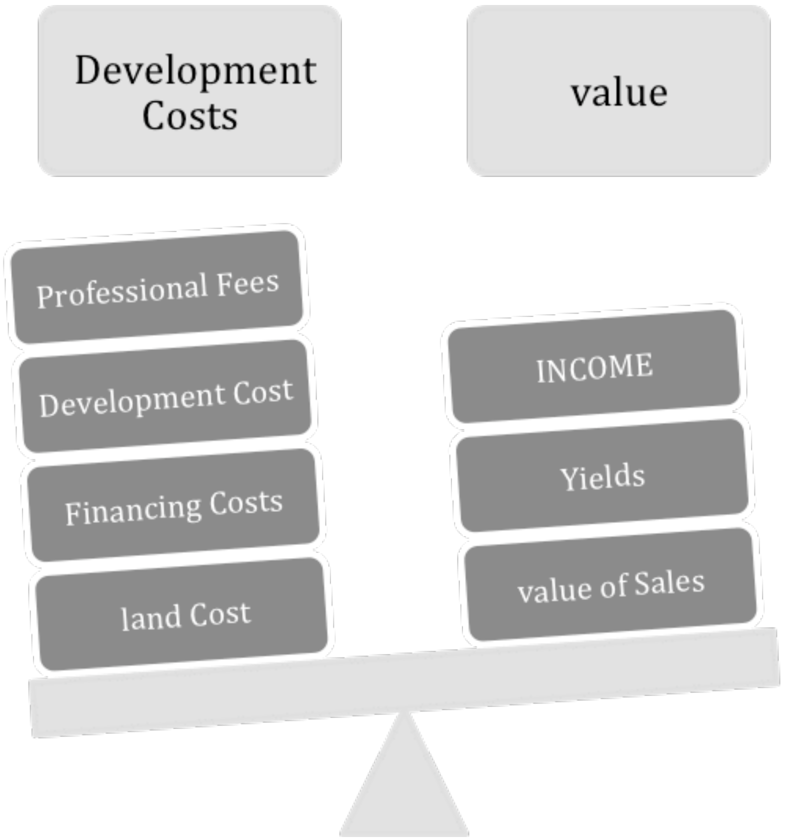
Why is supply so limited?

The value vs cost equation is working the wrong way



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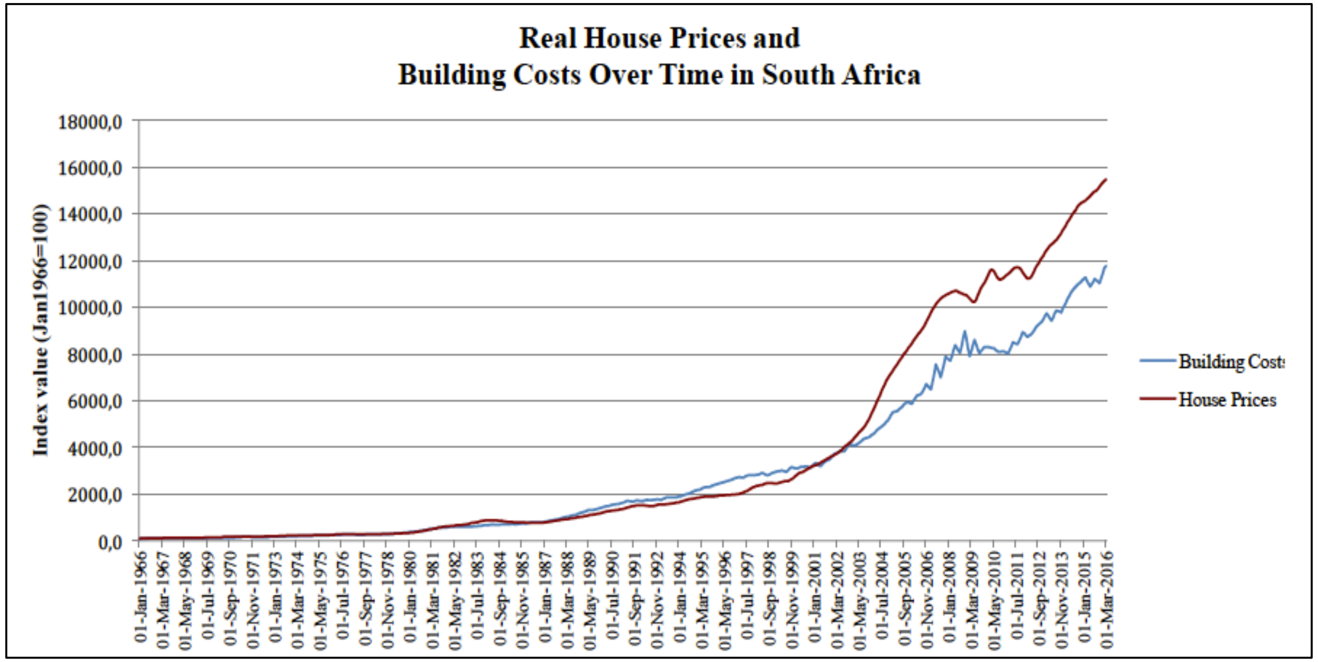
What are driving the costs?

