

Cape Town's Residential Property Market

Size, Activity, Performance



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Foreword

Cape Town's residential property market is a major asset for the city. At the end of 2015, Cape Town's 703 801¹ residential properties were worth R807 billion. The bulk of this value (77%) was held by property owners of houses worth more than R1,2m: one third of the properties in Cape Town at the end of 2015 represented just over three-quarters of the value. The ratio is reversed for the property owners of the city's lowest value properties. In this case, properties worth less than R300 000 comprised about a third of total stock, but only 3% of total value. This imbalance is a major challenge for city government as we work to build inclusive property markets that serve all our residents and the city as a whole.

Our city is fortunate to have a vibrant and well-functioning luxury property market, and significant land values that make it one of the most sought-after property markets in the country. And yet, this market serves only a small proportion of our population, and creates very real challenges in terms of our goals for housing affordability and inclusive growth. We would like to extend our locational benefits – the value that our sea and mountains create - to all of our residents, so that we not only achieve our constitutional obligation to ensure access to adequate housing on a progressive basis, but also leverage the value of the property asset for the benefit of all our residents, and to support our goals for economic and spatial transformation.

This report sets out our current analysis of housing market dynamics in Cape Town, and draws on data and analysis provided by the Centre for Affordable Housing Finance in Africa, as well as our own data from the City of Cape Town. The report explores the size, activity and performance of Cape Town's residential property market, on a segmented basis, highlighting areas of opportunity, points of challenge, and options for maximizing the performance of housing for the benefit of all residents, wherever they live in our city.

The breadth of analysis possible is extensive – this report is a first step, an introduction, to Cape Town's residential property market. Over time, we will continue to track the metrics set out in this report – and develop new ones – to monitor and guide the interventions that we make towards creating a city that is sustainable and inclusive, with a well-performing property market that meets the needs of all of its residents.

As we move forward, our ability to track and monitor property market performance across all of our properties, from the highest to the lowest value, including both formal and informal market activity, ownership and rental, will enhance our ability as a city to provide support. This is a fundamental role of municipal government: to support the productive performance of the housing asset for both individual households and the society at large, so that the homes we live in contribute substantially to the breadth of our goals for our democracy and growth as a city and its residents. Understanding what is going on, and for whom different aspects of the market are working or are under performing, is the first step.

¹ These figures are derived from municipal valuations property records, and thus by definition do not include unregistered informal settlements or unregistered backyard dwelling units.

Executive Summary

Cape Town's residential property market comprises 703 801 properties², spread across 770 neighbourhoods (also known as sub-places), with prices ranging from as much as R25 million and higher, to as little as no value at all. In 2015, the total value of the entire residential property market was estimated to be R807,5 billion. Owned primarily by individual households, this represents a significant component of household wealth in the city.

While the City is best known for its luxury property market, almost half (47%) of the entire residential property market is 'affordable'. This includes the 329 319 properties valued at less than R600 000 and serving many first-time homeowners. Within this market segment, it looks like there are 191 887 government-sponsored properties that were allocated to qualifying beneficiaries since 1994. These might include old township stock built before 1994 but transferred to residents as part of the Discount Benefit Scheme in the mid-1990's, as well as RDP and later BNG houses delivered as part of the national housing subsidy programme. They might also include properties that began as serviced sites through the Integrated Serviced Land Project, or earlier, through the IDT's subsidized housing programme in the very early 1990's, that later were awarded consolidation subsidies. Cape Town's valuations roll has recognized 82 009 RDP properties, and the Housing Subsidy System database retained by the Western Cape Department of Human Settlements has recorded 109 249 RDP properties. The potential for property appreciation in this market is significant, especially given overall property market dynamics in Cape Town.

In addition to the 703 801 residential properties that comprise Cape Town's property market, the 2011 Census identified 143 823 households (13% of the city's household population) living in informal structures in 216 informal settlements. Many of these properties are not recognised on the deeds registry or on the valuations roll. 2011 was a slight improvement on 2001 when 14,5% of households lived in informal houses in informal settlements – however, it has been suggested that an additional 97 settlements were not included in the Census count. The percentage of informal dwellings in settlements in the City has increased, from between 31-40% in 2001 to between 41-50% in 2011. Between the Census 2011 and 2013, it is estimated that the number of informal settlements has grown by a further 23 settlements.

The 2011 Census estimated that 74 800 households (7% of the population, up from 4,3% in 2001) live in backyard shacks, including about 45 000 who live in backyard dwellings on council property.

On the whole, Cape Town's property market has been growing steadily, with a moderate rise in average property values and in transaction prices every year. Transaction prices (the prices that are achieved in sales) have been slightly higher than property values (the estimated value of properties based on trends), suggesting that demand is pushing prices up above actual values, and indicating an opportunity for more supply (on the other hand, it could also suggest that valuations are incorrect). The number of transactions has risen very gradually, with 32 000 transactions in 2010 to about 37 700 transactions in 2015, with a brief dip in 2011 and 2012. The majority of these transactions have been in the resale market; new build has been dominated by the delivery of government subsidized housing. A key challenge, however, is that the rate of new build has not matched the population growth rate –

² These figures are derived from municipal valuations property records, and thus by definition do not include unregistered informal settlements or unregistered backyard dwelling units.

suggesting a growing rather than declining housing backlog. Lender participation as a proportion of total transactions has also been relatively consistent overall: about half of all transactions have been financed with a mortgage. This has contributed to the relatively stable (albeit insufficient) delivery of new housing and annual turnover (or churn) of existing housing.

Cape Town's property market dynamics present City management with a set of challenges that are complex and diverse. The various segments that comprise Cape Town's property market perform differently, in some cases for the benefit of residents, and in others exacerbating inequality. In some areas, informal transactions, and informal housing activity more broadly, is significant, and may well be crowding out formal markets, norms and mechanisms. In these areas, the available data indicates that markets underperform, with low rates of churn and properties trading below replacement cost, some informally. This reflects a context in which households struggle to access and navigate administrative systems to access funding, obtain information and transact formally. This discount of market value on replacement cost itself reflects poor governance, with high crime and poor connectivity. Often city management is limited, and competes with alternative governance structures. Secured lending is minimal, as lenders avoid additional risks - both financial and reputational - of operating in these areas.

At the other extreme, some property market activity appears irrationally exuberant, with buyer participation quite possibly encouraged by a belief that prices will continue to rise indefinitely. While data reflected in this report captures the market until the end of 2015, there has been visible activity since then that suggests substantial development activity in high value areas, with properties subdividing or sectionalizing. While this may be positive in the sense that it densifies key areas and contributes to the city's growing rates base, it should be monitored closely to ensure that the city is not inadvertently encouraging a speculative bubble.

To add to this there are some well-located areas that have historically underperformed, that are now beginning to correct. As they do, affordability is constrained, and some households are displaced, leading to social and political instability. The question of gentrification and displacement is a key issue for attention.

The overall goal for building an inclusive residential property market in Cape Town suggests five broad areas of attention for the city:

1. **Growing Cape Town's rates base:** This would involve exploring how the city levies rates on residential properties and reconsidering how certain properties are exempted from paying property tax. Beyond this, it is recommended that the city grow its rates base through various 'value creation' measures that stimulate property market growth at the local level. On the one hand, property prices reflect underlying supply conditions, which the City can influence through the management of its development controls. Increasing prices might indicate limitations in the supply zoned or serviced land. On the other hand, prices will reflect the success or failure of city-led strategies designed to make some areas more habitable or to improve the quality of life of residents. The simple implementation of development controls in support of quality home improvements can also have an important impact. The city must also be awake to the risk of a property bubble and the impact this has on housing affordability and access. The city should monitor its property market to identify areas that are under- or over-performing in terms of value, and actively support targeted household investments or value capture on these particular metrics.

The key goal for City management must be to see Cape Town's property market as a single property market, with high and low values that all have investment potential and worth. The rates policy itself can assist in shifting the approach in this way – by focusing on the twin goals of maximizing both financial and social value of the housing asset and using the strengths of one to support the growth of the other.

2. **Creating opportunities for inclusive housing and dealing with gentrification:** The city needs to better understand demand for and investment interest in housing across the income and property spectrum, in order to understand how it might support inclusive housing and protect lower income households from displacement. This report provides a first step, but there is much more analysis that could be done, and the depth of analysis could be much richer with the City's own data that captures behaviour such as the usage of infrastructure services, and household investment. With an understanding of areas at risk of displacement, for example, the analysis can then dig deep into local area dynamics and seek opportunities on the boundary.

Understanding housing market dynamics would also put the city in a position to address the second challenge – ensuring that the breadth of supply matches the diversity of demand in the various market segments that together comprise the city's population. Towards this goal, the city could identify specific land parcels with a strong social value that might not have yet been noticed by the private market; or from its own portfolio, those land parcels that should be protected into the future.

Gentrification is feared because it appears to be about a curtailing of opportunity, as wealth squeezes out the poor and neighbourhoods homogenize around class. Cities can use their own development levers, however, to stimulate and broaden opportunity in those very same places – if they know where the deficit lies, and if they know how to capture land values for the benefit of their target.

3. **Understanding and working with informality:** Informal market activity is often an expression of formal systems not working as the market requires. The city should explore strategies to improve household compliance with requirements regarding planning approval. Access to simple building plans and active support of in situ home improvements, through expedited and supported development approvals would also contribute to households own efforts to improve their housing situations. Similarly, given that informal transactions effectively remove housing assets from the pool of formal, titled properties in the City and undermine the performance of the property market in many areas in which the State has invested significantly, it should be a matter worthy of urgent attention by City management.
4. **Considering the dynamics and potential of the rental market:** Special attention should be given to exploring the existence, functioning and potential of the rental market, not limited to social housing, but also including privately provided rental, both formal and informal. By understanding this breadth and how it functions, and applying its various development levers, Cape Town can influence the rental sector and how it meets this diversity of demand, and the extent of private investment that it attracts. In the immediate term, the city should consider which of its datasets offer an indication of rental activity, such as building permits data, utility hookups and account information for distribution of units and usage. A focused analysis on the supply of and demand for rental in the city, with particular attention on certain nodes, would be very useful.

5. **Realising priorities with data-supported development decisions:** A key aspect of a city's ability to track the property market is its ability to count it. The central source of reference must be the National Deeds Registry, on which the entire property market depends. The extent to which it represents the full property market, however, is complicated by the delayed titling process in the government-sponsored market, and other factors that affect low value properties in particular. Cape Town's Valuations Roll is a separate database that enables the city's property taxation regime – a critical component of its revenue base. At the moment, these two databases do not fully align. Understanding and addressing the anomalies must be a priority going forward.

The ability to track specific markets and characteristics allows municipalities to appropriately manage resource allocations in terms of infrastructure investment, while monitoring any economic disequilibrium in property prices. This would assist Mangaung tremendously in understanding particular neighbourhood or area-based property market dynamics, which would both contribute to a more refined application of rates against property values, and to greater precision in the implementation of particular policy measures such as infrastructure investment or area-based management.

The realization of government's commitment to access to adequate housing for all depends on well-functioning housing markets, and not just the delivery of new housing. This report quantifies Cape Town's residential property market, exploring market size and value, and market activity, paying attention to both formal and (where possible) informal market activity. It further explores property market performance, specifically in terms of key metrics that are important to the city at this stage in its growth and development, and given the population that it serves. Cities play a critical role in the performance of the residential property market, through the various development levers they apply and their overall management and governance of the neighbourhoods in which their residents reside. Cities must therefore extend their attention to how housing markets, highly complex systems, perform, and use this knowledge to support their overall human settlements goals.

1 Introduction

South Africa's residential property market is the largest component of the South African property market, comprising the majority of property assets within the country, and an important component of household wealth. The South African deeds registry comprises seven million properties, worth almost R6 trillion.³ Of this, about 6,1 million registered properties, or 87%, are considered residential, ranging from sectional title to freehold properties and estates; including government-sponsored homes, homes occupied by their owners or rented to others, and holiday homes; and found across the country, from rural areas (with formal title), to mining towns, to small and secondary cities, to metro municipalities.

The majority of the residential property market – 62% in 2015 – includes homes valued at less than R600,000⁴. Of this, two thirds (or 43% of all properties) are homes that are valued at less than R300,000, of which the majority are estimated to be government sponsored homes: clear evidence of the significance of government's subsidised housing programme and the sheer volume of property assets transferred to qualifying beneficiaries since 1994.⁵

Almost two thirds (about 57%) of the total formal residential property market is found in the eight metro municipalities. Almost one fifth (just over one million properties) is found in the Western Cape. With about 700 000 residential properties on the national deeds registry, Cape Town's property market comprises roughly 11% of the total residential property market in South Africa, and 65% of the property market in the Western Cape.

Residential property is the largest and most differentiated asset within any city, and a significant part of a city's economy, especially insofar as it relates to household wealth, livelihoods, and the prospect of inclusive growth. As the property market grows and develops, housing can be an instrument of economic transformation, with property values growing faster than inflation and offering leapfrog opportunities to lower income households as they benefit from the appreciation of their housing asset. This creates further opportunities to leverage property with finance, supporting the development of small businesses, so important in the context of low employment. At the same time, this activity contributes to a growing revenue base for the city, and improves its ability to invest in further growth and deliver appropriate services to the breadth of its population.

Understanding housing markets is a key first step in maximising the power of the housing asset for all residents and for the city itself. Cities have a myriad of tools with which to stabilise and grow housing markets, including policy, programmes and legislative oversight and management; financial resource redistribution including the ability to collect taxes and distribute subsidies; and property asset redistribution, including the acquisition and disposal of land and buildings. With a more detailed understanding of housing markets, the City can better implement a robust, supportive and coordinated housing market regime. Metro administrators can:

³ The data analysed in this report has been provided by the Centre for Affordable Housing Finance in Africa (CAHF), which draws its data from the National Deeds Registry, as provided by Lightstone. Additionally, some of the data is drawn from the City itself – this is clearly indicated. The data in this report reflects Cape Town's property market as it stood at end 2015.

⁴ These market segments have been established by CAHF using Lightstone's valuation methodology.

⁵ This includes housing delivered as part of the national housing subsidy scheme since 1994, as well as housing delivered prior to 1994 but transferred within the democratic administration to occupants as part of the Discount Benefit Scheme. Counting the number of government-sponsored properties in the city is surprisingly difficult, as no database is conclusive, each having been compiled for different reasons. The approach to this is clarified in the section on methodology.

- Better meet demand – identify housing affordability challenges and more efficiently provide well-located housing options, identify, capture or create momentum in as yet unrecognised areas of growth and development, better connecting employment and housing;
- Better stimulate supply – identify, measure, and incentivize supply gaps (in price or location) that prevent an otherwise willing and able market to achieve their housing goals;
- Invest scarce public funds more effectively and more efficiently - to reinforce and influence better connections between supply and demand;
- Support sustainable livelihoods – through promotion of housing asset performance, providing the means for lower income families to move up and out of poverty; and
- Build local economic viability at the neighbourhood level – through the creation of investment-worthy areas in which private individuals and businesses place their own resources, further leveraging the city’s investment, and contributing to a growing rates base.

This report provides an analysis of Cape Town’s residential property market in terms of its size and value, activity, and performance. Market size, value and activity are status quo analyses, setting out the shape and dynamics of Cape Town’s property market. Market performance then considers these dynamics against specific performance objectives.

Following this introduction, Section 2 provides the analytical framework for looking the market. It considers the role of the housing asset, how property market filtering happens, and how the housing market can be segmented to develop appropriate responses that are relevant to all of the City’s residents. In Section 3, the size and value of Cape Town’s residential property market is set out, together with an analysis of current activity in terms of supply of new housing, the resale market, lending and house prices. Section 4 then considers the actual performance of Cape Town’s property market and whether it is responding to the City’s goals for affordable and accessible housing, economic transformation and inclusive growth, and sustainable human settlements. The report then considers how responsive the market is to the demand pressures that exist, and looks in some detail at performance in the Voortrekker Corridor and the Metro South-East Integration Zone. In Section 5, Cape Town’s property market is compared with those in the other major metros in South Africa. Section 6 concludes with considerations towards the realization of an inclusive residential property market in the city. The methodology for the analysis is summarized in Section 7.

2 The Housing Market – An Analytical Framework

Housing exists in a market: housing is produced, owned, rented, maintained and sold in a complex system involving buyers and tenants (individuals, households, companies and governments), suppliers and sellers (developers, builders, homeowners, landlords and governments), market facilitators (financiers, estate agents, conveyancers) and regulators (the City, the province, national government, and various public agencies and regulatory bodies). Like other economic goods, housing supply is influenced by an expression of demand, which itself is influenced by affordability – the ability and willingness of the buyer or tenant to invest in or pay for the housing product. In Cape Town, demand is substantially constrained by affordability. What the supply side delivers is too expensive for what the demand side can afford to pay. This is the case for a number of reasons, but ultimately, what it results in, is a widening and diversifying of the housing market to include both formal and informal housing supply. Formal housing, delivered or improved according to city building regulations with approved building plans, on regularized land, and by registered builders, targets higher income earners. Informal housing, often escaping observation without plan approval, built or improved by

informal builders, in backyards or on unregistered land, targets lower income earners and the poor. To bridge the affordability gap and assist poor households to access the formal housing market, the national government offers a state-subsidised housing programme. But as is evident across the country, this is not delivering enough housing, and inadequate housing circumstances persist.

There is a further dimension. Unlike other economic goods, housing exists on land, a finite resource that has value relative to its location and access to services and amenities. The value of land often interferes with the value of housing: a fabulous, three-bedroom unit with a state-of-the-art kitchen, on a piece of land on the edge of the city, or where the government fails to deliver its services, may have cost more to build, but is likely to sell for less than a tiny bachelor flat in the city centre where the homeowner can have a view of the ocean and enjoy uninterrupted services supply. This is because households with affordability will compete to buy the well-located and well-serviced housing, and may be willing to pay more for these benefits. House prices are determined by the trade-offs that buyers make in choosing where and how to live, and as a result, housing markets are all about location.

At the same time, the city has an important role to play in influencing housing supply and demand dynamics. Essentially, cities can influence market behavior through providing information (including outreach to external audiences as well as its own planning needs), regulation (zoning and land use restrictions and incentives), and finance (investment in infrastructure and service delivery, including subsidized housing). Cities play a significant role in place making and value creation, including managing the effects of social exclusion precipitated by gentrification, or in creating inclusionary housing opportunities. These all influence (and sometimes directly drive) housing demand and supply dynamics and create opportunities to leverage both public and private resources towards meeting housing needs and making markets perform in the interests of all residents and the city as a whole.

2.1 The Housing Asset

The question of market performance – the value that housing realises for both the household and the city as a whole – is important. Housing is an asset. For households, it is likely to be the most significant investment that they will make in their lifetimes. With the national housing subsidy programme, it is also a significant investment for the State. Beyond the subsidy programme, housing markets also offer the city substantial revenue opportunities that create the budget that makes the city function. Cities want to make sure that they get the best value out of their investment.

To understand housing market performance, it is useful to think about the housing *unit* as an individual, private asset, and to think of a functioning housing *sector* as a “national asset” of sorts, that contributes to the overall economy.

Figure 1 The Housing Asset

The house as a private asset | **Housing sector as a “national asset”**



Source: CAHF

As a private asset, the house brings value to the household, whether they own or rent, in three main ways. First, there is a social value. The house sits within a neighbourhood and is the place to which family and friends come to celebrate and share life experiences, and from which the household goes to find work or otherwise engage in society. The house itself is the site from which the household accesses infrastructure services – water, sanitation, electricity and refuse collection. In the neighbourhood, the household can also access social services – schools, clinics, community centres – that profoundly impact on their quality of life. Enhancing the social asset performance of housing is about improving the quality of the neighbourhood and creating spaces for families to come together.

The house also has a financial value: it is worth something and can be traded for money. It can also be used to leverage a loan from a bank – the home owner can secure a mortgage loan by using the house as collateral. This can be used to invest further in the house, to start a business, to pay for education, or to make other significant investments. The house can also be passed on as an inheritance to children or other family members, and in this, operates as a form of savings that contributes towards household wealth. Enhancing the financial asset performance of housing is about enabling incremental home improvements, improving property values, increasing access to loan finance, and improving transaction support to ensure that households can access the financial value of their properties when they need to.

Lastly, the house can also function as an economic asset for the household. In this, the house becomes the base from which a household might run a small business, offer accommodation for rent, or otherwise earn an income. In the context of high unemployment, this creates an especially important opportunity for households to realise sustainable livelihoods. The establishment of home based

enterprises also diversifies land uses and creates more sustainable human settlements. A spaza shop operating from a home in a residential neighbourhood saves neighbours from taking the bus to buy milk, while creating an income stream for the shop owner.

The formality of the household's rights over the property, and whether or not the housing unit itself is a formal structure, impacts substantially on the performance of housing as a private asset. It is obvious that formally titled or leased properties that are well-placed within the urban context and constructed out of durable building materials that protect their inhabitants from the elements, offer stronger social, financial and economic potential than informal housing. Informal housing also has value, however. A shack in a well-located settlement may offer the household better income earning opportunities than a formal structure that is outside an area of economic activity, or may provide better access to economic opportunity. Similarly, an informal transaction may be worth more to the transacting parties, even if it realises less financial value, simply because it can be concluded more quickly. Cities need to understand these dynamics if they are to improve housing asset performance for their residents, whether they live in formal or informal settlements.

While housing and private property is in many ways the quintessential private good, the housing sector as a whole performs a vital role in an economy, and can therefore be thought of as a sort of "national asset". All supply chains associated with products and services create jobs and contribute to the economy, and housing is no exception. Add data. But beyond this, housing impacts on the economy in some unique ways. By understanding what makes housing different from other products and services we can explore the critical role for cities in shaping housing markets. There are three dimensions to this.

First, the construction, maintenance and transacting of housing (which includes both sales and leases) contributes substantially to economic growth and job creation, which can have very tangible local benefits. CAHF has estimated that the housing construction and rental sectors contribute about 2.4% to Gross Value Added at the national level, equivalent in the economy to the agriculture, forestry and fishing sectors, and to the food sector.⁶ The reason for this contribution has to do with the economic activity that housing stimulates – upstream demand for building materials and labour, and downstream demand for furniture, home improvements, and other housing services. All of this economic activity also contributes towards employment. CAHF estimates that in 2014, the housing construction sector created approximately 242 000 full time equivalent jobs (formal and informal) across the country. The rental housing sector created a further 226 000 full time equivalent jobs across the country in 2014.⁷ Cities that promote housing construction and rental can use this to stimulate job creation in their areas, further contributing to economic growth.

Second, housing constitutes a vital component of the financial system, and plays a critical role in financial intermediation, assisting the flow of money through the economy. This is because housing is a leverage-able asset that can be used as collateral for other loans, thereby enabling private investment. In many developed economies, housing underpins a sizeable proportion of the assets of the financial sector through the mortgage instrument. This in turn underpins the efficacy of the money transmission mechanism in the household sector, enabling monetary authorities to manage

⁶ See <http://housingfinanceafrica.org/what-role-does-housing-play-in-african-economies/> and <http://housingfinanceafrica.org/story-housing-economy-exploring-south-africas-housing-value-chains/>

⁷ Centre for Affordable Housing Finance in Africa (2017) Housing Economic Model: South Africa. See <http://housingfinanceafrica.org/what-role-does-housing-play-in-african-economies/> and <http://housingfinanceafrica.org/story-housing-economy-exploring-south-africas-housing-value-chains/>

economic growth cycles. Mortgages are also useful as an investment class, given their long-term nature. In addition, housing consumption is in most cases, the largest share of household consumption, and often the most significant asset a household will ever have. The house is then a fulcrum around which a household's financial and investment decisions are made, both influencing and enabling further financial activity.

In South Africa, while the mortgage market is well developed relative to the rest of the economy, it serves a minority of households. This is unsurprising given the high levels of inequality that characterise the country. However, there has been significant investment in housing by the State, and a significant transfer of wealth through the housing subsidy programme directly to poorer households. The failure of these assets to translate into performing financial assets through mortgage instruments is not only disappointing for low income home owners themselves, but it also fails society in doing little to reduce wealth disparities. Despite the formalisation of housing, many RDP properties transact below replacement cost and owners fail to realise value, and grow their wealth through housing. While several factors contribute to poorly performing housing markets, local government and urban management have a significant impact on the value of housing, its market performance, and therefore its contribution to the overall financial system.

Finally, the housing sector contributes to the sustainability of human settlements in a number of ways. Housing and settlement patterns fundamentally shape the experience of households who live in a city as well as the capacity they contribute and the resources they draw. Households located far away from jobs in areas poorly served by public transport are unlikely to be able to participate in the labour market even to the limited extent that the economy currently allows. The sheer distances require increased public investment transport and on-going subsidisation. Segregation also limits opportunities for social interaction and undermines critical social objectives.

A further contribution to the city sustainability is through the rates and taxes generated by property and the ability of the city to capture this value to serve its broader development goals. As properties appreciate in value, they increase a city's rates base, and this contributes to the growth in city budgets that enable them to invest in further infrastructure and services delivery, which further supports growth.

A key point of focus for the city is to understand how the two asset triangles – housing as an individual asset and the housing sector as a sort of “national asset” – interact, and the impact that the informal housing sector has on both. Ultimately, the goal is to maximise housing market performance for the benefit of City residents, as well as for the city itself. This requires careful attention to the extent to which households can maximise the social, economic and financial performance of their housing – and implementing measures that support them in this effort – while also enhancing the impact that the City's work in human settlements has on its local economy, its labour market, and its overall sustainability as a city.

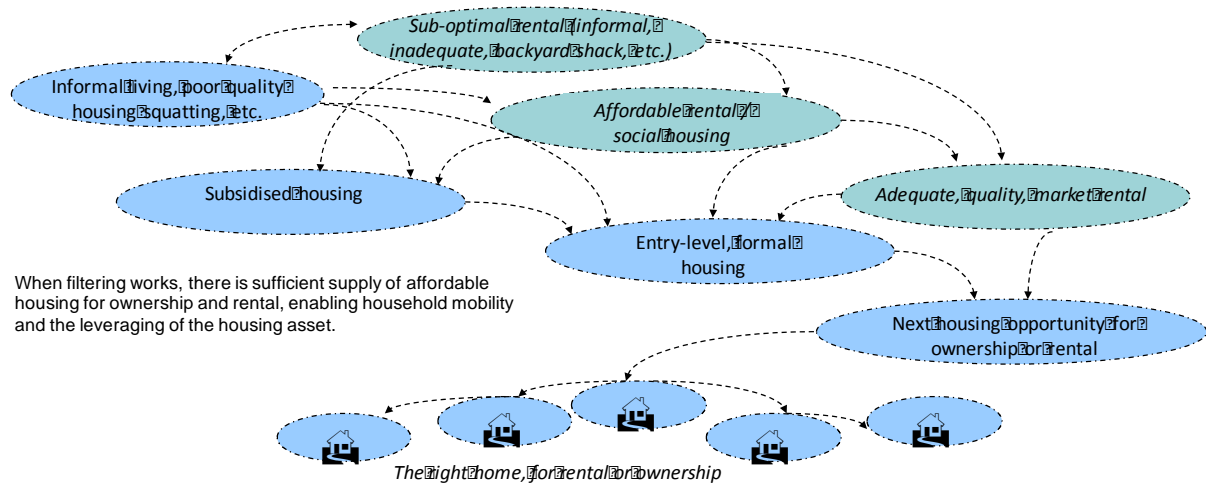
2.2 Property Market Filtering

Beyond the asset value of the stock itself, new housing supply, and functional resale markets (including finance, market information) enable filtering: households moving from one housing

circumstance (or pool, in the diagram below) into another to meet their particular housing needs to the extent they can afford.⁸

For example, in South Africa’s current policy context, if there is sufficient supply, a household in an informal settlement may access government-sponsored housing, may buy an existing RDP house on the resale market, or may move directly into entry-level or starter housing, depending on their affordability – their income and the availability of finance. As their incomes improve or their circumstances change, they may find the opportunity to further improve their housing, moving into something larger to accommodate a growing family, or to a better neighbourhood. As they proceed through the housing ladder, they may find that rental housing is more appropriate for a time. Housing needs are not static; housing circumstances must change to meet the changing needs of the household.

Figure 2 Pools and flows to enable property market filtering

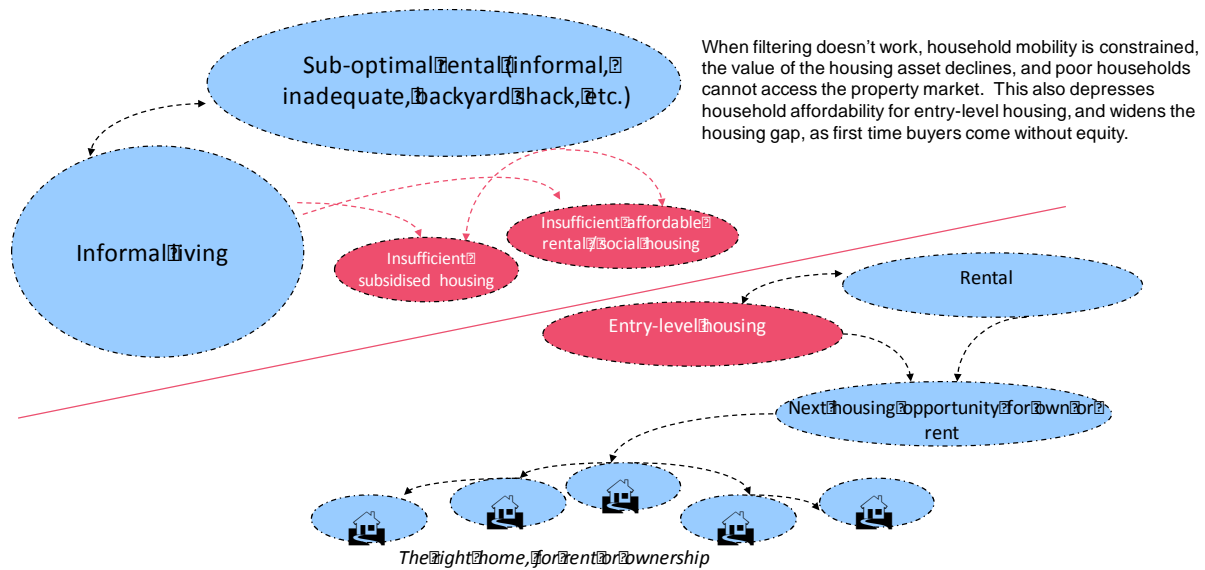


As households move up the housing ladder, and existing housing becomes available for low income households who do not qualify for subsidies, or indeed also for subsidy beneficiaries, the demand for state production of new housing is replaced by available supply in the resale market. Private sector supply then meets the needs of the sellers who use the equity from the sale of their homes to invest in higher value housing up the ladder.

That is the ideal scenario, and what the nation is trying to achieve with its policy. The property market does not always work this smoothly, however: there are far many more households needing housing at the bottom end (subsidised housing, social housing or entry level housing for ownership), than there is supply of new housing that they can afford. This means that the number of households living informally, whether in backyard shacks or in informal settlements, or overcrowding in existing housing, is growing, and the filtering pathways are blocked.

⁸ Rosenthal, S (2013) Are private markets and filtering a viable source of low-income housing? Estimates from a “repeat income” model. Forthcoming: American Economic Review http://faculty.maxwell.syr.edu/rosenthal/recent%20papers/Is_Filtering_a_Viable_Source_of_Low-Income_Housing_%206_18_13.pdf

Figure 3 Blocked pools and flows undermine property market filtering



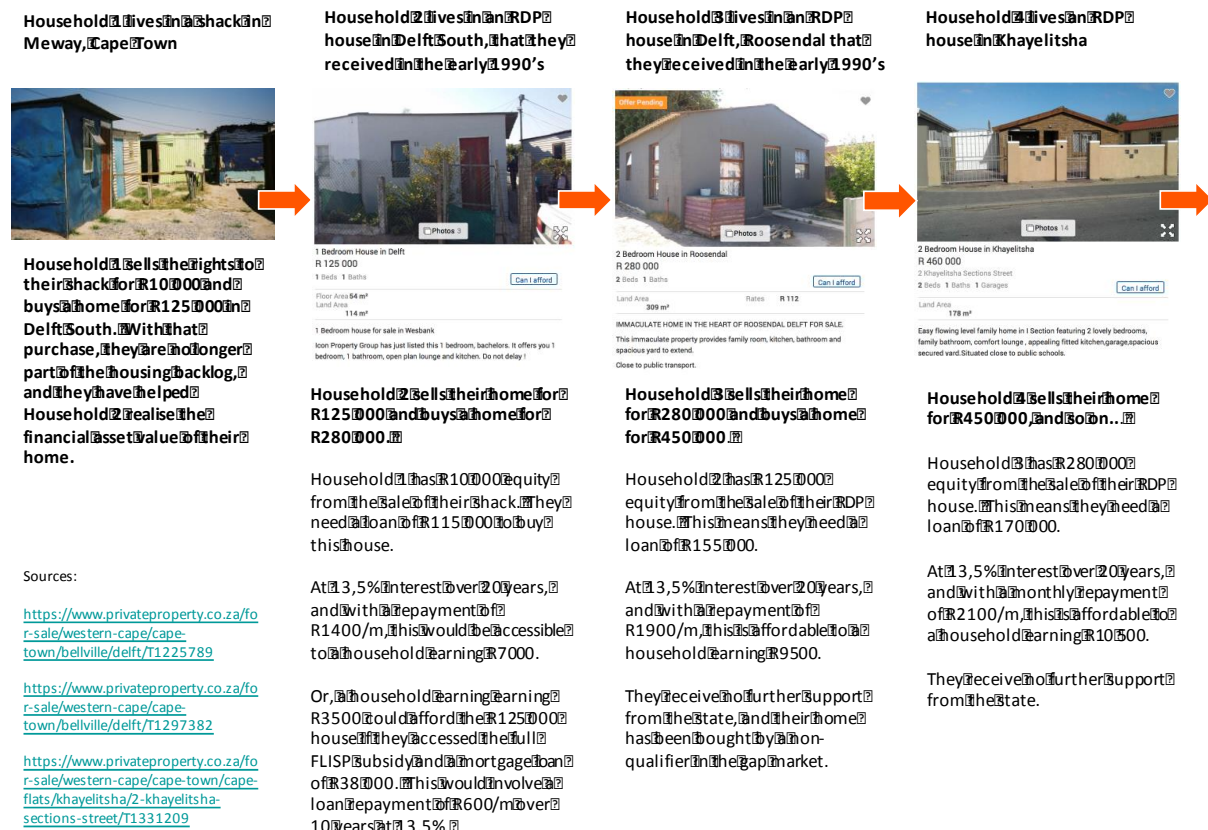
Cape Town’s property market has very little churn, or resale market activity, at the bottom end. In part, this is because the Housing Act has placed an 8-year pre-emptive clause on government sponsored housing, which means that a homeowner is only able to sell their home after eight years. However, sales levels among older properties are also very low. On average, transactions of existing homes (resales) under R300 000 -whether government-sponsored or not- are about one-half to two-thirds of the total number of new sales. What this means is that filtering from subsidised housing into entry-level housing is not happening and people are not moving up the property ladder in the way we expect.

This creates three problems. First, it means that residents of subsidised housing are not realising the financial asset value of their stock and using this to leapfrog into better housing. This then means that the only housing that can pull residents from informal living conditions into formal will be new housing – housing that in South Africa’s policy context must therefore be built by the state. And third, it means that potential buyers into entry-level housing are likely to be first time homebuyers, and therefore without equity from a previous sale, and likely without savings. This means that they will need to borrow possibly the entire purchase price, severely limiting their affordability. Developers and financiers respond to this limitation of effective demand, and reduce the amount of housing they deliver into this market.

When households in lower value housing move into higher value housing, they free up their old homes as supply on the resale market. In South Africa, at the moment, this creates an important opportunity for housing affordability for lower income earners. Houses on the resale market in some areas are often more affordable than the entry level new build houses currently being built by developers.

Finance enhances affordability because it means the buyer doesn’t have to have cash for the purchase – they can pay for the house over the period of the loan, usually up to twenty years – and this means that the seller can get a better price. At the same time, the sale of the house creates new demand for housing, higher up the housing ladder, as the seller now has equity that they can use, together with finance to buy another home. In Cape Town, today, the filtering process might look like this:

Figure 4 A Property Ladder in Cape Town



In the example above, a household living in Delft has put their property up for sale for R125 000. At current mortgage rates⁹, and with a R10 000 deposit, this would be affordable to a household earning about R7000 per month. If a FLISP subsidy¹⁰ were available for such a purchase, the house might be affordable to a household earning R3500 – just outside the eligibility for a government subsidised house, who could then service a ten-year mortgage with a monthly payment of R600 to cover the difference. Meanwhile, the seller of the Delft house now has equity which he or she can use to buy the next house. And so the housing ladder works with households climbing up and houses filtering down.¹¹

The critical opportunity from the City’s perspective is that the buyer of the Delft house is no longer part of the housing backlog – and this has been achieved without the City or Province building another house. At the same time, the filtering process also stimulates the market in other ways: the mortgage lender will be much happier to give a smaller loan that doesn’t cover the full purchase price – they

⁹ A R115 000 mortgage calculated at 13,5% in this market segment, would imply a monthly repayment of R1400.

¹⁰ The Finance Linked Individual Subsidy Programme (FLISP) is offered to first time home buyers earning between R3501 – R15 000 household income per month and accessing mortgage finance to buy a home. The subsidy applies both in the new and resale markets, and offers qualifying beneficiaries a subsidy amount relative to their income: households with an income of R3501 per month get the maximum of R87 000, while households with an income of R15 000 get the minimum, a subsidy of R20 000, to go towards the purchase price of their home, thereby reducing the size of the mortgage that they need to access. There is a clause in the FLISP policy that suggests that households earning between R3501 and R7000 can access rather a serviced site for free, on which they are then required to construct a dwelling. See <https://www.nhfc.co.za/Products-and-Services/flisp-overview.html>

¹¹ See <http://housingfinanceafrica.org/documents/note-understanding-the-challenges-in-south-africa's-gap-housing-market-and-opportunities-for-the-rdp-resale-market/>

always want the borrower to put in a deposit to demonstrate their commitment. This could mean that the interest rate could come down, making the loan more affordable. And, a buyer with equity demonstrates to the developer that there is a market to which more housing can be developed. Developers use this expression of demand to apply to banks for construction finance, which enables them to build more housing in this particular target market.

Cities can support the filtering process by making and maintaining neighbourhoods as “investment grade” for all market participants: resident households, buyers, lenders, developers. This would involve a focused undertaking of its normal urban management functions at scale, in targeted neighbourhoods and precincts. Focused and effective service delivery, investment in infrastructure and connecting neighbourhoods to developing transport linkages are all prioritised in Cape Town’s Transport Oriented Development strategy. It also involves facilitating households’ efficient and cost-effective engagement with the City around their property, enabling them to participate on the supply side through the resale market, the delivery of backyard rental accommodation, or incrementally upgrading serviced sites.

In a functional property market, which cities can support through the strategic application of their development controls and other levers local contexts, the private sector supplies more and more of the required housing for a wider spectrum of the population, while the government then focuses increasingly, on the most poor.

2.3 Segmenting the Housing Market

Such an approach, however, requires targeting, and this requires market segmentation. South Africa’s housing market is not homogenous. It comprises a wide variety of housing, available for rent or for sale, on single plots, on farms, or in buildings, in different locations, and of a variety of values. Cities have high and low value neighbourhoods, that are more or less well located for their residents, responding to and driving city and private investments made over time. A focus on Cape Town’s high value market is not surprising: the city is well known for its luxury estates and seaboard penthouses. These properties drive the rates base of the city and give it the financial capital to operate, delivering local services to residents. And yet, just under half (47%) of properties in Cape Town are valued at less than R600 000, and a further 22% are valued at between R600 000 and R1,2 million. These properties serve the majority of the population – low income, working class people; beneficiaries of government’s subsidized housing programme; established residents; and new migrants. It is the City’s challenge to maximize the performance of these lower value market segments in particular, so that the asset potential of property can be enjoyed by all of the City’s residents, while supporting the capacity of the City itself to improve and broaden the services it delivers.

To do this, the nuance of what is happening in the property market needs to be understood, especially among those properties worth less than R1,2 million, and worth less than R600 000 – market segments not commonly exposed in the press or in conventional property market analyses.

This data is available. Cape Town’s valuations roll for 2015 includes approximately 738 328 residential properties, including 581 846 freehold records and 156 482 sectional title records.¹² Of the sectional title records, 116 558 properties record a dwelling on the property, bringing the list of residential

¹² Cape Town Valuations Roll, 2015

properties with dwellings on the valuations roll to 698 404. Of these, just over one quarter are properties worth more than R1,2m, reflecting the high value of Cape Town’s property market. The remaining three-quarters however, are worth less than R1,2m – a significant part of the City’s property market and warranting our attention. One fifth of the properties on Cape Town’s valuation roll are defined as being worth less than R200 000, and therefore benefit from a rebate on property taxes¹³ – and by implication, do not earn a revenue for the city. If the property market were working effectively, however, many of these might well be valued at above the threshold, creating a revenue opportunity for the city.

At the same time, an analysis of National Deeds Registry data can consider it in market segments that suit a policy interest in improving performance at the bottom end. According to that national database, Cape Town’s residential property market comprises 703 801 properties.¹⁴

This report tracks Cape Town’s residential property market along four value bands:

- **The entry market**—properties worth R300 000 or less, including government-sponsored housing;
- **The affordable market**—properties worth between R300 000 and R600 000;
- **The conventional market**—properties worth between R600 000 and R1.2 million;
- **The high-end market**—properties worth over R1.2 million.

Throughout the report, these are colour-coded in graphs and maps: **cool colours** represent the entry-level and affordable market; **warm colours** represent the conventional and high-end market.

The analysis is especially interested in the government-sponsored property sub-market and how this performs in relation to the wider market. This submarket cuts across the value bands. In principle, all new government-sponsored properties enter the market valued at below R300 000. Over time, however, they may appreciate into higher value bands. This is a success: policy wants its subsidy beneficiaries to see the value of their properties grow over time so that their asset wealth improves similar to all of Cape Town’s property owners. This report explores whether and where this is happening, and considers how this performance might be better supported.

A further dimension to the segmentation is place. While South Africa’s cities still reflect the segregation of their apartheid past, there is evidence of, or opportunities for integration, as households, businesses and the City itself, make investment choices. Public investment in roads, infrastructure, and services, along transport routes or at specific nodes, can contribute to property price appreciation as the city works towards making neighbourhoods “investment grade”. Similarly, failure to make such investments or to adequately manage urban areas can lead to property price depreciation. This further supports household investment decisions, and one by one, neighbourhoods reflect a stronger sense of value as maintained by residents. By looking back at investments made and tracking local property market dynamics going forward, City officials can better understand cause and effect, and plan future investments accordingly.

¹³ Cape Town Property Rates Policy 2016-17: “1.2 For all residential properties as described in the Rates Policy, the first R200 000 of property value will be rebated by an amount up to the rates payable on R200 000 value.”

¹⁴ The differences between the National Deeds Registry (703 801 properties) and Cape Town’s Valuations Roll (698 404 properties), and how these relate to the analysis undertaken in this report, are outlined in a report entitled “Understanding Municipal Housing Markets: A process guide for Cape Town” submitted to the World Bank as part of the programme enabling this report.

3 Cape Town's Residential Property Market

A coastal city, Cape Town is the capital of the Western Cape Province and the seat of the South African Parliament. Long treasured for its natural beauty, it has a vibrant and keenly sought after property market, by locals and international investors alike.

Cape Town's property market is not homogenous, however, and while some market segments perform exceptionally well for investors and the City, others underperform, contributing to a widening inequality that threatens to undermine many of the City's efforts towards growth and development. About 30% of properties registered on the deeds registry are valued at more than R1.2 million. This market is well serviced by mortgage lenders with approximately 58% of transactions in the segment secured through a mortgage. The proportion of properties that transact each year (the churn rate) is 7.6%. At the same time, 29% of all registered properties are valued at less than R300 000. In this segment of the market, mortgage lending, at 12% of transactions is far lower than in higher priced segments of the market and churn rates as per the deeds registry are at 3%.

This section provides a snapshot of Cape Town's residential property market as at the end of 2015, considering the size and value of the market, and its activity.