Constructions costs:

- Building materials low (1,8%)
- Tender prices low (4%)

Non Construction costs:

- Land
- Development process
- Standards



(Njokweni et al, 2016)

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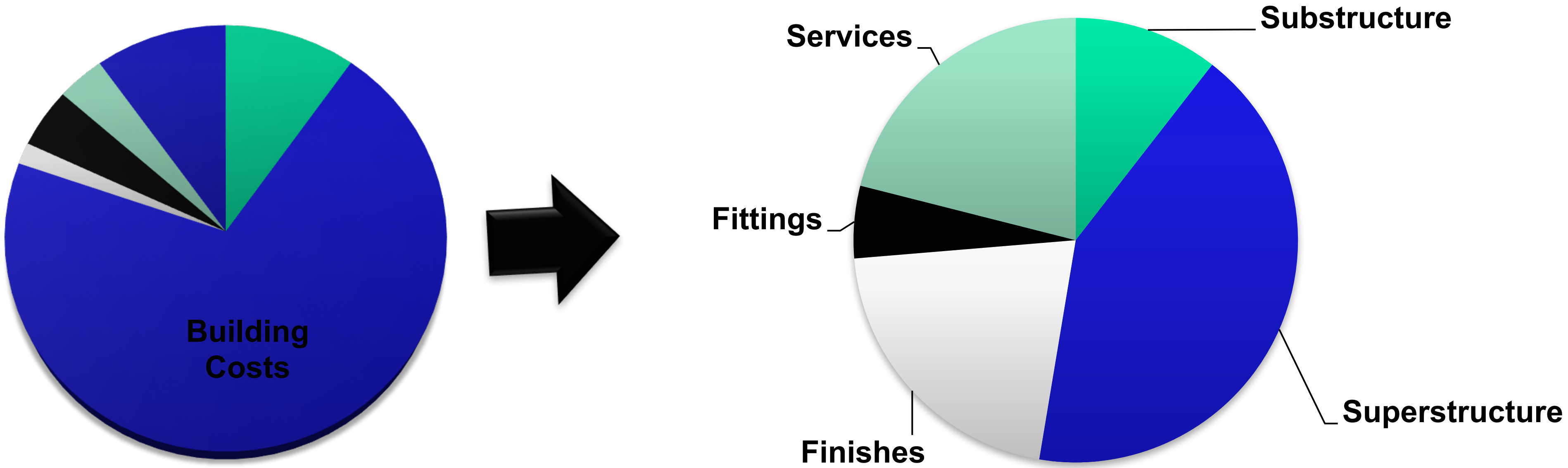

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VALUE		VS	COST	
Gross Rental	R15 000		Land	R8 000
Net Rental @ 30% OC	R10 500		Construction	R10 000
x 12	R126 000		Professional fees Approvals Finance costs Marketing VAT Transfer fees etc.	R10 000
@ 11% loan	R1 145 454		Profit	R7 000
÷ 50m2	R22 909/m2			R35 000/m2

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VALUE		VS	COST	
Gross Rental	R5 000		Land	R8 000
Net Rental @ 30% OC	R3 500		Construction	R10 000
x 12	R42 000		Professional fees Approvals Finance costs Marketing VAT Transfer fees etc.	R10 000
@ 11% loan	R381 818		Profit	R7 000
÷ 50m2	R7 636/m2			R35 000/m2