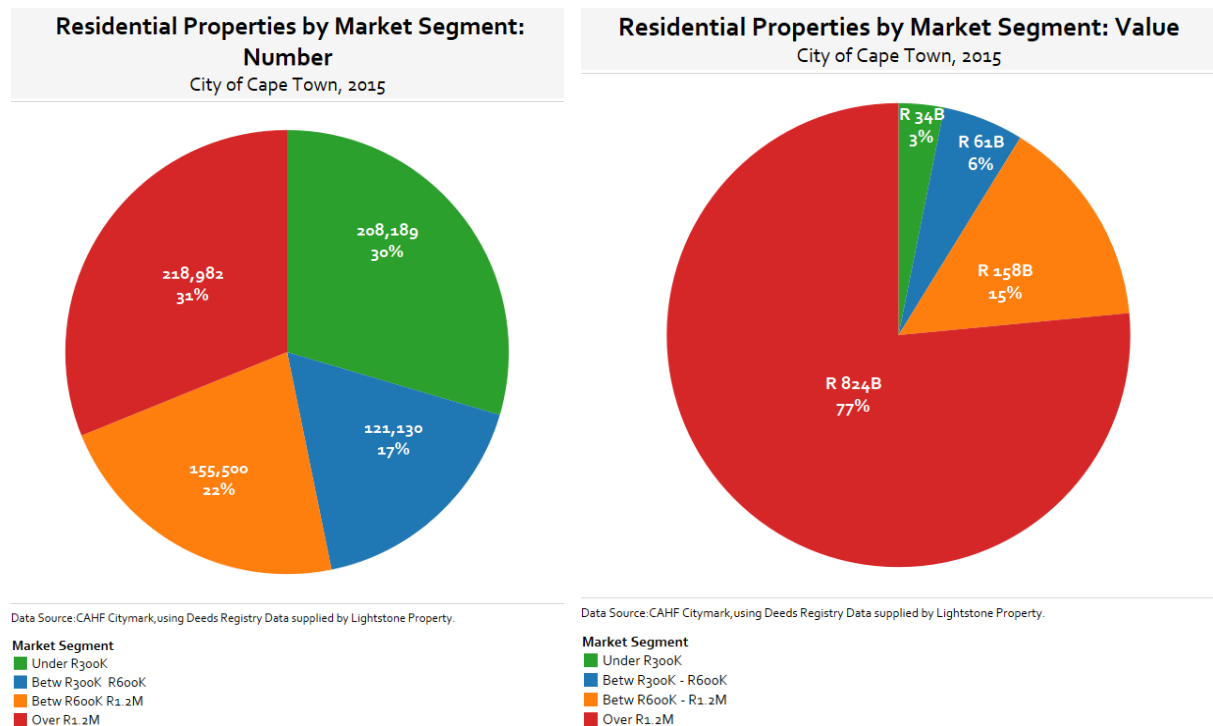
3.1 Market Size and Value

Cape Town's residential property market comprises 703 801 properties¹⁵, spread across 770 neighbourhoods (also known as sub-places¹⁶), with prices ranging from as much as R25 million and higher, to as little as no value at all. In 2015, the total value of the entire residential property market was estimated to be R807,5 billion. Owned primarily by individual households, this represents a significant component of household wealth in the city.

¹⁵ By CAHF's Citymark count, using data sourced from Lightstone, Cape Town's residential property market includes 703 801 properties, as at the end of 2015. This differs from the city's valuation roll (comprising an estimated 698 404 properties) by just over 5000 properties, so the match is relatively close. A number of these properties, however, lack key information required to geo-locate the properties, and so CAHF's analysis of the City's valuation data is limited to 605 338 properties – a difference of 15% from the national deeds registry figure. The most significant difference is found in markets over R600 000, where CAHF data has 92 000 more properties. CAHF's analysis of national deeds registry data is based on formal residential properties, worth at least R15 000, and with a minimum size of 32 square metres. The dataset excludes non-residential properties, vacant land (which is not considered currently residential), properties worth less than R15 000 or smaller than 32 sqm. Informal properties are also not recognized by the deeds registry, nor informal properties not on the deeds registry.

¹⁶ The National Deeds Registry identifies a total of 920 sub-places with properties, of which 770 have residential properties.

Figure 5 Distribution of residential property in Cape Town by number and value, 2015



With seven of the ten richest suburbs in South Africa located in Cape Town¹⁷, it is not surprising that the City's residential property market is predominantly a high value market. About a third of all residential properties (31 percent in 2015) are worth more than R1,2 million, and a further 22 percent are worth between R600 000 – R1,2 million. Forty-seven percent of all properties are worth less than R600 000, and 30 percent are worth less than R300 000. This means that only 17% of Cape Town's housing is in the crucial middle-class market segment of properties valued between R300 000 – R600 000: a key indication that there is a very real gap market in the City.

Figure 6 Cape Town's most and least expensive suburbs

Cape Town, 2015			
Top 10 Most Expensive Suburbs		Top 10 Least expensive Suburbs	
Suburb	Average Price	Suburb	Average Price
Goedehoop Estate	R25 000 000	Belhar 15	R19 764
Llandudno	R16 244 091	Wallacedene	R25 486
Nova Constantia	R13 583 333	Nomzamo SP	R27 446
Bishopscourt	R13 513 214	Klein Begin informal	R30 000
Bellvue	R13 500 000	Bloekombos	R30 361
Bantry Bay	R13 010 294	Browns Farms	R35 118
Constantia	R12 008 425	Kraaifontein East 2	R36 500
Huis-In-Bos	R11 386 250	Fairdale	R39 000
Steenberg Estate	R11 134 416	Lwandle	R39 189
Fresnaye	R11 053 869	Kraaifontein East Informa	R42 967

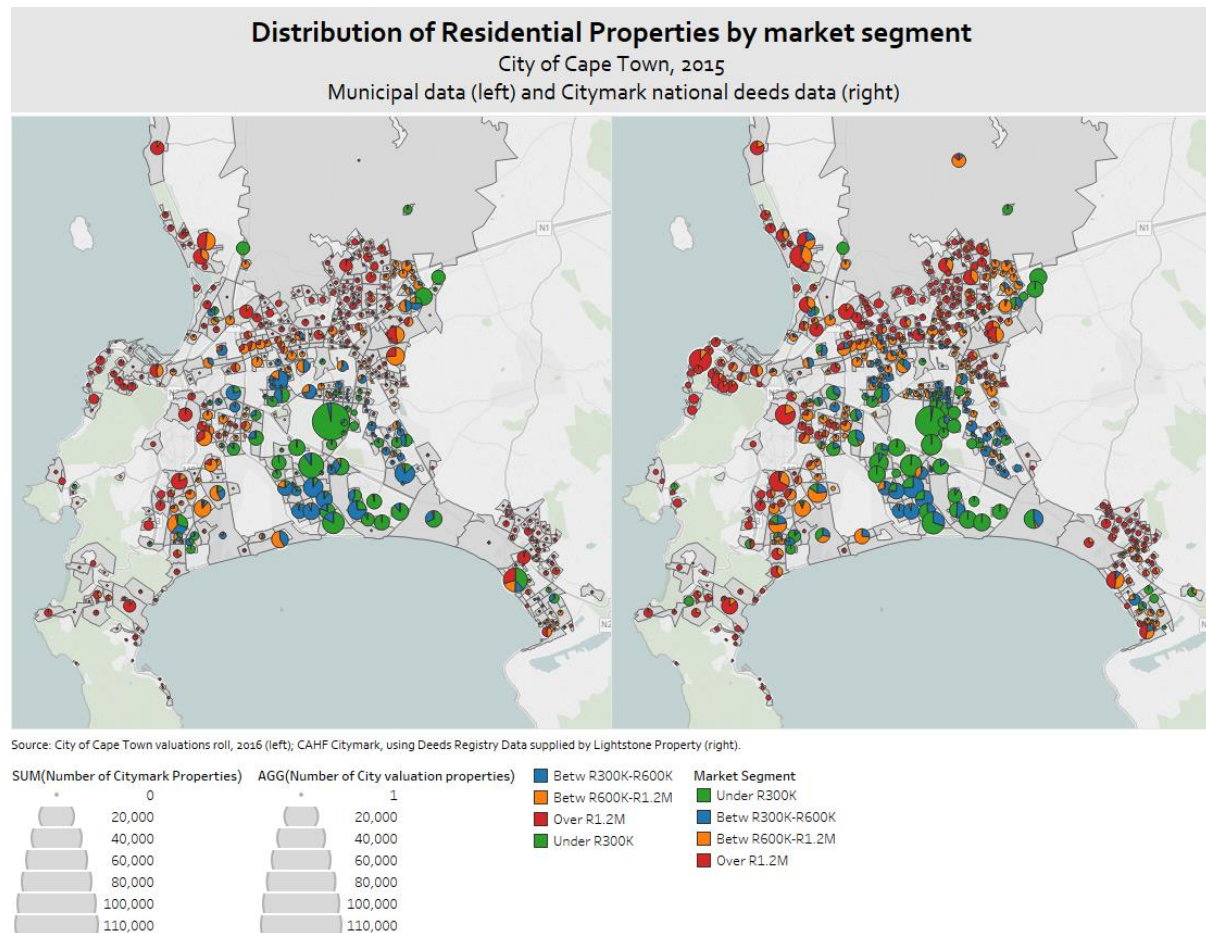
Cape Town's property wealth is concentrated in the highest value properties: almost three quarters of the total value of the property market is found in the 218 982 properties that are worth over R1,2 million. By comparison, the 329 319 properties valued at less than R600 000 are collectively worth only about 11 percent of the total residential market, or R87,1 billion. The total value of government sponsored housing (an estimated 191 887 units by the end of 2015) was about R31 billion in 2015. The challenge facing the city is how to support the growth in value of the affordable market –

¹⁷ <https://businesstech.co.za/news/wealth/104433/south-africas-top-10-richest-suburbs/>

properties valued less than R600 000 – while continuing to support supply of lower value properties, through new build and resale, to meet the needs of its residents.

Cape Town’s property market is clearly segregated by value: lower value properties are found in the Cape Flats, south east of the city centre, in particular around the airport and in the south) and in the area of Kraaifontein East, to the east. Higher value properties are found in the far north, north west, and south of the City Bowl. A key integration challenge for the city, therefore, is the creation of effective transport linkages between these areas, while over the longer term investing in the public infrastructure in lower value areas and diversifying the stock that is delivered in these areas.

Figure 7 Distribution of residential properties by market segment, Cape Town 2015

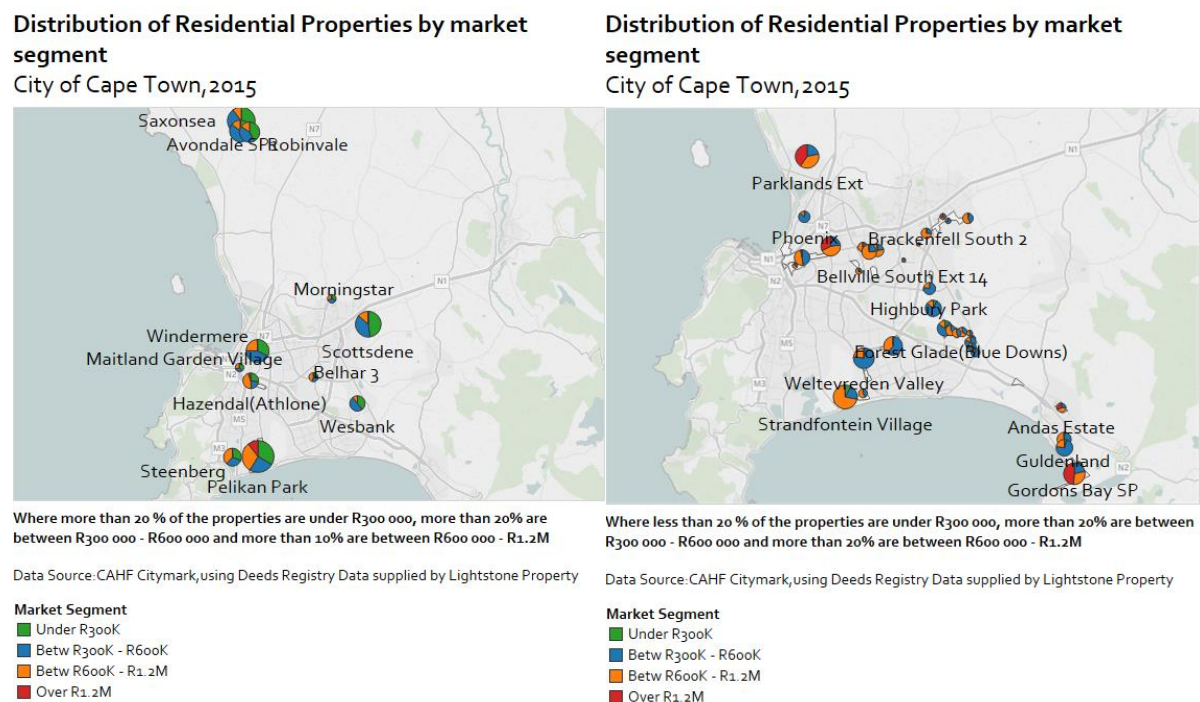


Some areas, however, show a fairly high level of property value diversity. Saxonseas, Pelikan Park, and Scottsdene all have high numbers of properties valued at less than R300 000 but at least 40% of properties worth more than that. This creates important filtering opportunities for residents wishing to improve their housing circumstances but stay in the neighbourhood. A key challenge in such areas is maintaining affordability for new entrants, while enabling value creation for existing residents. Belville South Ext 14, Parrow SP and Maitland show higher values but diversity nonetheless with property values split fairly evenly between the R300 000 – R600 000 and R600 000 – R1,2m categories. Interestingly, some are also areas where significant city investment has been underway. The

performance of these property markets in particular should offer the City some indication of the impact of their investments, and is something that should be monitored carefully over time.

The two maps below compare the locations of local housing markets in subplaces where those homes under R300 000 are *greater* than 20% of the properties (left) and *less* than 20% (right). As the maps show, there are neighbourhoods in which filtering opportunities can be found, and should be encouraged. Many of these areas are adjacent to each other, showing very fluid housing opportunities, although housing closer to the city centre becomes more valuable, and thus more expensive. Policies such as inclusionary housing and first-time homebuyer assistance can protect affordability, and offset rising house prices.

Figure 8 Neighbourhoods with higher levels of property value diversity, Cape Town 2015



The City is less well known for its affordable property market, although this is almost half (47%) of the entire residential property market. This includes the 329 319 properties valued at less than R600 000 and serving many first-time homeowners. Within this market segment, it looks like there are 191 887 government-sponsored properties that were allocated to qualifying beneficiaries since 1994.¹⁸ These might include old township stock built before 1994 but transferred to residents as part of the Discount Benefit Scheme in the mid-1990's, as well as RDP and later BNG houses delivered as part of the national housing subsidy programme. They might also include properties that began as serviced sites through the Integrated Serviced Land Project, or earlier, through the IDT's subsidized housing programme in the very early 1990's, that later were awarded consolidation subsidies.¹⁹ Our

¹⁸ A review of deeds registry data suggests that Cape Town's property market includes somewhere in the region of 191 887 government sponsored properties. Cape Town's valuations roll has recognized 82 009 RDP properties, and the Housing Subsidy System database retained by the Western Cape Department of Human Settlements has recorded 109 249 RDP properties. The discrepancies between the data sets need to be explored further.

¹⁹ For an overview of national housing programmes and subsidies, see http://www.dhs.gov.za/sites/default/files/documents/publications/human_settlements_programmes_and_subsidies.pdf

valuations roll has recognized 82 009 RDP properties, and the Housing Subsidy System database retained by the Western Cape Department of Human Settlements has recorded 109 249 RDP properties. The potential for property appreciation in this market is significant, especially given overall property market dynamics in Cape Town.

Of the 703 801 residential properties, about 563 000 (80%) are freehold; about 90 000 (13%) are Sectional Title, and the remaining 50 000 (7%) are Estate properties.²⁰ The character of these market segments differs, however, with freehold properties spread across all market segments, 37 percent of which are valued at below R300 000. The Sectional Title market involves higher valued properties, with about 38 percent of all ST properties valued at above R1,2m, another 39 percent between R600 000 – R1,2 million, and 22% between R300 000 – R600 000. Cape Town’s valuations roll suggests that about 80% of all freehold properties are single residential dwellings. In contrast, the sectional title market is mostly flats (about 58%). Townhouses and penthouses are together less than 1% of the sectional title market.²¹ Unsurprisingly, the Sectional Title market in Cape Town is concentrated in Sea Point (6 400 properties), Table View (3 400 properties) and Kenilworth (2 850 properties). In these areas, the construction of multiple unit sectional title buildings on formerly single-unit freehold properties is evident. The activity is contributing towards the densification of the city as property owners respond to rising land values. The Estate market is dominated by high value properties with 51% worth more than R1,2 million, and another 40% worth between R600 000 – R1,2m.

Table 1 Total Residential Properties by property type, Cape Town, 2015

Total Residential Properties by property type						
By market segment, City of Cape Town, 2015						
Market Segment	Freehold		Sectional Title		Estate	
	Total Residential Properties	Total Value of Residential Properties	Total Residential Properties	Total Value of Residential Properties	Total Residential Properties	Total Value of Residential Properties
Under R300K	207,291	R32,600M	891	R222M	7	R1M
Betw R300K - R600K	98,534	R43,290M	20,006	R9,662M	2,590	R1,360M
Betw R600K - R1.2M	104,351	R91,330M	35,557	R30,067M	15,592	R13,745M
Over R1.2M	153,129	R411,514M	34,024	R82,165M	31,829	R91,518M
Grand Total	563,305	R578,734M	90,478	R122,116M	50,018	R106,623M

Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property.

Most residential properties in Cape Town were financed privately by households themselves, with their savings and also with loans. In 2015, about 58% of properties still had a loan outstanding, the highest among all eight metro municipalities. Twenty-seven percent (or 191 887 properties in 2015) of properties, however, were financed by government and allocated to qualifying, low income beneficiaries as part of the government’s housing subsidy programme. This is worth repeating: over one quarter of Cape Town’s residential property market comprises housing built as part of the government’s Reconstruction and Development Programme since 1994 – an indication of a very

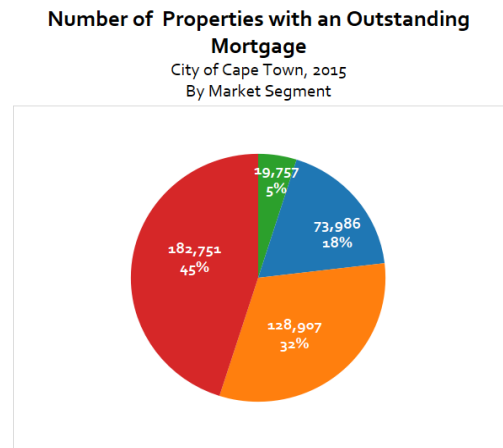
²⁰ There are two legal forms of residential property ownership in South Africa: freehold and sectional title. Freehold is when the owner owns the entire property directly. Sectional title is when the owner has exclusive ownership of a section of a larger development, and shares in the ownership of the common property in the development with the other sectional title owners. In recent years, cluster housing, or “Estate” has also become common, although not as a legal form. This is freehold housing delivered in a development that is bound by an external wall.

²¹ Definitions matter. Cape Town’s valuations roll includes six categories of freehold property, from properties with one or two residential dwellings, to guesthouses. The sectional title roll includes 18 different categories, including flat, garage, living unit, parking, storeroom, maid’s room, and so on. An exercise to clean the valuations roll and reassign definitions, would be a worthwhile exercise.

substantial wealth transfer, in 2015 worth about R31 billion, to previously disadvantaged, low income households. As this market matures and integrates with the wider residential property market, the very real benefits of this wealth transfer will become evident.

Some of Cape Town’s 703 801 residential properties are part of the rental market: 2011 Census reports that 31% of the 1,2m households in Cape Town rent.²² Cape Town’s rental properties are found in high rise buildings, multi-storey walkups, backyard rentals, peoples’ homes, and in other configurations. Some are formally rented and managed by a property letting agency, while others are let by households or small scale landlords. As of March 2017, Cape Town also has two fully accredited social housing institution (Communicare and Sohco), and eight partially accredited social housing institutions that provide social housing to households earning less than about R7500 per month.²³ The City of Cape Town is the largest landlord in the city, with 43 500 rental units under management.

Figure 9 Number of properties with an outstanding mortgage, Cape Town, 2015



In addition to the 703 801 residential properties that comprise Cape Town’s property market, the 2011 Census identified 143 823 households (13% of the city’s household population) living in informal structures in 216 informal settlements.²⁴ Many of these properties are not recognised on the deeds registry or on the valuations roll. 2011 was a slight improvement on 2001 when 14,5% of households lived in informal houses in informal settlements – however, it has been suggested that an additional 97 settlements were not included in the Census count.²⁵ The percentage of informal dwellings in settlements in the City has increased, from between 31-40% in 2001 to between 41-50% in 2011. Between the Census 2011 and 2013, it is estimated that the number of informal settlements has grown by a further 23 settlements.

²² There is no comprehensive dataset of rental properties available – the only indication of the scale of rental in Cape Town is through the Census which asks households whether they own or rent. The City of Cape Town has a register of city rental properties, which suggests a total stock of 30 155 flats and 3112 houses; however, this data is not geo-referenced. Other reports suggest that City owned rental stock includes 43 500 units. A study done in 2011 and published by the Social Housing Regulatory Authority scopes the rental market in the Western Cape, but this is due for an update. See http://www.shra.org.za/images/stories/2011/pdfs/rent_rep_WC.pdf

²³ Cape Town’s eight social housing institutions with conditional accreditation are Cape Town Community Housing Company, Agri Housing, Daheko Care, DCI, Ikusasa, Liyema Nolita, Mother city Housing Co., Povicom, an Urban Status Rentals (Devmark). See <http://www.shra.org.za/images/2017/8-MARCH-2017-SHRA-REGISTER-OF-ACCREDITED-SHIs.pdf>

²⁴ Cape Town’s Built Environment Performance Plan 2016/17 <http://mfma.treasury.gov.za/Documents/02.%20Built%20Environment%20Performance%20Plans/2016-17/Final/CPT%20Cape%20Town/CPT%20Cape%20Town%20Final%20BEP%202016-17.pdf>

²⁵ The Weekend Argus compared data on toilet facilities, collected by the City of Cape Town, with the Census 2011 data, and found 97 uncounted settlements. See <http://academy.code4sa.org/stories/the-forgotten-people>

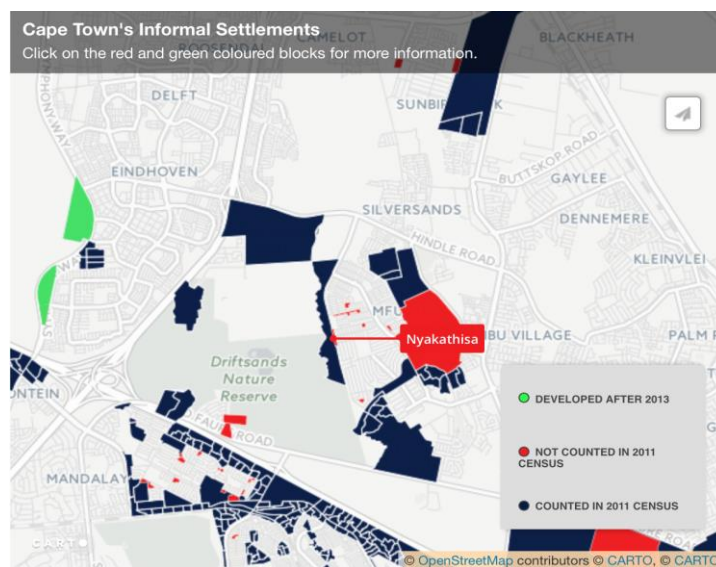
The 2011 Census estimated that 74 800 households (7% of the population, up from 4,3% in 2001) live in backyard shacks²⁶, including about 45 000 who live in backyard dwellings on council property.²⁷

Work done in 2016 by the Housing Development Agency shows the concentration of informal settlements south and east of the centre city²⁸, primarily around government-sponsored housing.

This map provides a close up view of informal settlements included in the 2011 Census, those not counted (red) and those developed after 2013 (green).²⁹ Informal settlements are dynamic, changing environments, however, which means that census data is inadequate at best for tracking their performance. How informal settlements influence, and are influenced by, their neighbouring formal neighbourhoods is a key issue for consideration that quite fundamentally shapes the City's ability to deliver its services effectively to those most in need.

It is well accepted that informal settlements have value. What is not clear however, is the extent of that value. Recently, the National Income Dynamic Survey³⁰ (NIDS) released data on occupant estimated market values of the dwelling, as well as characteristics of the dwelling and the neighbourhood in which it is located. Occupants were asked "what is a reasonable market value for which this property could be sold?" Responses from occupants of shacks not in backyards varied significantly, with clusters around the R2 000, R5 000, R10 000, R15 000 and R20 000 price points.³¹

Figure 10 Cape Town's informal settlements, Code4SA



²⁶ Cape Town's Built Environment Performance Plan 2016/17

<http://mfma.treasury.gov.za/Documents/02.%20Built%20Environment%20Performance%20Plans/2016-17/Final/CPT%20Cape%20Town/CPT%20Cape%20Town%20Final%20BEP%202016-17.pdf>

²⁷ GHS Series Volume VII Housing from a human settlement perspective. In-depth analysis of the General Household Survey data 2002 – 2014. <http://www.statssa.gov.za/publications/Report-03-18-06/Report-03-18-062014.pdf>

²⁸ Data provided by the Housing Development Agency of the National Department of Human Settlements, 2016

²⁹ See <http://academy.code4sa.org/stories/the-forgotten-people>

³⁰ The National Income Dynamics Survey (NIDS) is a nationally representative panel-based survey. It was launched in 2008 with a sample of 28,000 individuals in 7,300 households. The survey is repeated with these same individuals every two years and to date, four waves of the survey have been conducted. The survey includes the same categorisation of dwelling types used by Statistics South Africa in the Census and other household surveys.

³¹ Eighty20(2017) A House Price Index methodology based on municipal data. Prepared for the Centre for Affordable Housing Finance in Africa.

Figure 11 Distribution of government-sponsored properties, and informal settlements, Cape Town, 2015

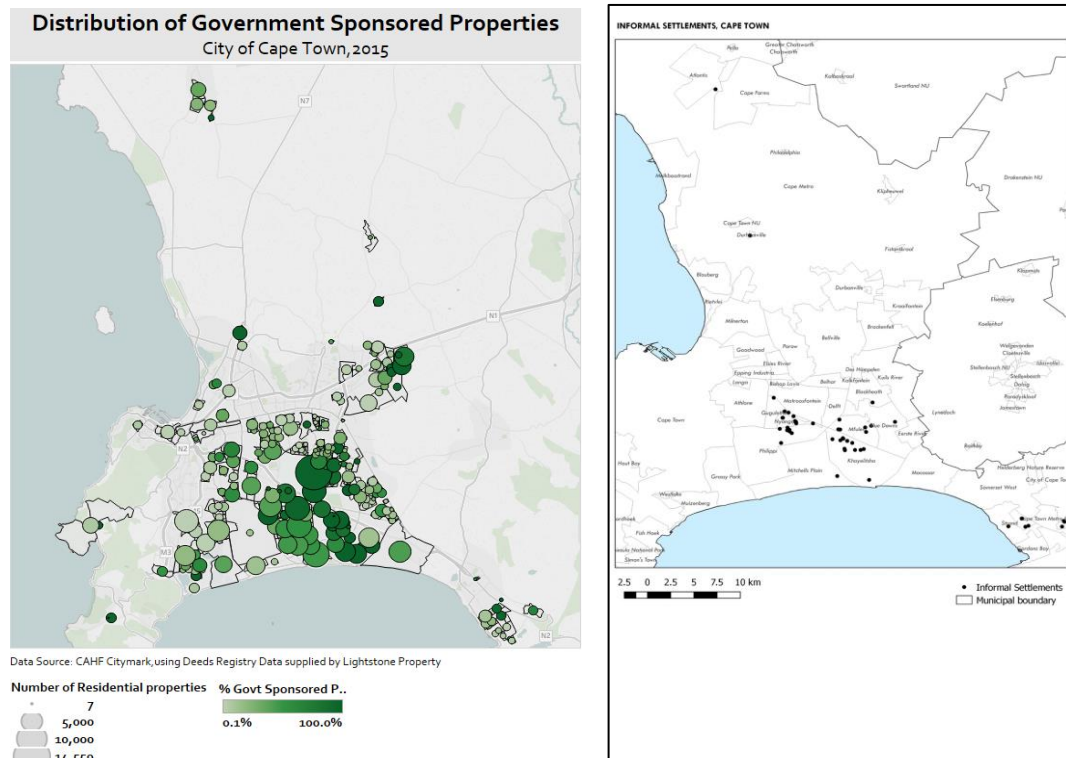
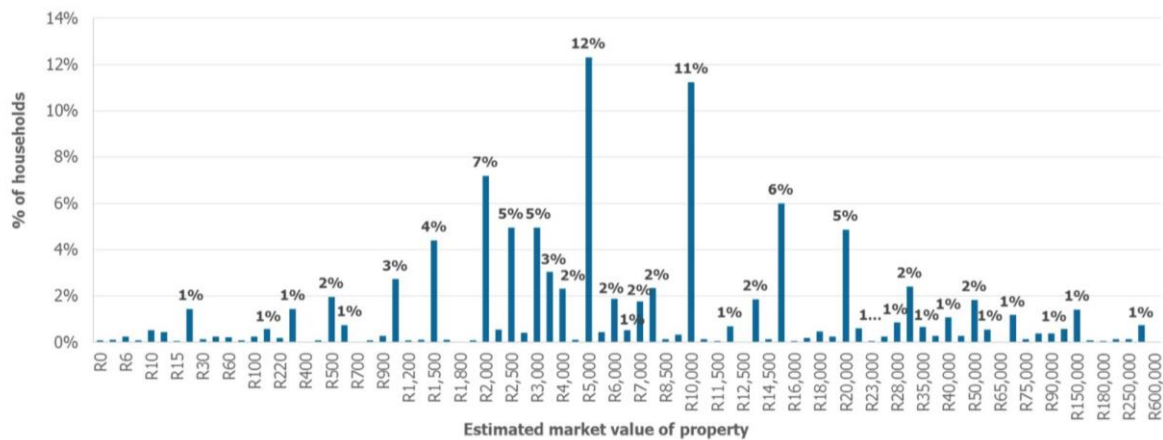


Figure 12 Estimated market values for shacks not in backyards, NIDS, Wave 4 data³²



There is one further group of properties that cannot be tracked with deeds registry data: households living in government-subsidised housing that has not yet been formally registered. As of May 2017, the backlog in registrations in the Western Cape sat at about 31 929 units. To date, about 46 942 title deeds have already been delivered in the province as part of the national title deeds restoration

³² Source: Wave 4 Data: Southern Africa Labour and Development Research Unit. National Income Dynamics Study 2014 - 2015, Wave 4 [dataset]. Version 1.1. Cape Town: Southern Africa Labour and Development Research Unit [producer], 2016. Cape Town: DataFirst [distributor], 2016. Pretoria: Department of Planning Monitoring and Evaluation [commissioner], 2014

project³³. It is estimated that about 65% of all properties that comprise the backlog are located in the major metros. While these 31 929 properties sit without title deeds, they escape valuation, cannot be formally transacted, and generally underperform as assets for both their occupant households and the city itself.

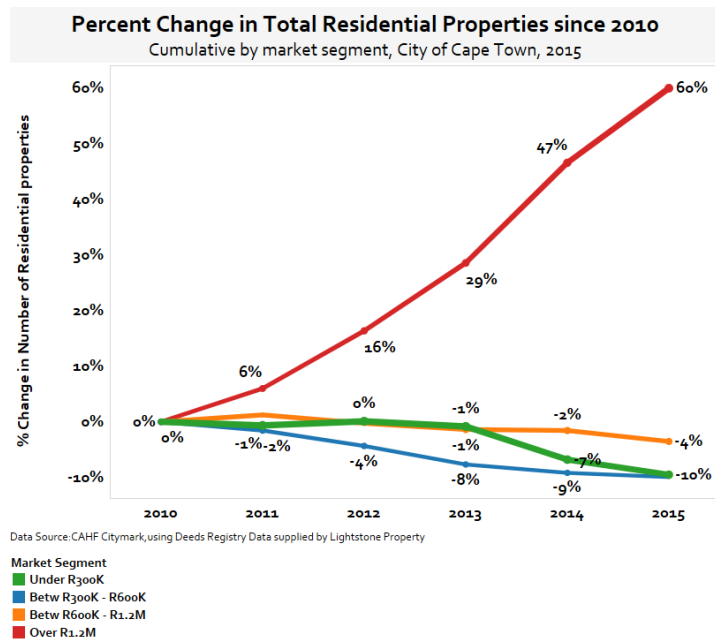
3.2 Market Activity

Cape Town’s property market activity is regularly reported on in the press. It can be tracked by analyzing deeds registry data, or the City’s own valuations and other data, to understand the supply of new housing, resale market activity, lending activity and the growth of house prices in each of the four market segments and across the city’s 770 neighbourhoods, or sub-places.

3.2.1 Supply of new housing as seen on the deeds registry

In the six years between 2010 and 2015, Cape Town’s property market grew by 50 586 units. In that time, 55 373 new units were added to the market.³⁴ The majority of these (53%) have been in the sub-R300 000 market segment. Government has been the primary deliverer of the City’s housing in the period, and virtually the only deliverer in the sub-R300 000 market segment, with new registrations for about 29 090 government sponsored properties appearing on the deeds registry.³⁵ By 2015, government-sponsored housing comprised 27,3 percent of the city’s residential property market. It is now well understood that this represents only a portion of the actual government-sponsored stock in the city. The backlog in title deeds registration for government-sponsored properties, plus the city’s and province’s expenditure on subsidized housing suggests that there are more properties that have been built and which accommodate our residents,

Figure 13 Percent change in total residential properties since 2010, Cape Town, 2015



³³ Email correspondence with Anton Arendse, Estate Agency Affairs Board, 29 May 2017.

³⁴ The difference between the absolute growth of 50 586 units and the 55 373 new registrations suggests that some residential properties were also ‘lost’ to the city – converted to business or otherwise no longer counted as residential property. This is a fairly common anomaly in the data when analyzing the size of the market over time.

³⁵ National deeds registry data suggests that between 2010 and 2015, a total of 27 735 government sponsored properties were delivered in the sub-R300 000 category (95% of the total). The data suggests that a further 1355 government sponsored properties were delivered in market segments above R300 000. Of course, this should not be possible, as this far exceeds the value expected for government sponsored properties. This is an issue that needs to be investigated further.

than are visible on the deeds registry. This poses a problem for the city – not only can it not track the performance of these housing units, it is also unable to apply property rates.

Notwithstanding a construction focus on the sub-R300 000 market, it is in the high-end market segment of properties worth more than R1,2m that Cape Town has seen the most growth (60% in number) since 2010, while other market segments have gotten smaller. This is due, primarily, to property price appreciation which has seen properties move from one market segment into the next. For example, in the six years from the end of 2009 to 2015, while the overall City grew by about 50 586 units, the high value market segment of properties above R1,2m increased by about 93 000 units in that period – largely due to appreciation of existing housing from the lower value market segments. At the same time, the absolute size of the sub-R300 000 market segment got smaller by about 25 000 units, as properties appreciated into higher value segments and were not replaced by increased delivery in this segment (this would be subsidized housing delivery, given current market conditions). While property appreciation benefits existing owners, it means that access to affordable housing by lower income earners who have not yet climbed on the property ladder is becoming more difficult over time.

Freehold continues to be the dominant form of new housing construction, but increasingly, such housing is delivered in enclosed estates. The freehold and sectional title markets have grown similarly, the estate market has grown much more rapidly.

It is useful to consider the three tenure categories for new registrations above R300 000, so that the analysis isn't influenced by the dominance of government-sponsored properties in the bottom category. Looked at in this way, the significance of estate development in Cape Town is clear, just under Sectional Title development. While freehold (including estate) still dominates the

Figure 14 Percent change in total residential properties since 2010, by property type: Freehold, estate & sectional title

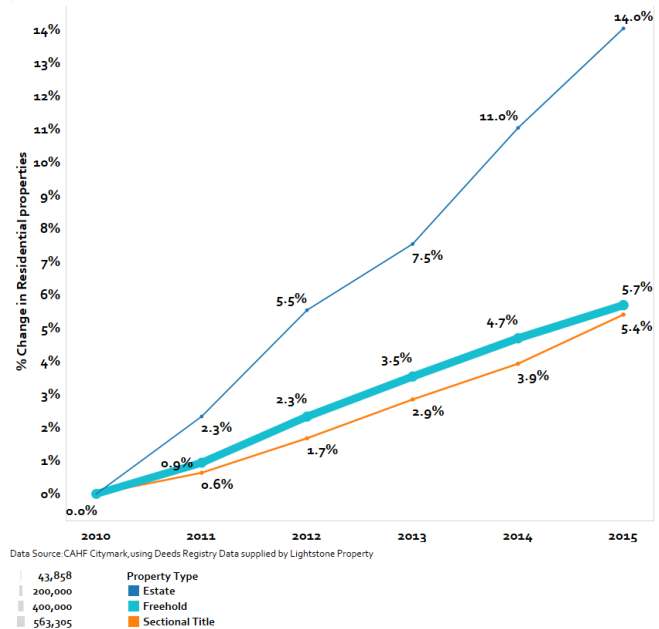
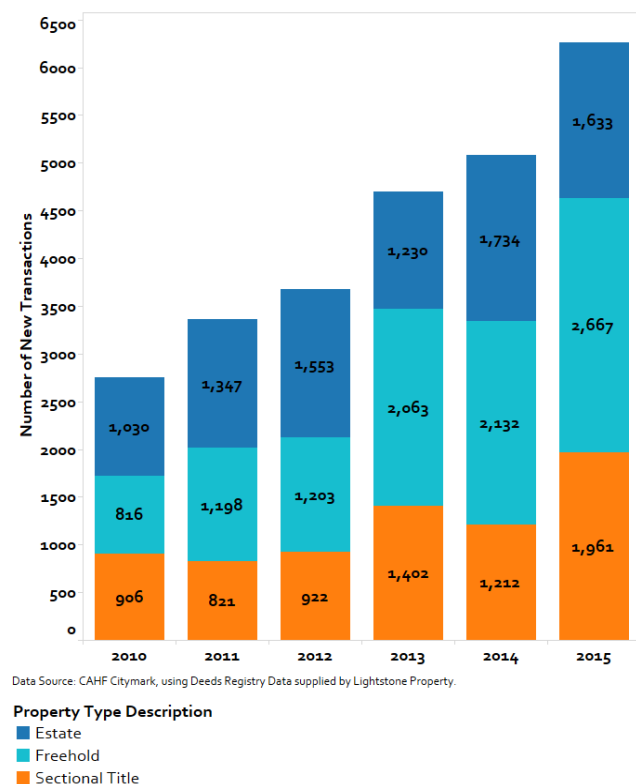


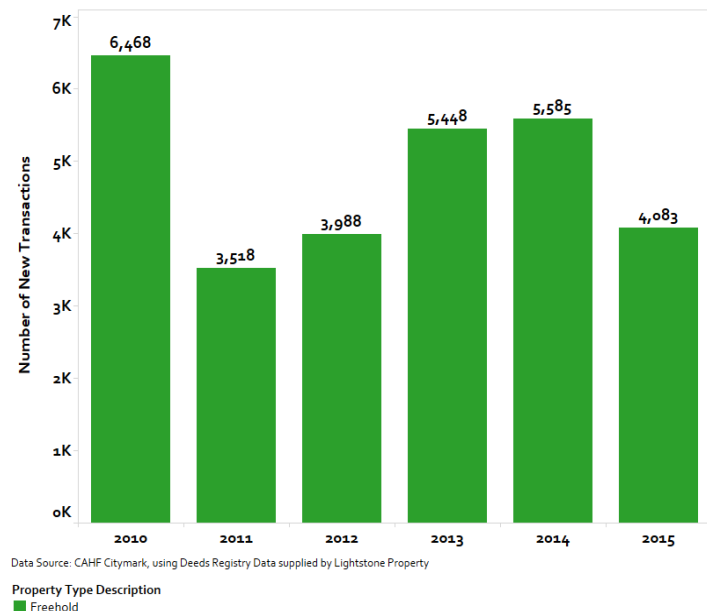
Figure 15 Number of new transactions, properties above R300 000, by property type: Freehold, estate & sectional title, Cape Town



market, sectional title is significant and growing. This is worth considering, both in terms of the contribution that estate and sectional title living arrangements might make to goals for densification, and the focus of new housing delivery taking place in the City. A critical issue is the valuation of Sectional Title stock, and the extent to which the City is able to realise revenue from this investment interest.

The delivery of government sponsored housing has dominated the new build market, with about half of all new registrations (all freehold) each year falling into that category. In 2010, government-sponsored delivery was as high as 68% of all new registrations; the low was in 2014 when government-sponsored delivery was 41% of all new registrations. Certainly, however, the delivery of government-sponsored housing as evident through its registration on the deeds registry is insufficient to meet the potential demand for such housing in the City. In 2015, only 4 083 government-sponsored houses were registered on the deeds registry.³⁶ As noted, it is likely that many more were built. The ability of these units to function as housing assets for their beneficiaries, however, is undermined if title is not transferred and they do not appear on the deeds registry.

Figure 16 New registrations of government-sponsored properties, Cape Town 2010-2015



New transactions may be financed with cash, financed with a mortgage loan (also known as a bond), or paid for by the government (this is government-sponsored housing). The majority of new transactions (29 090 transactions or 53%) between 2010-2015 were financed by the government as part of the national housing subsidy programme. Of the 25 830 remaining new transactions extended in those six years, 68% were financed with 17 511 mortgage bonds.

Interestingly, the 17 511 mortgage bonds originated on new properties between 2010 and 2015 were evenly spread across the upper three categories, with 31% of bonds in the market segment R300 000 – R600 000; 31% in the segment R600 000 – R1,2m; and 31% in the segment above R1,2m. Looked at another way, two thirds (66%) of new transactions in the segment R300 000 – R600 000 were financed with a mortgage bond; 69% in the segment R600 000 – R1,2m; and 57% in the segment of properties worth more than R1,2m. That there was very little lending in the sub-R300 000 market is not necessarily an indication of a lack of market interest: the market of properties worth less than R300 000 is dominated by government-sponsored new build for which mortgages are not required, and there are a number of other factors that constrain the resale market. This is an important area of

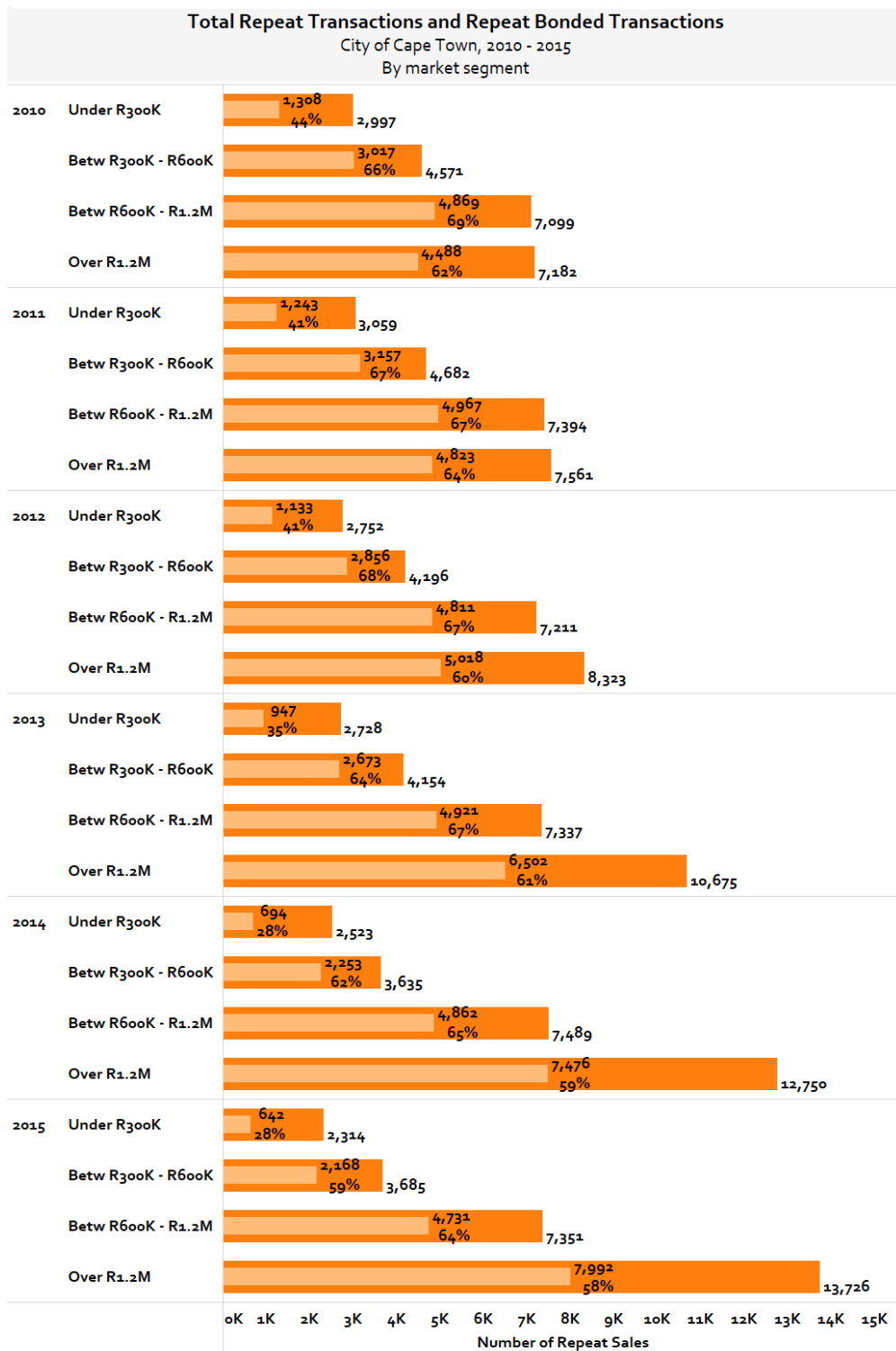
³⁶ Housing backlog figures are notoriously difficult to pin down, however it is well known that many households have been on the housing waiting list for years.

opportunity for the city to consider, however, as it is in this market segment that the opportunities to be found in property market filtering can be leveraged.