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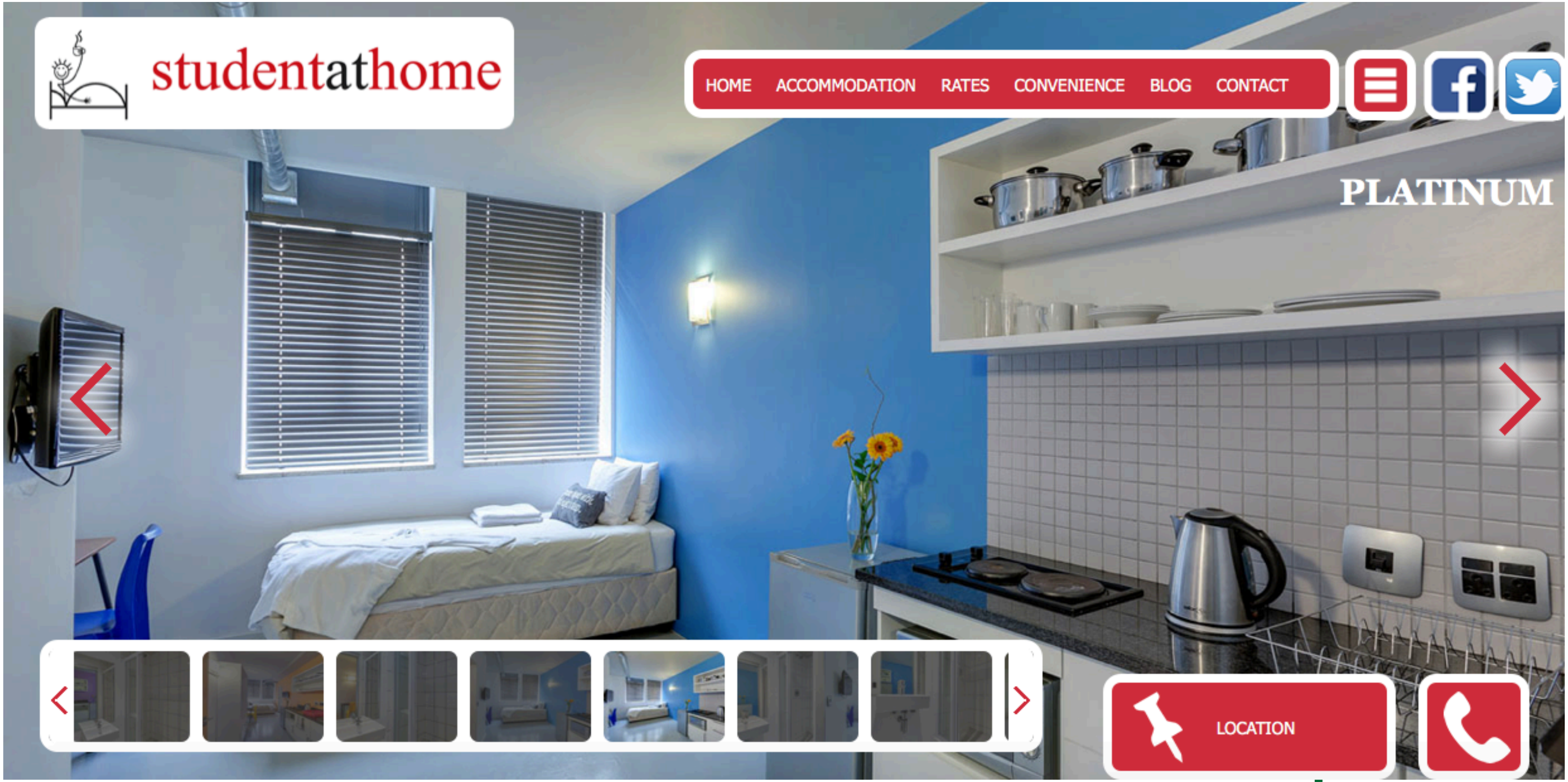
	VALUE		VS	COST		
	Gross Rental	R5 000		Land	R4 000	Increase density, public land etc.
	Net Rental @ 30% OC	R3 500		Construction	R7 500	Reduce specification & standards
				Professional fees		
				Approvals		
				Finance costs		Reduce specification, standards
				Marketing		and holding period
				VAT		
	x 12	R42 000		Transfer fees etc.	R7 500	
	@ 11% loan	R381 818		Profit	R3 200	Reduce uncertainty and holding period
Reduce size	÷ 18m2	R21 212m2			R22 200/m2	



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Conclusion:

- Geography is important
- Affordable to whom – segment the market
- Problem not only at the low end
- Market conditions and low incomes make it difficult but we exacerbate the problem with layered regulations, unrealistic standards and delayed decisions
- If we understand the economics, we can intervene effectively

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