3.2.2 Resale market activity

The resale market is inverse to the new build, with far many more transactions in the higher value market segments, and fewer in the lower value market segments. In the six years between 2010 and 2015, a total of 145 394 properties changed hands in the resale market; an average of about 24 000 annually. About 60% of these were financed with a mortgage, involving about 87 551 loans. Resales also were registered in the government-sponsored housing market: over 16 000 resales in the period, or an average of 2 700 annually. Just under half of these transactions were financed with 7 006 mortgages.

Figure 17 Total repeat transactions and repeat bonded transactions, Cape Town 2010-2015



Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property

Measure Names

- Repeat Transactions
- Total Bonded Repeat Transactions

Over the course of the six years between 2010 and 2015, resale market activity grew marginally, though mostly in the highest market segment of properties over R1,2m. Resales in the R300 000 – R600 000 market segment came down, as did the percent bonded, from 66% in 2010 to 59% in 2015. While 44% of all resales in the sub-R300k market were financed with a mortgage in 2010, this had come down to 28%, involving 642 transactions in 2015.

Table 2 Total repeat transactions: all and government sponsored

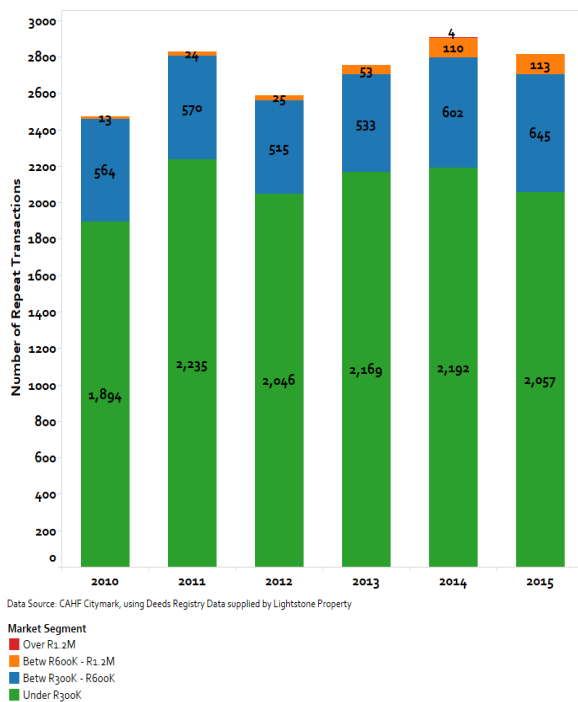
Total Repeat Transactions and Repeat Bonded Transactions All properties City of Cape Town, 2010 - 2015 By market segment				Total Repeat Transactions and Repeat Bonded Transactions Government-sponsored properties City of Cape Town, 2010 - 2015 By market segment			
	Repeat Transactions	Total Bonded Repeat Transactions	% Bonded repeat transactions		Repeat Transactions	Total Bonded Repeat Transactions	% Bonded repeat transactions
Under R300K	16,373	5,967	36%	Under R300K	12,593	4,364	35%
Betw R300K - R600K	24,923	16,124	65%	Betw R300K - R600K	3,429	2,391	70%
Betw R600K - R1.2M	43,881	29,161	66%	Betw R600K - R1.2M	338	249	74%
Over R1.2M	60,217	36,299	60%	Over R1.2M	4	2	50%
Grand Total	145,394	87,551	60%	Grand Total	16,364	7,006	43%

Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property

Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property

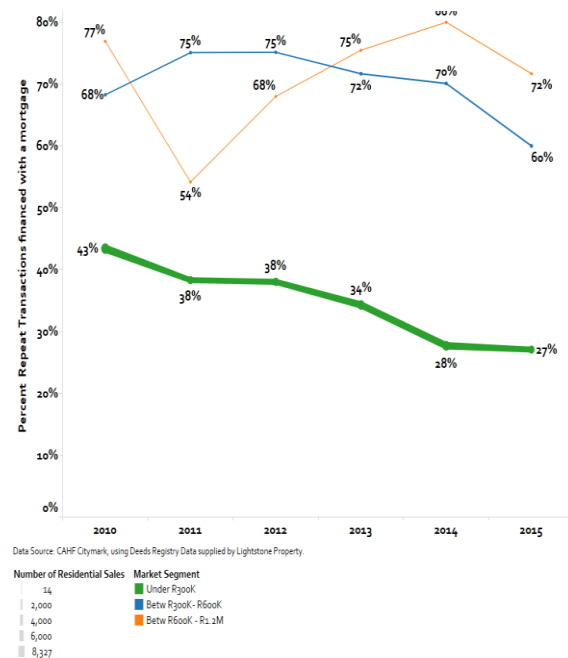
Formal resale market activity in the government-sponsored market should not be surprising, although it is constrained by the eight-year resale restriction imposed by the Housing Act. While anecdotes highlight informal transaction activity, this remains to be quantified. Meanwhile, formal resale registrations of between 2 500 and 3 000 government-sponsored properties annually, are evident on the deeds registry since at least 2010. Also worth noting is the value bands in which these resale properties fit. The majority are, as expected, in the sub-R300k market. However, a significant number (about a fifth of annual resales) are in the R300 000 – R600 000 market segment, and by 2013, a few started appearing also in the higher value segments.

Figure 19 Government sponsored resale transactions, Cape Town 2010-2015



Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property

Figure 18 Government sponsored properties resale transactions, financed with a mortgage, Cape Town 2010-2015



Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property

Number of Residential Sales
 14
 2,000
 4,000
 6,000
 8,337

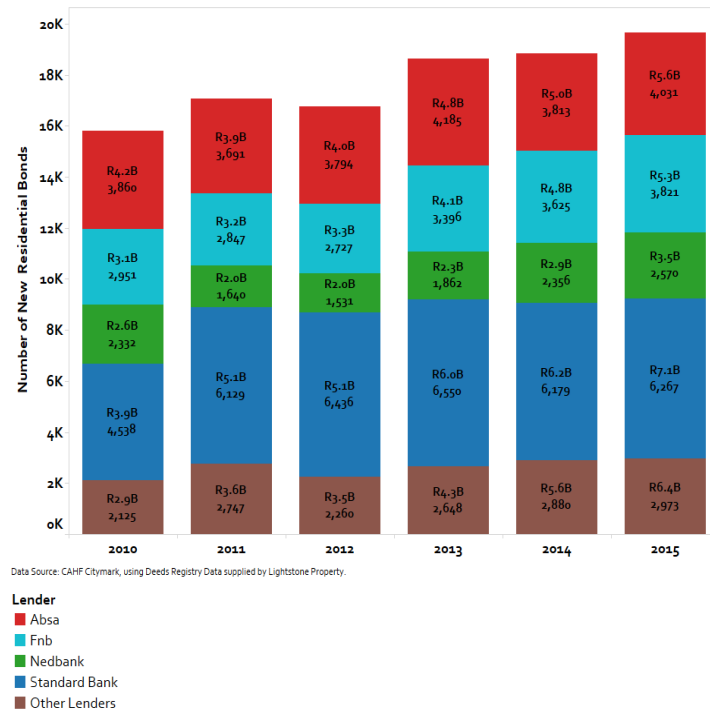
Market Segment
 Under R300K
 Betw R300K - R600K
 Betw R600K - R1.2M
 Over R1.2M

Banks are also financing these transactions. About 70% of all resale transactions in the government-sponsored, R300 000 – R600 000, and R600 000 – R1,2m market segments were financed with a mortgage; in the bottom market segment, just under an average of 30% of annual transactions were financed with a mortgage.

Resale market transaction rates (or churn) vary significantly by property type. Sectional title and estate properties have relatively high levels of turnover – more than double the average for all properties combined, showing a more vibrant market with more participation and opportunity for investment. A challenge for the city would be to use the interest in the sectional title market to stimulate opportunity further down the property ladder with lower priced homes that are affordable to the bulk of Cape Town’s demand side.

All of this relates to formal resales, recorded by a conveyancer on the national deeds registry. However, it is understood that there are not an insignificant number of informal transactions that also occur. A recent survey by the Development Action Group (DAG) of a project they completed in Khayelitsha in 2015 indicated that 300 of the 1500 households had sold their properties informally within 11 months of project completion.³⁷ These sales would typically be cash sales that are not recorded on the deeds registry, and not recognised by the City – and as such, do not represent a legal transaction. Of course, this puts both parties at risk as their understanding of the ownership status of the property differs from how it is understood legally. At the same time, the transactions represent a very real expression of value and market interest on the part of the buyers and sellers. The challenge to the City is how to incorporate this invisible market activity into our understanding of the wider property market, and ultimately, how to facilitate legal transactions that better protect the interests of the parties. This will also contribute towards growing the City’s rates base – a critical priority as it works to deliver more and better services to our residents.

Figure 20 Transactions financed with a mortgage: number and value by lender, Cape Town 2010-2015



Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property.

Table 3 Churn by property type, Cape Town 2010-2015

Property Type	2010	2011	2012	2013	2014	2015
Freehold	1,4%	1,4%	1,6%	1,3%	1,4%	1,3%
Sectional Title	5,6%	5,6%	6,0%	5,8%	5,9%	6,3%
Estate	8,1%	10,2%	11,8%	10,1%	8,7%	7,3%
Average	2,0%	2,1%	2,3%	2,0%	2,2%	2,0%

(1) Churn is calculated as total repeat transactions within the year divided by total properties, less new transactions within that same year.

Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property.

³⁷ Email communication between Illana Melzer of Eighty20 and Adi Kumar of DAG, November 13, 2016

3.2.3 Lending activity

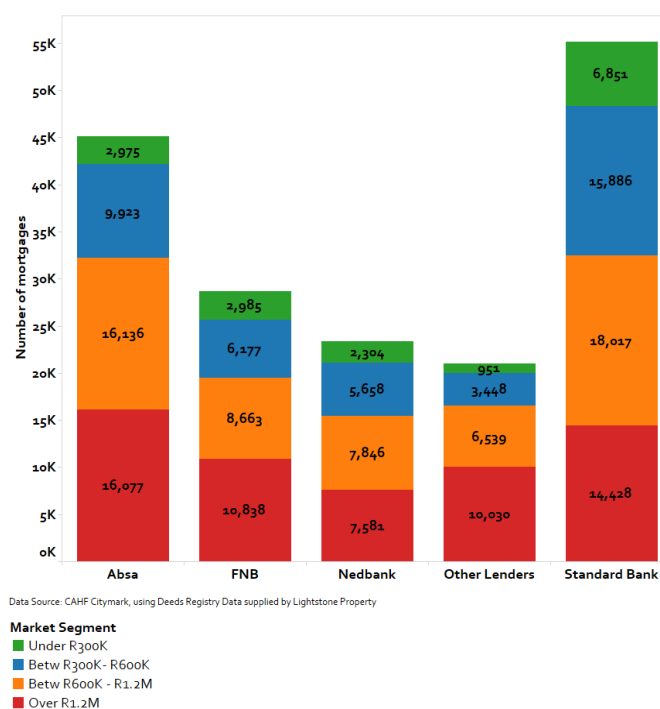
Overall, residential lending has grown in Cape Town since 2010 – with both the number and the value of loans increasing, suffering only a marginal slump in 2012. Over the six years from 2010 to 2015, the number of transactions financed with a mortgage increased by 25%, from 15 806 mortgage financed transactions across all market segments in 2010 to a high of 19 662 mortgage financed transactions across all market segments in 2015, showing greater activity and somewhat of a recovery from the pre-2010 slump.³⁸ In this time, lending focus has shifted upmarket, with 32% of bonded transactions being in the R1,2 million market segment in 2010, and almost half (49%) in that segment in 2015. By contrast, over that same period, the share of lending in all other segments dropped.

While the big four banks maintained their dominance, it is worth noting that the “other lenders” category, which includes lenders such as SA Homeloans, Investec, as well as employers, and other smaller lenders held 15% of total market share in 2015. Between 2010 and 2015, Standard Bank’s portfolio grew the most by both number and value, followed by FNB. Absa and Nedbank’s rate of origination has remained relatively constant.

By market segment, Standard Bank has been the most active in the affordable market, with about 23 000 loans between 2007 and 2015, almost double the next lender in that segment, Absa, with 12 898 loans in that period. Of course, across the board, there was more lending in the R600 000 market and above. The activity in the affordable market areas, however, is noteworthy.

In the map, the percent of transactions which were bonded, by suburb, are highlighted. The total number of transactions is illustrated by the size of the bubble, while the percent bonded is illustrated by its colour, with darker bubbles showing a higher percentage of transactions having been financed with a mortgage. High income areas are shaded in dark green while lower income areas are shaded in light green.

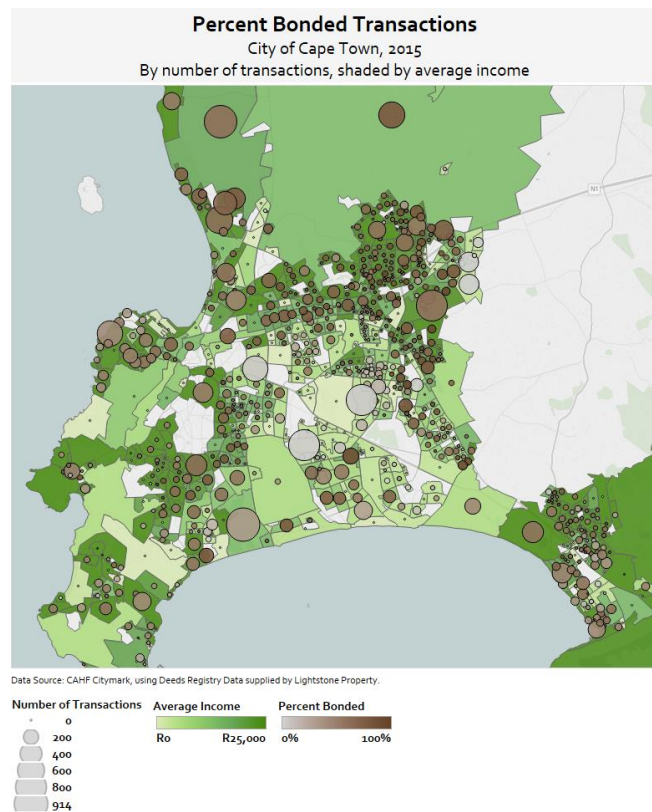
Figure 21 Total mortgage loans: number by lender, 2007-2015



³⁸ This data only records primary mortgages that were registered within three months of the sale transaction – that is property transactions financed by a mortgage. It does not include secondary mortgage registrations - properties for which there was no transaction and a second mortgage was raised on the property. Nor does it include the incidence where borrowers switch their mortgage from one lender to another.

On the whole, a higher percentage of bonded transactions aligns with higher income areas. However, mortgage lending is clearly visible also in some low income neighbourhoods, such as Pelikan Park (31% of 914 transactions in 2015 were bonded, with the average transaction price being R310 216); Tafelsig (26% of 268 transactions were bonded, with the average transaction price being R125 120); Woodlands, in Mitchell’s Plain (44% of 208 transactions, with an average price of R231 967, were bonded); and Mandalay (87% of 207 transactions, with an average transaction price of R345 374, were bonded). Other areas with high numbers of transactions (Langa SP, Browns Farms and Delft SP, the large beige dots in the middle) had fewer than 5% bonded transactions in 2015, primarily because most of these transactions were the delivery of new subsidized housing. It is worth noting, however, that 14% of resale market transactions in Delft were bonded.

Figure 22 Percent bonded transactions, Cape town 2015



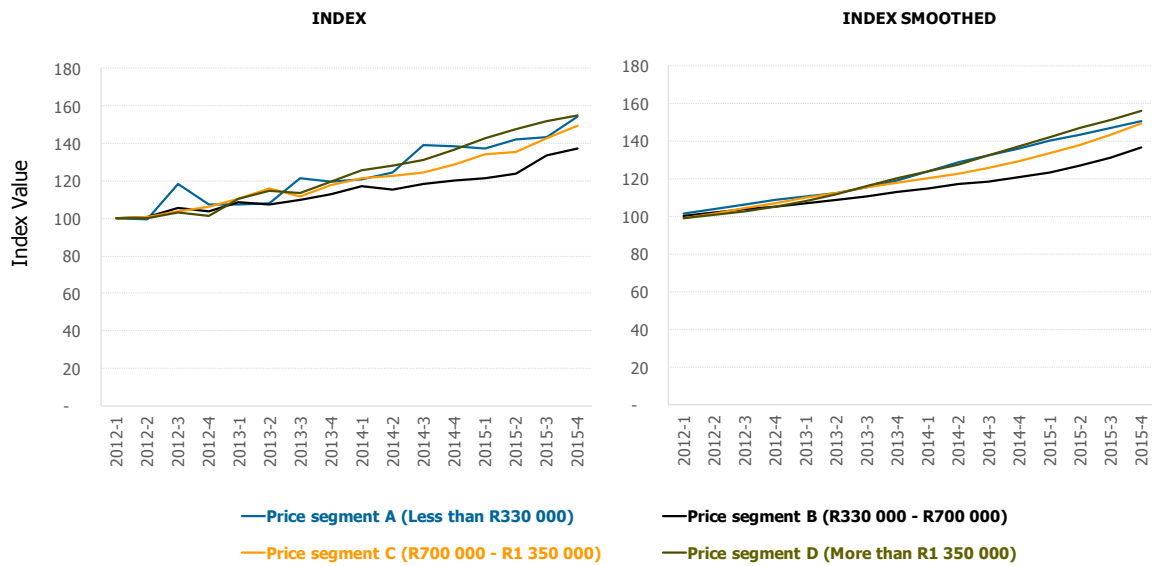
3.2.4 Housing prices

Cape Town’s property market is well known for rising prices. Since 2012, prices have increased at 13% per annum to the end of 2015. However, this City average hides significant differences in performance across specific market segments, and also does not include property market dynamics in 2016 and the early part of 2017, which have been dramatic.

A hedonic House Price Index (HPI) model³⁹ shows an upward price trend for all freehold properties by quartile. The highest value quartiles are rising at a faster rate than the lower value quartiles, with the sub-R330k quartile demonstrating erratic performance, in part due to limitations in the data.

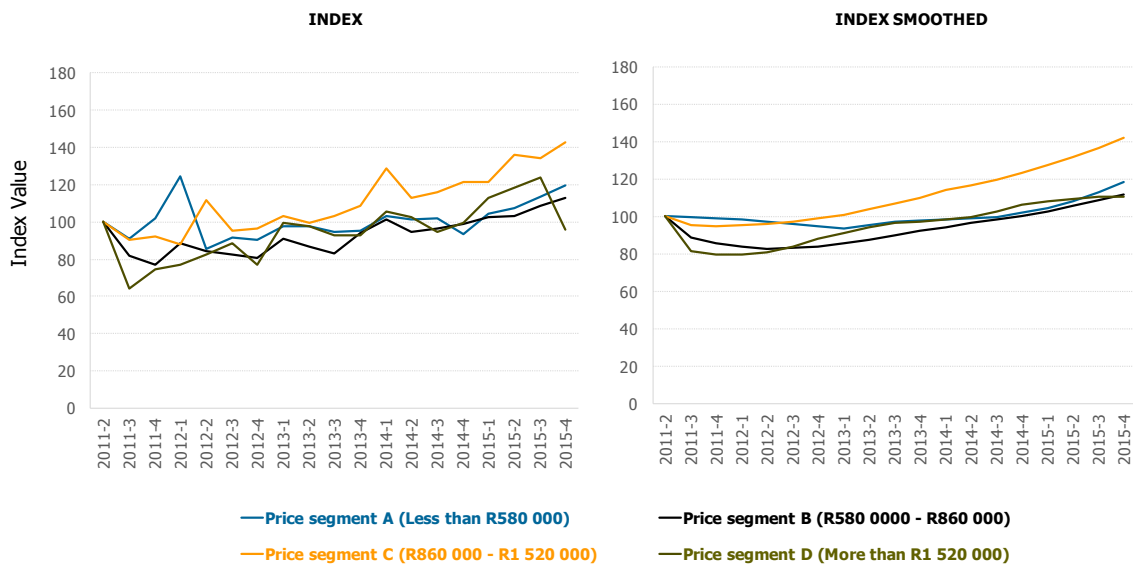
³⁹ A House Price Index has been developed and piloted by Eighty20, using municipal data for Cape Town. This was part of a wider initiative exploring the use of city data to track and understand property market performance in Cape Town and two other metro municipalities, undertaken by CAHF for the World Bank, under the auspices of the Cities Support Programme, run by National Treasury. A separate report (A House Price Index methodology based on municipal data) sets out the details of that exercise, the results of which are reported here.

Figure 23 Aggregate House Price index by market quartiles: Freehold properties (excluding RDP) by quarter



For sectional title, while the HPI model shows much more variation, growth is still evident for each of the market quartiles, with the most growth in the middle quartile of properties priced between R860 000 – R1 520 000, and more recently, in the lowest quartile of properties priced at less than R580 000. The variation is, in part, due to fewer properties in the sectional title market and a lower number of transactions.

Figure 24 Aggregate House Price Index by market quartiles: Sectional Title by quarter



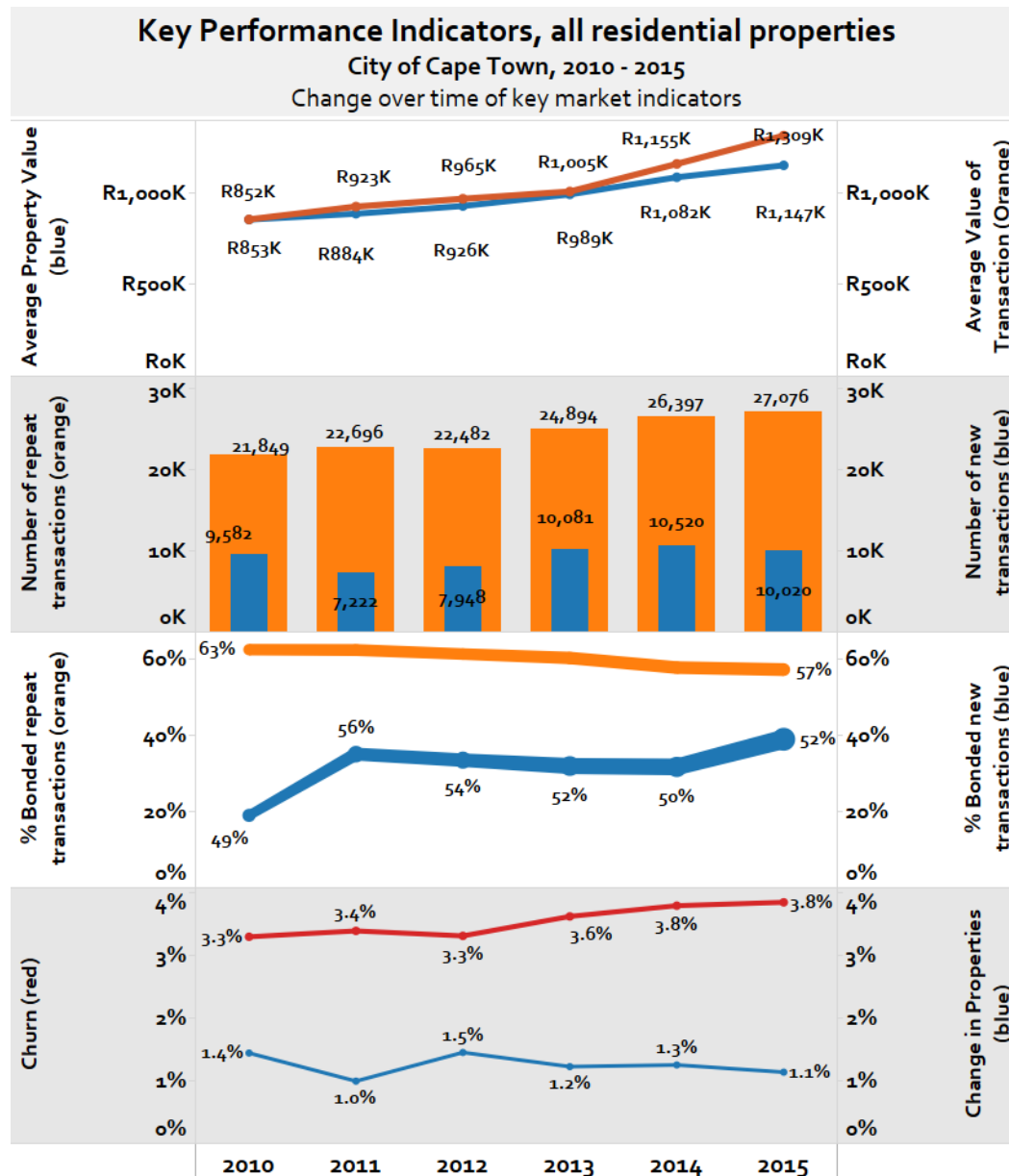
A preliminary effort to develop an index specifically for government sponsored housing – using the City’s valuation roll identification of RDP, has found price appreciation of about 8% per annum

between 2012 and 2015. This is not insignificant, and shows the potential of RDP or otherwise government sponsored properties contributing to the asset wealth of their beneficiaries. A key component of this value growth, however, is the extent to which it can be realised through resale market transactions. This is a critical area of opportunity for the City to support as properties in government sponsored settlements cross over the 8-year resale restriction threshold. Enabling filtering in the government sponsored market will substantially impact on the City's ability to support the housing aspirations also of its residents in the so-called gap market.

4 Property Market Performance in Cape Town

On the whole, Cape Town's property market has been growing steadily, with a moderate rise in average property values and in transaction prices every year. Transaction prices (the prices that are achieved in sales) have been slightly higher than property values (the estimated value of properties based on trends), suggesting that demand is pushing prices up above actual values, and indicating an opportunity for more supply (on the other hand, it could also suggest that valuations are incorrect). The number of transactions has risen very gradually, with 32 000 transactions in 2010 to about 37 700 transactions in 2015, with a brief dip in 2011 and 2012. The majority of these transactions have been in the resale market; new build has been dominated by the delivery of government subsidized housing. A key challenge, however, is that the rate of new build has not matched the population growth rate – suggesting a growing rather than declining housing backlog. Lender participation as a proportion of total transactions has also been relatively consistent overall: about half of all transactions have been financed with a mortgage. This has contributed to the relatively stable (albeit insufficient) delivery of new housing and annual turnover (or churn) of existing housing.

Figure 25 Key performance indicators, all residential properties: Cape Town, 2010-2015



Data Source: Citymark, drawing on national deeds registry data

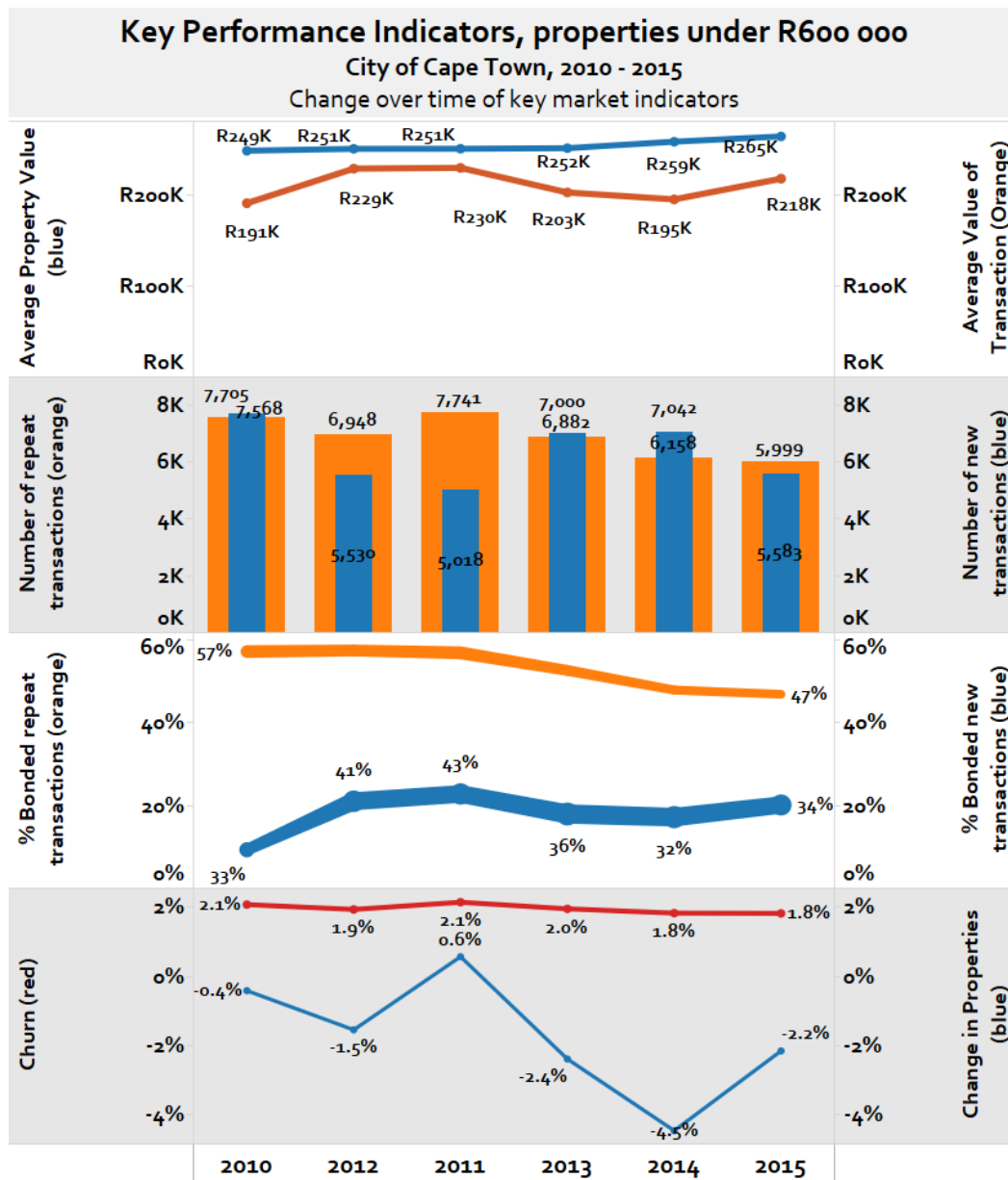
Key Performance Indicators

- % Bonded new transactions
- % Bonded repeat transactions
- % change in residential properties
- Churn
- New Transactions
- Repeat Transactions

Cape Town’s market is diverse, however, and the broad performance set out above hides very real variation from one market segment to another. In the affordable market segment of properties valued at less than R600 000, property values have been consistently higher than transaction prices. This may be explained by the lower level of mortgage penetration, with only about a third of all transactions financed with a mortgage bond. Notwithstanding that the affordability of the majority of Capetonians is likely to be found in this market segment (and towards the bottom end), the number

of transactions (both new and resale) has declined per annum. Possibly as a result of depressed prices, or declining mortgage availability, churn rates are low.

Figure 26 Key performance indicators, properties under R600 000, Cape Town 2010-2015



Data Source: Citymark, drawing on national deeds registry data

- Key Performance Indicators
- % Bonded new transactions
 - % Bonded repeat transactions
 - % change in residential properties
 - Churn
 - New Transactions
 - Repeat Transactions

4.1 Housing Affordability and Access

Housing affordability is a function of household incomes, the price of property, and the availability of finance. Incomes are notoriously difficult to determine; however, there are some indications. The following table sets out household incomes as defined by the 2011 Census, the 2014/15 NIDS survey⁴⁰, and the 2015 AMPs survey. Depending on the survey used, the highest income households, earning above R20 000 per month, comprise between 13-20% of the population; middle income households earning between about R7000 – R20 000 comprise between 25-40% of the population; and low income households earning less than about R7000 comprise between about 41-61% of the population.

Table 4 Cape Town population income distribution⁴¹

CENSUS 2011 HOUSEHOLDS			NIDS 2014/15 HOUSEHOLDS			AMPS 2015 HOUSEHOLDS		
Monthly Household income	Total		Monthly Household income	Total		Total Monthly Household Income (before tax & other deductions)	Total	
No income	146 517	14%	<R3,500	345 875	33%	<R3,500	173 588	18%
R1-R3183	355 892	33%	R3,500-R7,000	259 378	25%	R3,500-R6,999	224 354	23%
R3183-R6367	154 227	14%	R7,000-R15,000	247 810	24%	R7,000-R15,000	298 348	31%
R6367-R12,817	139 348	13%	R15,000-R20,000	157 284	6%	R15,000-R20,000	183 623	9%
R12,817-R25,633	126 625	12%	R20,000-R40,000	190 865	9%	R20,000-R40,000	143 506	15%
R25,633-R51,200	92 360	9%	R40,000+	139 365	4%	R40,000+	93 869	5%
R51,200+	52 332	5%						
Unspecified	17 3	0%						
Total	1 068 574	100%	Total	1 040 577	100%	Total	737 87	100%

Overall, incomes are low, with only 13%-20% of households able to afford a R500 000 house and less than 5% able to afford Cape Town's average house price in 2015 of R1,3m with a 100% mortgage bond. It is for this reason, that filtering becomes so important.

At the same time, property values are increasing, and affordable properties are appreciating out of the lower-value segments. Without additional supply of new housing into those segments, Cape Town's housing affordability challenge is becoming increasingly acute. In the six years between 2010 and 2015, the number of properties in the affordable market have effectively decreased, while the number of properties valued above R1,2 million have increased.

In the graph, new supply into the various market segments, per year, is set out in the blue bars. As would be expected, new registrations dominate market activity in the sub-R300k category, while resales dominate all other market segments. Still, even with this focus on new registrations in the bottom end of the market, delivery is insufficient. StatsSA tells us that 33% of households in the Western Cape who live in informal dwellings have a member on the housing waiting list.⁴² Of these,

⁴⁰ Source: Wave 4 Data: Southern Africa Labour and Development Research Unit. National Income Dynamics Study 2014 - 2015, Wave 4 [dataset]. Version 1.1. Cape Town: Southern Africa Labour and Development Research Unit [producer], 2016. Cape Town: DataFirst [distributor], 2016. Pretoria: Department of Planning Monitoring and Evaluation [commissioner], 2014

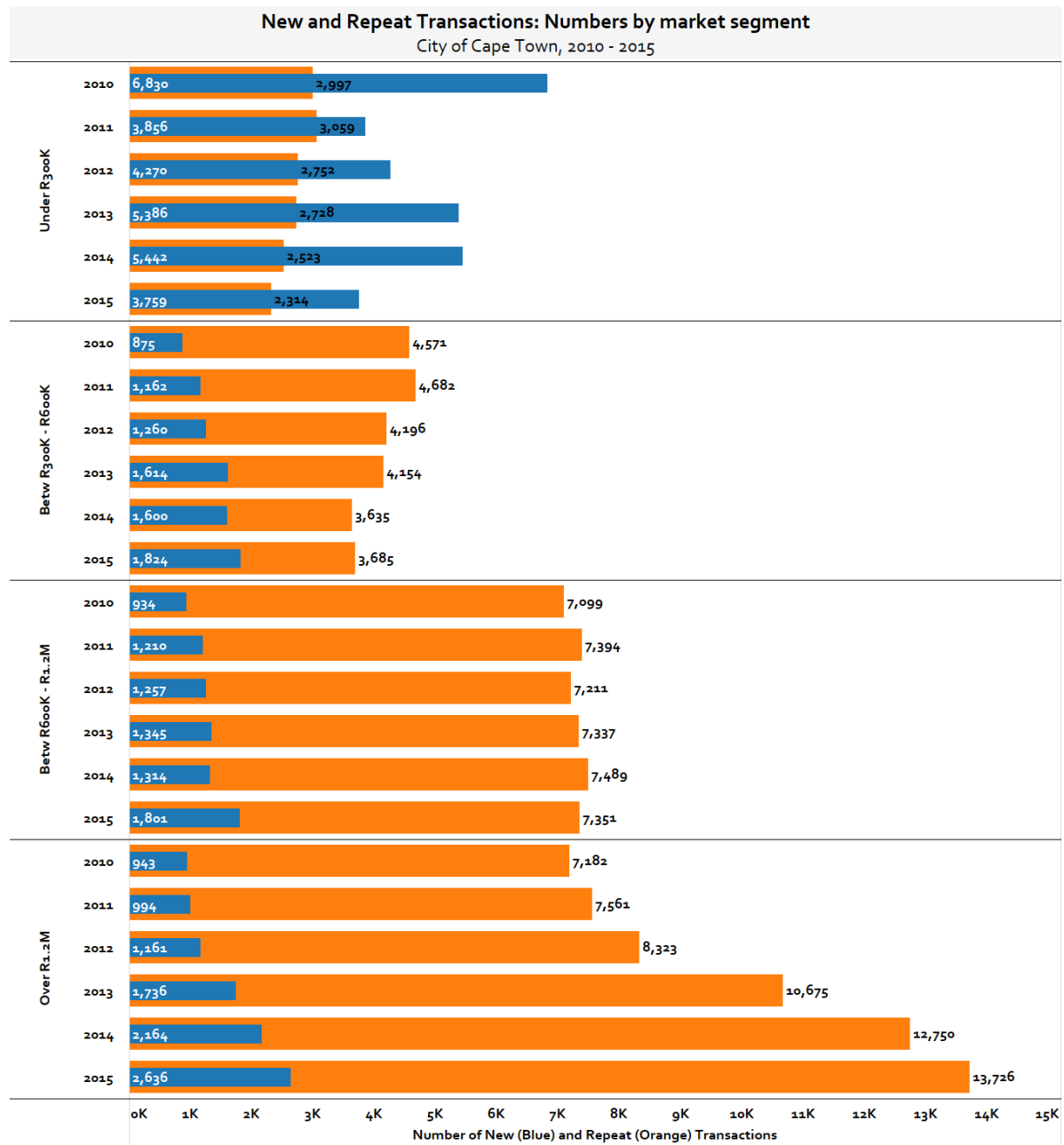
⁴¹ Data compiled by Eighty20 from three surveys. For Census 2011 and NIDS 2014/15, filter = City of Cape Town. For AMPS 2015, filter = Urban areas of the magisterial districts of Bellville, Cape, Simonstown, Wynberg, Goodwood, Kuilsrivier, Mitchells Plain. Income brackets for AMPS have been adjusted - where the brackets did not match those in AMPS, the income bracket was split by dividing households equally to create the new bracket. Unfortunately, a singularly conclusive data set for household income is not available, and estimates must be derived from these various sources.

⁴² See <http://www.statssa.gov.za/publications/Report-03-18-06/Report-03-18-062014.pdf>

about third have been waiting for 1-3 years, while a quarter have been waiting for longer than ten years. This picture is not uncommon across the country.

A further issue is the 66% of households living in an informal dwelling in the Western Cape who do not have a member on the housing waiting list. This issue of so-called “non-qualifiers” is significant and a function of the structure of the housing market and population it best serves. To this end, it is worth noting that developer attention seems to be growing in the higher value segments with far many more new houses being delivered in the R1,2m category than in the others (with the exception of sub-R300k). New registrations in one year translate into potential resales in future years – and with appreciation these often appear in higher value market segments.

Figure 27 New and repeat transactions by market segment, Cape Town 2010-2015



Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property

■ New Transactions
■ Repeat Transactions

Cape Town's top end market has considerable resale market activity, growing at a much faster rate than the lower value market segments. This activity is significant for the nation in the realization of transfer duties. However, the impact on transaction opportunities – housing access – for households only able to afford the housing in the lower value segments, is also worth considering. Given the population distribution in Cape Town, it is surprising that not more properties in the R600 000 – R1,2 million segment were being delivered – although, this is likely explained by the impact of land values on the cost of construction. Can city data tell us if there has been an increase in the construction of rental housing in this market? Certainly, planning approvals should consider prioritizing and otherwise

facilitating building plan approvals and transaction support for new construction in the sub-R1,2m market segments.

Churn rates are also worth noting in the context of housing access.⁴³ Although the sub-R300k market segment comprises a third of all properties in Cape Town, this segment does not host a third of all transactions. Churn rates measure the rate of turnover of the property market: the total number of repeat transactions divided by the total number of properties less new registrations. While the top market segment of properties worth more than R1,2m have relatively high churn rates – up to 6,4% of all properties – the bottom market segment of properties worth less than R300 000 have churn rates at less than 1,5%. This means that properties in that market segment are not selling – the potential benefits of filtering are not being realised.

Table 5 Churn rates by market segment, Cape Town 2010-2015

Churn ⁽¹⁾ by market segment, by year
City of Cape Town, 2010 - 2015

Market Segment	2010	2011	2012	2013	2014	2015
Under R300K	1.4%	1.4%	1.2%	1.2%	1.2%	1.2%
Betw R300K - R600K	3.4%	3.6%	3.3%	3.4%	3.0%	3.1%
Betw R600K - R1.2M	4.4%	4.6%	4.5%	4.7%	4.8%	4.8%
Over R1.2M	5.3%	5.3%	5.3%	6.1%	6.4%	6.3%
Average	3.4%	3.4%	3.4%	3.7%	3.9%	3.9%

(1) Churn is calculated as total repeat transactions within the year divided by total properties, less new transactions within that same year.

Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property.

Whether these variances are explained by, or themselves explain, the distribution of mortgage lending by market segment, the following picture is interesting. As would be expected, lending favours high-end properties, with far many more loans going towards transactions in the R600 000+ market segments, than below. This has been consistent over the past nine years. The degree of preference for the higher end market, however, has been increasing over the period.

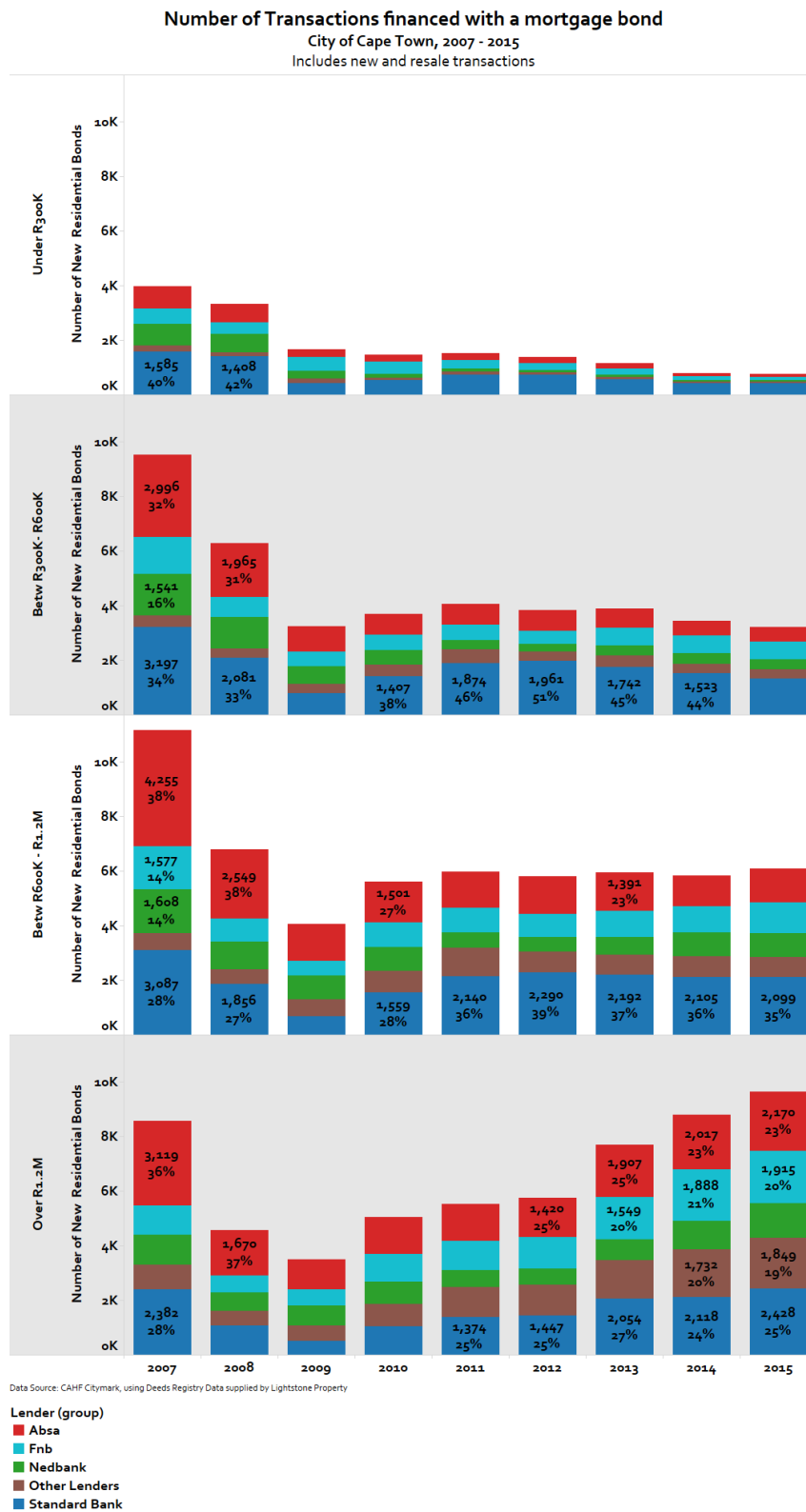
As illustrated in the graph, lending activity has declined since 2007. In 2007, 41% of transactions that were financed with a mortgage were in the affordable market (properties worth less than R600 000). This represented 17% of the total value of mortgages that financed transactions in that year. The global financial crisis of 2008 had particular implications for mortgage markets around the world, and by 2009 this is reflected in the numbers, with a severe dip in lending, across all market segments, to different degrees.

Interestingly, the dip happened first in the high-end markets; lending to transactions in the sub-R300k market continued strongly for 2007 and 2008, as these were the final years of the first phase of the Financial Sector Charter (FSC). However, with the close of the first FSC phase at the end of 2009, and the global financial crisis, lending to the bottom end dropped significantly by almost half, and it hasn't recovered since. By 2015, the proportion of mortgage financed transactions that were in the affordable market had declined significantly to 20% of mortgage financed transactions by number and

⁴³ Overall, the city's average churn rate of 3.9% in 2015 is higher than the national average of 2.86%. The point of the Table, however, is to compare across the various market segments. This demonstrates much higher levels of resale activity in the higher value band than in the lower band, even though household income distribution for the city is likely to be in the reverse.

6% by value. Lending to the top end, on the other hand, for transactions of properties worth R1,2 million and above, recovered after the 2009 dip and has been growing consistently ever since.

Figure 28 Number of transactions financed with a mortgage bond, Cape Town, 2007-2015



4.2 Economic and spatial transformation

A key issue of concern is whether Cape Town's property market is contributing towards economic transformation and inclusive growth. Property is an extremely useful instrument to support these goals, given the multi-faceted nature of the housing asset and the different ways in which this performs, both for the household and the wider city. In this section, these issues are explored from both an economic and a spatial perspective.

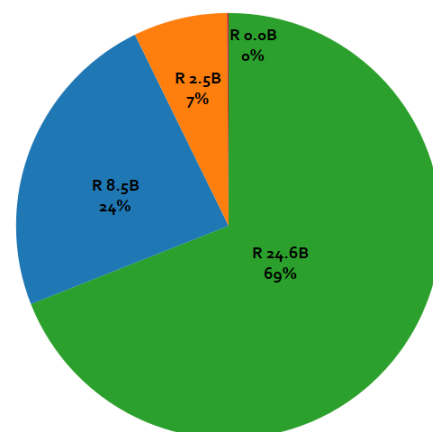
4.2.1 Economic Transformation

The most obvious form of economic transformation in the property market is through the delivery of government-sponsored housing to qualifying beneficiaries – low income households who otherwise would have never been able to acquire such an asset. However, this depends on the property being formally registered, and realising value for the property owner through a functioning property market. Cape Town has supported the delivery of subsidized housing to about 191 887 households since the onset of the national housing subsidy programme in 1994. The total value of that stock at the end of 2015 was about R35,5 billion – an average value per household of R185 000 – varying from one household to the next depending on the state of their property, its age, the original and subsequent investments, its location and the other factors that contribute towards property value.

Beyond the simple allocation of the subsidized house, however, is the appreciation potential of the housing asset. All government subsidized houses delivered between 1994 and the present are likely to have been in areas where the average property value was less than R300 000; and certainly their values themselves would have been below R300 000. However, by 2015, the distribution of properties by value was a little more diverse. While 69% of properties remained in the sub-R300 000 market segment, just under one quarter had appreciated to the R300 000 – R600 000 market segment, and 7% were in the segment with properties valued between R600 000 and R1,2m.

The real impact, however, is evident in the leveraging of credit: mortgage loans extended to homeowners of government sponsored properties. In the period between 2007 and 2015, over R4 billion in mortgage loans were leveraged against 15 056 government-

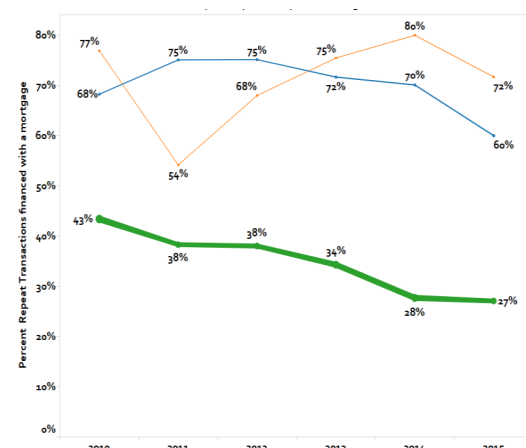
Figure 29 Government-sponsored properties by market segment: value, Cape Town 2015



Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property

Market Segment
 Under R300k
 Betw R300k - R600k
 Betw R600k - R1.2M
 Over R1.2M

Figure 30 Percent resale transactions of government-sponsored properties financed with a mortgage, Cape Town 2010-2015



Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property

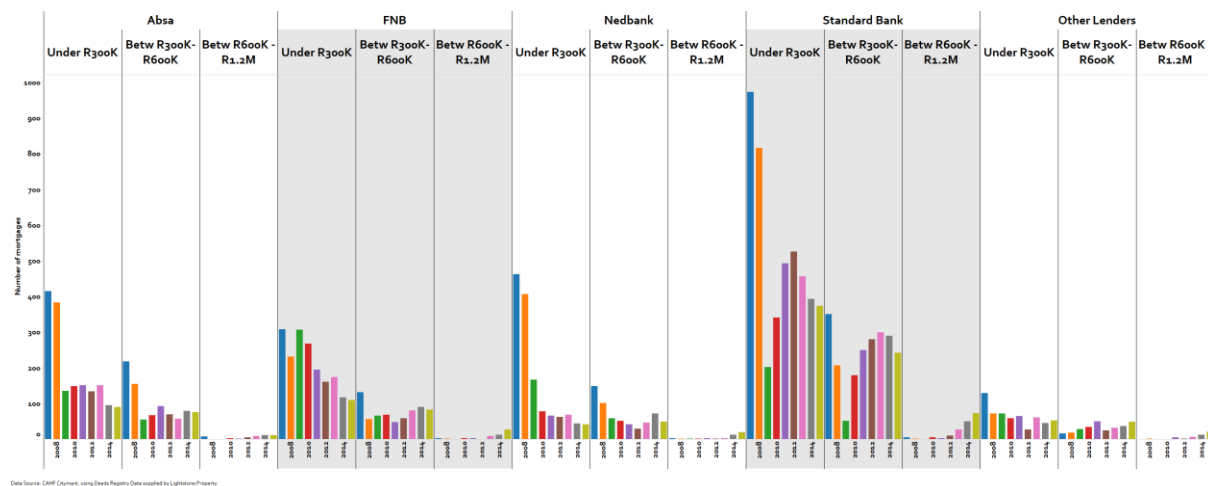
Number of Residential Sales
 14
 2,000
 4,000
 6,000
 8,327

Market Segment
 Under R300k
 Betw R300k - R600k
 Betw R600k - R1.2M

sponsored properties⁴⁴ at an average loan size of about R272 360. As a proportion of the total potential market, this is private sector lending against 8% of government sponsored properties. As a proportion of resale transactions – and not simply all properties available, the number is much higher. About 70% of all transactions of government sponsored properties worth above R300 000 were financed with a mortgage bond. For properties worth less than R300 000, just under 30% of resale transactions were financed with a mortgage.

The main lender to government-sponsored properties, by far, has been Standard Bank. As illustrated below, after a high in 2007 and 2008, lending fell right down, for all lenders, but in the period following, Standard Bank maintained an average of about 400 loans in the sub-R300 000 market and about 300 loans in the R300 000 – R600 000 market per annum. Standard Bank is followed by First National Bank, and then by ABSA. Across all lenders, loan sizes increased over the period, while lending came down.

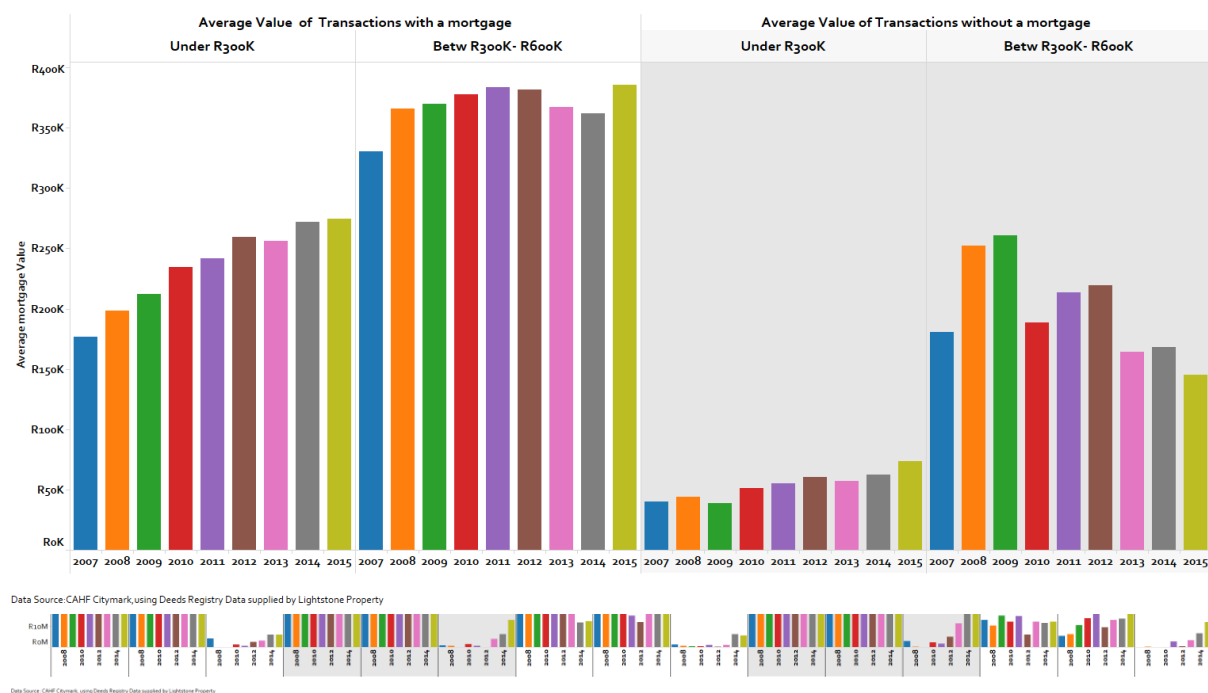
Figure 31 Number of bonded transactions to government-sponsored properties. Cape Town 2007-2015, by lender, by market segment



⁴⁴ As noted, it is very difficult to identify what is a government-sponsored property on the deeds registry, because these are not marked in any way. We have used a proxy, based on the national policy, to identify these units, as a best estimate. Cities can improve this analysis by explicitly noting, and mapping, which properties in their jurisdictions actually received state support, whether through the RDP or BNG subsidy scheme or other housing subsidy programmes. This will support better analysis of the impact of state investment on the asset potential of housing for low income earners.

The impact of mortgage finance on the transaction price that is realised, is significant. Consistently, properties sold with mortgage finance achieve higher prices than properties sold without a mortgage. This is especially the case for the sub-R300 000 market segment. In the following graph, which looks specifically at the formal sale of government sponsored properties in Cape Town between 2007-2015, the bars on the left illustrate the price achieved when the transaction was financed with a mortgage bond, while the bars on the right illustrate the price achieved without a bond.

Figure 33 Average price of resale transactions for government sponsored properties, Cape Town 2007-2015, by market segment, with and without a mortgage



	Resale transactions, govt-sponsored properties, financed with a mortgage bond									Resale transactions, govt-sponsored properties, financed without a mortgage bond								
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2007	2008	2009	2010	2011	2012	2013	2014	2015
Under R300k	1979	1730	830	822	856	778	744	607	557	893	1001	1043	1072	1379	1268	1425	1585	1500
Betw R300k-R600k	726	474	248	385	428	387	382	422	387	90	82	113	179	142	128	151	180	258
Betw R600k-R1.2M	16	4	1	10	13	17	40	88	81	2	4	4	3	11	8	13	22	32
Over R1.2M	0			0	0	0	0	2	0	0			0	0	0	0	2	0
TOTAL	2721	2208	1079	1217	1297	1182	1166	1119	1025	985	1087	1160	1254	1532	1404	1589	1789	1790

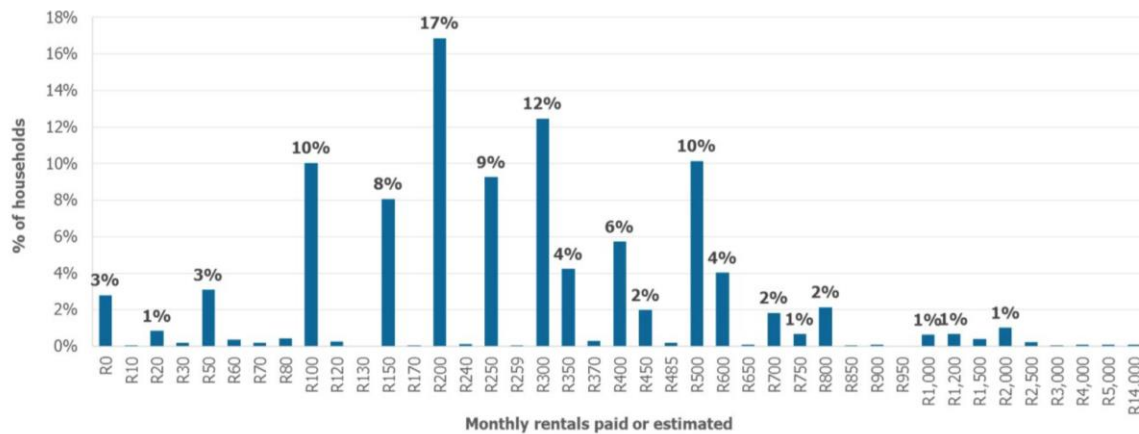
The most dramatic difference is in the sub-R300 000 category, where prices achieved with a mortgage bond are in many cases more than double what they are when the transaction was financed with cash. There may be a number of reasons for this. It be the case that those properties financed with a mortgage were already higher value properties – that the sales price, given the value of the property, was what drove the need for mortgage finance. Or, it could be the case that mortgage lenders only sought out higher value properties for lending. This data does not explain why the higher prices were achieved. However, the coincidence of higher prices with the use of mortgage loans is evident and should be further explored.

Overall, about 51% of the formal transactions of government sponsored properties were financed by a mortgage. The main focus of this lending was in the sub R300k market, with 8 903 loans being extended (68% of all loans extended to government-sponsored properties). This was followed by 3 839 loans (29% of the total) being extended to the R300k – R600k sub-market of government sponsored properties.

There are further opportunities for economic transformation through property. Households can run small businesses from their homes to earn an income, or they can provide a portion of their property – within their home or in a backyard unit – for rental. Households might also purchase additional property as an investment and offer that for rent or use it as a small business. This relates not just to the formal property market, but also the informal market.

The National Income Distribution Survey (NIDS) gathers data on actual rentals paid by households who rent their dwellings, and asks respondents who do not rent to provide an estimate of the reasonable rentals that the dwelling could achieve. About 14% of households who live in a shack not in a backyard pay rent; and a further 72% who live in a shack not in a backyard that do not pay rent provided an estimate of what they would be willing to pay.⁴⁵

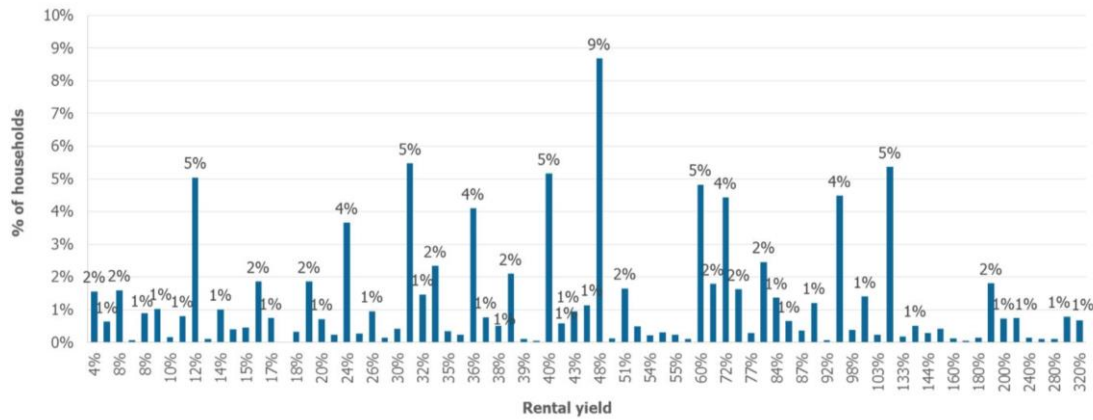
Figure 34 Estimated monthly rentals for shacks not in backyards, NIDS, Wave 4 data (entire country)



⁴⁵ Eighty20(2017) A House Price Index methodology based on municipal data. Prepared for the Centre for Affordable Housing Finance in Africa.

Considering this data against property values indicates exceptionally high rental yields in some cases, for shacks not in backyards, with a median yield of 45% and an average yield of 60%.

Figure 35 Rental yields on shacks not in backyards, NIDS, Wave 4 data (entire country)



To the extent that both estimated values and rentals are somewhat accurate, this highlights a significant willingness to pay for access to land and shelter, and a very real economic opportunity for those who provide it.

Research on the backyard rental sector is limited – but indications are that it is a significant deliverer of housing. In 2010, it was estimated that among the city’s 43 500 rental units, there were more than 41 000 backyard rental structures. These are clearly important components of household livelihood strategies – and having property offers households the opportunity to realise income earning opportunities while providing accommodation to others. Support for backyard rental may involve the deepening of infrastructure provision to the settlement, or the provision of transaction support services that support positive rental relationships. Support for sustainable small business development might be similarly nothing more from a city policy perspective than enablement: ensuring appropriate zoning and efficient business approvals. The city has the capacity to engage with this.

4.2.2 Spatial Transformation

In the context of South Africa’s history, spatial transformation is a critical issue that the City faces. How can the City of Cape Town better integrate its settlements to support a more efficient city that better delivers to its residents?

The common approach to spatial transformation is to promote the development of affordable or governments-sponsored properties in high value areas – bringing low income people into higher income neighbourhoods and transforming those areas to be more diverse and accommodating of a wider array of the population. This is a critical area for policy attention and one that cities should focus on when they consider the use of state land and other urban infill opportunities. The potential is limited, however. There is only so much land and the need for affordable housing is much greater than what high value areas can accommodate. To this end, transforming low value spaces, diversifying

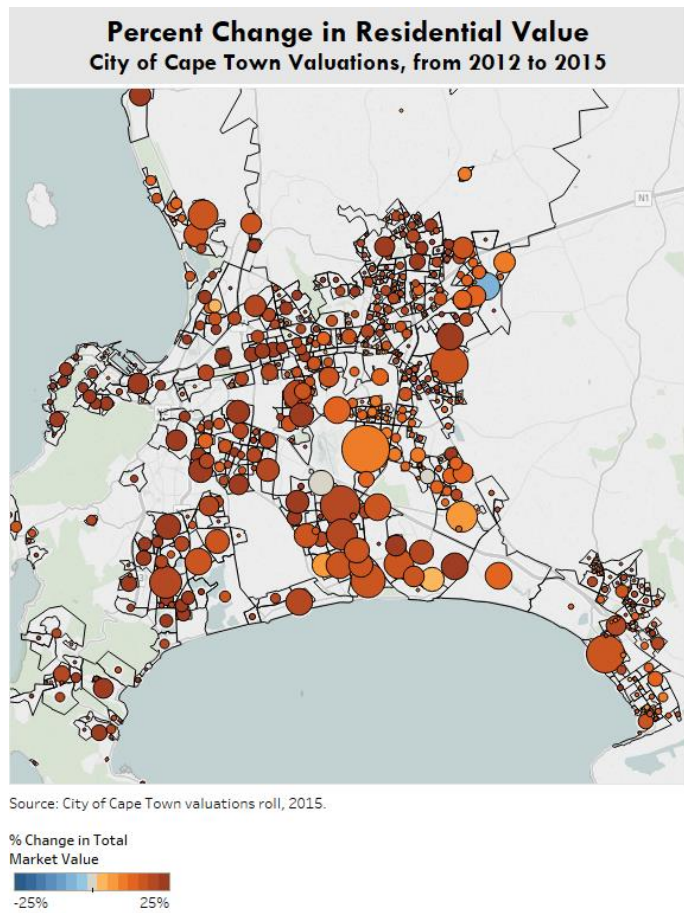
the population that seeks to live in those areas, and contributing to value growth is another approach at spatial transformation that cities should address.

A simple view of Cape Town’s valuations roll shows that significant growth in value between 2012 and 2015 has not been limited to the high value neighbourhoods. Significant growth in value is also evident in the affordable market areas in the south and south-east of the city centre.

The tables below summarise the change in property values (using a compound annual growth rate) by neighbourhood for freehold, sectional title and RDP properties.⁴⁶ Only neighbourhoods with a minimum of 20 transactions per quarter are included in the tables. Some neighbourhoods have demonstrated significant growth. Woodstock, for example, on the western edge of the Voortrekker Corridor, has seen a CAGR of 24%, with the median property price doubling in value between 2012 and 2015. Can this performance be pulled eastwards into the Voortrekker Corridor?

At the same time, Khayelitsha (freehold, non-RDP) has enjoyed a 14% CAGR, ahead of Blouberg 1, and Claremont, and even Sea Point. The RDP neighbourhoods of Khayelitsha and Philippi are performing among the city’s best.⁴⁷ Delft and Kuils River are performing better than the sectional title properties in Somerset West. This is an important definition of transformation – bringing value in to lower value areas, transforming the places where people live through the growth in property values and the further investment and development that this then encourages. This is the property asset at work.

Figure 36 Percent change in total value, Cape Town, 2012-2015



Source: City of Cape Town valuations roll, 2015.

⁴⁶ Eighty20(2017) A House Price Index methodology based on municipal data. Prepared for the Centre for Affordable Housing Finance in Africa. Note – a property count for Sectional Title units is not included as this was not available in the 2012 data set.

⁴⁷ A range of factors could be supporting this growth in value in Khayelitsha and Philippi. It could be a response to the city’s investment in economic and social infrastructure in the areas, or an expression of high levels of demand for housing (especially among the unsubsidized gap market) that isn’t being met by new supply. This bears further investigation.

Table 6 Freehold Suburb Metrics, Cape Town 2012, 2015

Neighbourhood	CAGR (%)	Mean Price (2012)	Median Price (2012)	Properties 2012 (N)	Mean Price (2015)	Median Price (2015)	Properties 2015 (N)
Woodstock	24%	R981 405	R800 000	2 977	R1 645 956	R1 600 000	2 982
Observatory	18%	R1 132 976	R1 150 000	1 776	R1 783 571	R1 625 000	1 778
Bothasig	15%	R847 535	R860 000	2 162	R1 192 766	R1 130 000	2 167
Khayelitsha	14%	R206 795	R192 500	19 640	R240 636	R250 000	19 774
Claremont	13%	R2 743 434	R1 955 000	2 716	R3 225 655	R2 400 000	2 735
Atlantis	13%	R255 757	R250 000	8 749	R361 585	R330 000	8 786
Rondebosch	12%	R2 252 931	R1 900 000	3 388	R2 661 860	R2 250 000	3 407
Kraaifontein	12%	R622 602	R600 000	9 359	R847 449	R827 000	9 664
Brackenfell	12%	R936 113	R910 000	5 525	R1 576 012	R1 495 000	6 246
Parklands 1	12%	R983 995	R950 000	1 287	R1 325 310	R1 312 500	1 291
Table view 1	11%	R1 386 977	R1 200 000	2 142	R1 731 841	R1 650 000	2 151
Gordons bay	11%	R793 950	R750 000	1 731	R1 087 051	R1 050 000	1 745
Strand	10%	R889 605	R863 636	4 046	R1 070 535	R1 140 000	4 069
Plumstead royal cape	10%	R1 197 596	R1 150 000	4 712	R1 766 377	R1 650 000	4 723
Retreat	10%	R345 124	R300 000	6 789	R477 043	R365 000	6 879
Blouberg 1	10%	R1 987 738	R2 000 000	1 021	R2 824 889	R2 500 000	1 023
Kuils river	9%	R878 828	R650 000	9 476	R1 049 326	R970 000	10 361
Eersterivier	9%	R260 206	R120 000	11 958	R414 972	R425 000	13 557
Oakdale	9%	R915 830	R897 000	2 623	R1 109 522	R1 150 000	2 626
Fish hoek	9%	R1 471 671	R1 265 000	2 051	R1 868 980	R1 650 000	2 055

Table 7 Sectional Title Suburb Metrics, Cape Town 2012, 2015

Neighbourhood	CAGR (%)	Mean Price (2012)	Median Price (2012)	Mean Price (2015)	Median Price (2015)
Green Point	12.42%	R1 543 257	R1 250 000	R2 285 050	R2 000 000
Cape Town	10.61%	R1 213 693	R1 090 471	R1 894 024	R1 700 000
Century City	9.26%	R1 700 130	R1 400 000	R2 010 858	R1 837 500
Sea Point	7.07%	R1 662 317	R1 325 000	R2 543 318	R2 200 000
Brackenfell	6.11%	R761 877	R615 000	R679 307	R690 000
Somerset West	3.14%	R810 488	R734 200	R1 006 914	R860 000

Table 8 RDP Suburb Metrics, Cape Town 2012, 2015

Neighbourhood	CAGR (%)	Mean Price (2012)	Median Price (2012)	Properties 2012 (N)	Mean Price (2015)	Median Price (2015)	Properties 2015 (N)
Khayelitsha	17%	R105 375	R80 000	6 666	R166 309	R120 000	6 678
Philippi	15%	R97 528	R78 000	13 654	R122 373	R77 500	13 727
Mfuleni	7%	R93 772	R80 000	6 210	R140 597	R115 600	6 366
Kuils river ²⁴	6%	R88 137	R84 000	4 240	R102 764	R80 000	4 242
Delft	6%	R94 066	R45 000	19 390	R127 178	R100 000	19 628

A further issue of market performance relates to churn, or turnover of existing properties, which indicates a level of market interest. Churn, or turnover of existing properties, can indicate a level of market interest, and the increase in transactions brings new people into an area. In this way, areas originally developed as lower-value neighbourhoods diversify, to accommodate a wider spread of incomes and values. Spatial transformation can be as much about diversifying the market that participates in lower value areas as it is about diversifying the market that participates in higher value areas.

As noted above, the average churn rates for the City general align with market segment: higher value market segments have higher churn rates than lower value market segments. However, there are some areas where churn rates are considerably higher than the norm. The data suggests there are differentiating factors that make those particular neighbourhoods more desirable for market investors.

The following table sets out the churn rate for the top five churning suburbs where the average property value in the suburb was below R600 000.⁴⁸ Many of these suburbs are located in or close to the City's priority investment areas.

Table 9 Churn rates in high performing suburbs, Cape Town 2015

Subplace Name	Relation to Priority Zones	Number of Residential properties	Number of Repeat Transactions 2015	Number of New Transactions 2015	Churn	Average Value of Property	Number of Bonded Transactions	Percent Bonded Transactions	Average Value Bonded Transactions
Washington Square	Metro South-East	62	3	0	4,84%	R187 661,29	2	67%	R400 000,00
Bongweni	Metro South-East	359	11	0	3,06%	R296 300,84	4	36%	R426 500,00
Village V1 South	Metro South-East	3 406	83	29	2,46%	R278 846,15	76	68%	R278 197,37
Park Village		710	15	0	2,11%	R281 588,73	10	67%	R434 900,00
Roosendal	adjacent to Metro South-East	2 301	42	132	1,94%	R250 067,80	24	14%	R298 333,33
Langa SP	Metro South-East	2 849	440	87	15,93%	R305 034,05	17	3%	R401 823,53
Stikland	Voortrekker Corridor	90	12	0	13,33%	R567 477,78	8	67%	R580 625,00
Eversdal Ext 21		139	18	2	13,14%	R312 611,51	2	10%	R242 500,00
Onverwacht (Strand)		71	9	1	12,86%	R497 901,41	6	55%	R281 666,67
Brackenfell South 2	adjacent to Voortrekker	211	19	4	9,18%	R541 905,21	15	65%	R549 366,67

Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property

For example, in suburbs where the average property value was less than R300 000, Washington Square and Bongweni were the top performers in 2015 with churn rates of 4,84% and 3,06% respectively, followed by Village V1 South, with 83 transactions and a churn rate of 2,46%. On average, the churn rate for neighbourhoods where the average property value is below R300 000 was 1,31% in 2015. All of these were above the average, and are in the Metro South-East Zone, a priority investment area for the city.

Suburbs with average property values between R300 000 – R600 000 are much more interesting. In that segment, the average churn rate in 2015 was 3,09%. The top performing neighbourhood in that segment was Langa SP, in Metro South-East, with a churn rate of 15,93%, reflecting the sale of 440 properties. The bonded transactions in that suburb (17 in 2015) achieved a price about 30% higher than the average property value for that area, showing very real market interest. The second performer was Stikland, right on the Voortrekker Corridor, with a churn rate of 13,33%. Eight of the twelve transactions in that suburb were financed with a mortgage.

A further contributor to spatial transformation is mortgage lending in areas not traditionally understood to be sites of investment, neither by households nor by lenders. The addition of finance into these areas will transform them by bringing in new investment and stimulating a growth in value, for the benefit of local, existing residents, while also diversifying the population that participates in those markets. The following table sets out the smallest bonds issued in 2015, and the areas in which these were offered.

⁴⁸ Suburbs with fewer than 20 properties were excluded.

The suburb with the smallest average mortgage in Cape Town in 2015 was Lwandle, a township in Somerset West with 956 properties. The average value of properties in that suburb was R124 473, and there were 26 resale transactions in that year. One of these was financed with a R70 000 mortgage. This is followed by eleven bonded transactions in in Nomzamo SP, an area in Strand, where the average mortgage value was R86 363. A R180 000 mortgage was delivered in Village V4 North in Khayelitsha, a suburb within the Metro South-East Corridor, where the average property value was R137 416.

Overall, there were 571 mortgages issued in 2015 with an average value of R300 000 or below, of which the vast majority were in areas where the average property value was also below R300 000.⁴⁹ This is not yet significant – but it is a start, and below the traditional mortgage focus of mortgages that banks are accustomed to extend.

Table 10 Suburbs with mortgaged financed transactions under R300 000, Cape Town 2015

Subplace Name	Number of Residential properties	Average Value of Property	Number of Residential Transaction	Number of Bonded Transaction	Percent Bonded Transaction	Average Value of New Bond
Lwandle	956	R124 474	26	1	4%	R70 000
Nomzamo SP	4 481	R103 836	148	11	7%	R86 364
Kalkfontein 1	51	R299 176	16	14	88%	R160 857
Imizamo Yethu SP	597	R188 122	4	2	50%	R165 000
Vogelvlei	2 161	R105 104	34	2	6%	R175 000
Village V4 North	1 681	R137 416	4	1	25%	R180 000
Kalkfontein 2	1 362	R140 771	23	4	17%	R183 250
Diepwater	2 690	R107 393	40	7	18%	R185 571
Broadlands	1 021	R121 370	7	1	14%	R190 000
Masiphumelele	1 160	R177 438	15	3	20%	R193 333
Victoria Park	641	R456 521	54	42	78%	R193 663
Beaconhill	1 095	R347 059	44	18	41%	R196 222
New Crossroads	2 555	R259 281	8	3	38%	R205 667
Fisantekraal SP	1 278	R94 707	8	1	13%	R210 000
Victoria Merge	3 191	R134 741	22	7	32%	R211 714
Valhalla Park	1 787	R230 534	7	5	71%	R215 800
Delft South	6 246	R123 179	96	15	16%	R232 800
Village V3 North	3 711	R137 239	17	2	12%	R240 000
Eversdal Ext 21	139	R312 612	20	2	10%	R242 500
Bellville South Ext 14	107	R534 953	1	1	100%	R250 000
Nyanga SP	2 414	R185 730	5	1	20%	R250 000
Epping Forest	695	R403 614	21	5	24%	R259 000
Eindhoven	1 283	R158 756	24	3	13%	R260 000
Crossroads SP	4 188	R147 623	23	2	9%	R260 000
Mandela Park	4 500	R221 676	47	20	43%	R261 500
Kalksteentfontein	595	R268 151	6	4	67%	R263 750
Town 3	4 290	R114 812	48	4	8%	R263 750
The Hague	3 161	R207 592	42	11	26%	R265 909
Belhar 13	542	R291 363	19	4	21%	R268 750
Scottsdene	2 168	R354 061	133	108	81%	R272 468
Tafelsig	7 608	R266 352	268	70	26%	R273 114
Mfuleni SP	7 520	R125 920	90	10	11%	R274 500
Khayelitsha T3-V3	3 178	R143 231	25	9	36%	R276 111
Village V1 South	3 406	R278 846	112	76	68%	R278 197
Sercor Park	869	R246 947	17	2	12%	R280 000
Onverwacht(Strand)	71	R497 901	11	6	55%	R281 667
Avonwood	444	R411 595	17	2	12%	R285 000
Khayelitsha T3-V5	4 610	R126 740	17	3	18%	R286 667
Hanover Park	2 583	R256 389	64	23	36%	R287 152
Lavender Hill	2 264	R237 672	107	15	14%	R287 333
Belhar 11	297	R284 444	16	2	13%	R290 000
Village V2 North	2 285	R225 670	18	7	39%	R294 286
Griffiths Mxenge	1 439	R138 049	23	1	4%	R295 000
Harare/Holimisa	4 509	R165 140	42	16	38%	R297 000
Roosendal	2 301	R250 068	174	24	14%	R298 333
Pine Place	176	R432 892	5	1	20%	R300 000
TOTAL	104 306		1 968	571		

A key instrument of the City's in supporting value in local areas is its zoning policy. Zoning enables a city to allow or constrain certain activities on an area basis – for example, areas zoned as residential allow for housing while areas zoned for commercial do not. Some zonings in Cape Town appear to exempt certain areas from specific by laws relating to building quality. For example, in areas zoned as SR2 (known as incremental housing), it is permissible to build an informal dwelling. The reason for this is to facilitate upgrading from an informal settlement to a formal settlement. Once an area has

⁴⁹ In 2015, there were 762 mortgage loans issued in areas where the average property value was less than R300 000 – some of these were for values above R300 000, and so are not included in this table.

reached an appropriate stage, the policy provides that it may be rezoned as SR1 or Conventional Housing.⁵⁰

Cape Town's valuations data, however, includes 14 345 formal residential properties that are still zoned as SR2. In these areas, notwithstanding the presence of formal housing, homeowners and residents can construct temporary shelters or shacks, or can improve their properties without approved building plans.⁵¹ Beyond formal zoning, the City's application of bylaws is also relevant, as even in areas where zoning may require building plan approval, this may not be enforced. Certainly, incremental upgrading of varied quality is evident in many areas of the city. In both cases, while this may well support incremental home improvement processes, it has the parallel but negative impact of undermining access to mortgage finance, as banks typically require approved building plans for the properties they finance. This limits the scope for price appreciation and undermines the asset value of the property. Ultimately, this undermines the spatial transformation objectives of the city: low value areas stay low value.

At the same time, rising property values can have a negative impact on tenants and homebuyers who see rents and housing prices increase beyond their affordability. Woodstock, the top property performer in Cape Town, has been the subject of much debate as rising property prices have undermined the housing affordability of resident tenants. How does the city leverage the success of areas like Woodstock for people who have not yet accessed the property ladder? This is a key challenge to consider. The response begins with filling in the rungs of the housing ladder and implementing policies and regulations to enable filtering.

4.3 Sustainable Human Settlements

The sustainability of Cape Town's human settlements is a key goal of the city, and indeed, the nation. Cities should be places that support the growth and development of residents and their businesses, and which enable property market performance that contributes towards goals of transformation and inclusive growth. To do this, cities deliver services – the basic business of local government as set out and prioritised in our various plans and programmes. While cities receive considerable support through the equitable share grant from national government, their ability to deliver services is substantially defined by their property rates base.

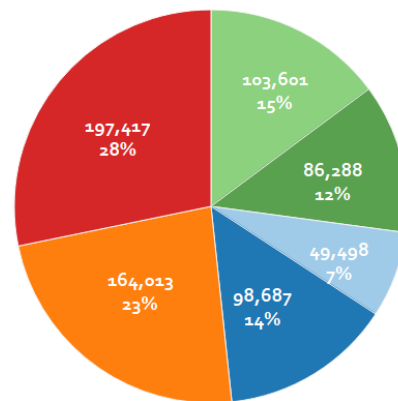
Indeed, this is how cities have always understood their property market: through their valuation role and the collection of property taxes. In 2015, Cape Town's valuation roll included 843 111 records, comprising 681 411 freehold and 161 700 sectional title property records. Cleaning the data, and focusing just on properties with clear residential dwellings brings the figure down to 699 504 properties. The difference with the national deeds registry is marginal: only 4 297 properties or 1% of the total.

⁵⁰ Eighty20 (2017) A House Price Index methodology based on municipal data. Report prepared for CAHF as part of the World Bank project undertaken for the Cities Support Programme.

⁵¹ Cape Town's valuations roll highlights that a number of government-sponsored housing suburbs are currently zoned as SR2: Delft RDP, Atlantis, Khayelitsha, Khayelitsha RDP, Crossroads, Philippi RDP, Kraaifontein RDP, Mfuleni RDP, Eagle Park and Kuils River.

Fifteen percent of the valuations roll (103 601 properties) are exempted from paying property taxes, because they were valued at less than R200 000. Property prices in many of the sub- R200 000 neighbourhoods are growing quickly, however. A key question for the city must be how to engage with these properties when they cross the R200 000 threshold. At the same time, properties that comprise the remainder the market are exempted for the first R200 000 of their value. What is likely to be a minor benefit for the households concerned, may well be a significant loss to the City when considered in totality. How much of its potential rates bill is the City foregoing? A further question relates to indigence and capacity to pay. While many of the residents living in the 27% of Cape Town’s residential properties that are government-sponsored housing units are likely to face real affordability challenges, there is also likely to be a proportion who could afford to pay rates and taxes.

Figure 37 Total residential properties by market segment, Cape Town valuations data 2015



Source: City of Cape Town valuations, 2015.

Market Segment 1 (group) 2
 Under R200
 Between R200K-R300K
 Between R300K-R400K
 Between R400K-R600K
 Between R600K-R1.2M
 Over R1.2M

How the city deals with this – accommodating for indigence while maximizing the rates it can achieve from the breadth of property stock in the market – is an important consideration. It may well be that the value of a property is not always a good indicator of the relative wealth and affordability of the household concerned – at least at the bottom end of the market.

A further question relates to how the city monitors property investments – and the concomitant implication for property values and the opportunity to extend property taxes – when these are not well articulated in actual transactions. Churn rates in Cape Town’s lower income neighbourhoods are lower than in higher income neighbourhoods. Investment is evident in these neighbourhoods, however. In the absence of accurate data on incremental upgrading that has taken place, the City data characterizes these properties on the basis of their structure and value at the time they were built, overlooking the improvements that have been made and thereby undervaluing them. This undermines the City’s capacity to derive the resulting rates for which they would be responsible. More significantly, however, if sellers use City valuations to define the price of their property it might also be contributing towards below-value sales transactions, undermining the asset performance of the housing. One way of tracking this investment would be with building plan approvals – although these are also limited in lower income areas either because of zoning that exempts properties from this process, or because bylaws are not being enforced.⁵²

There is much that the city can do to support the sustainability of its human settlements – on its own, and in partnership with the households and businesses that operate at the local level. Recognizing the link between new housing areas, and properties that are crossing that threshold into the ratable space, is an important first step.

⁵² Incremental improvements should not only be monitored by building inspectors, but also by health inspectors, to ensure that they meet basic health and safety requirements.

4.4 Market responsiveness

Perhaps the most obvious indication that Cape Town's formal property market is not responding well to the property needs of our residents is the persistence of informal living – whether in informal settlements, in backyards, or in overcrowded homes across the city. Cape Town's informally housed population is significant and visible. StatsSA reports that only about a third of households in informal settlements have a member on the housing subsidy waiting list – and with many of them having waited upwards of ten years, it is clear that their needs will not be satisfied in the short term.⁵³ A further issue is the 66% of households living in an informal dwelling in the Western Cape who do not have a member on the housing waiting list – the so-called “non-qualifiers”.⁵⁴ The City's strategy with respect to informal settlements is critical in this regard. A key challenge is how to structure the property market so that it does respond to the breadth of affordability, delivering effective housing processes for the not only the richest, but also the poorest.

The backyard rental market offers some important clues while also supporting the performance of the housing asset. StatsSA has established that households living in backyard dwellings are generally closer to the City's services than those in informal settlements, and other research has found that backyard tenants are paying a rental to a landlord who is often themselves unemployed. The City has already targeted the backyard rental market in specific locations with the provision of key infrastructure services to backyarders and informal settlement residents. Further support could involve engaging more proactively in building quality: imposing bylaws while providing municipal support in terms of design, plan approvals and services connections.

Cape Town's building permit data – building permit applications and approvals, also offers an insight into where the market has been targeting its efforts. Between 2015 and June 2016, Khayelitsha and Mitchells Plain have seen the highest number of building permit applications and approvals, although by value, these have been insignificant compared to those in other areas. In the following graph, the height of the bar reflects the number of building permit plans approved, and completed; the value of those plans is reflected in the data label next to the bar.

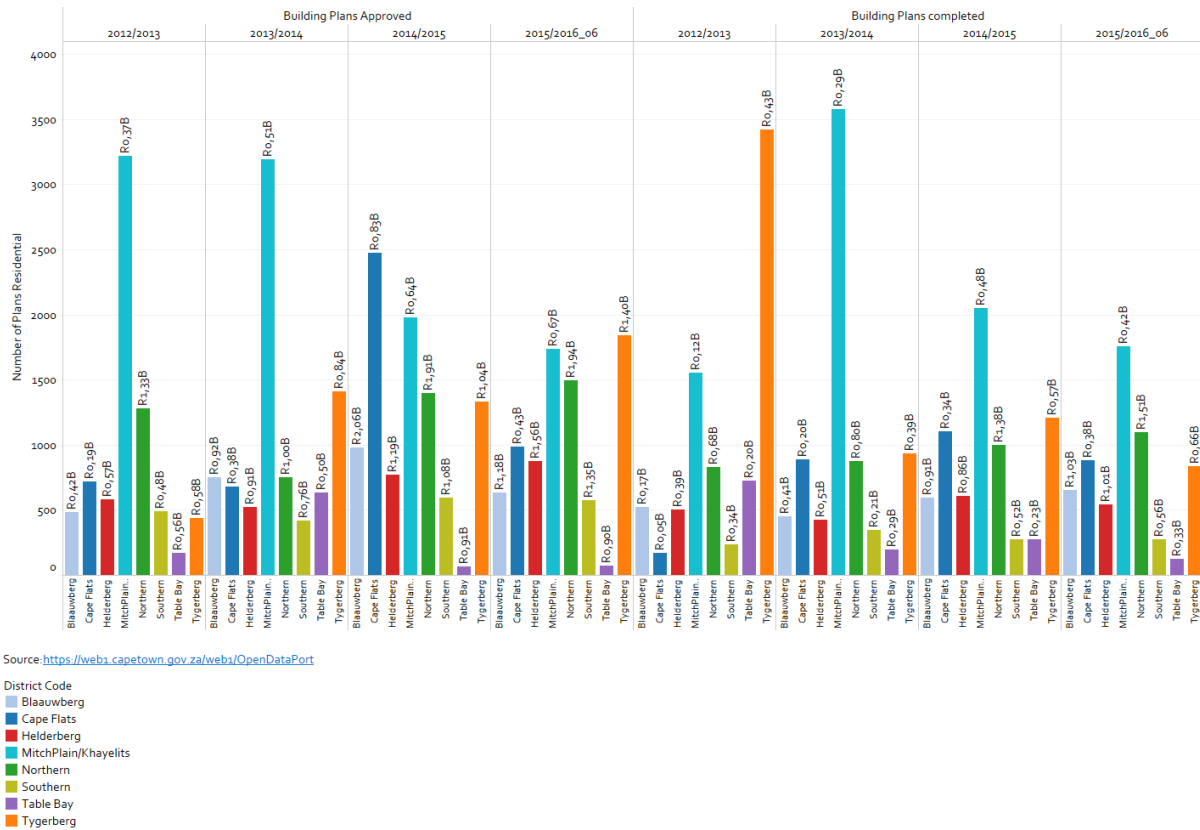
⁵³ The waiting list is not a credible measure to track – but at this stage, and given the policy framework that governs South Africa's housing sector, it is the only one we have.

⁵⁴ An interesting future analysis would be of General Household Survey data, that explores the number of households living in informal dwellings with at least one member employed, and the per capita income quintile of that household. StatsSA suggests that the median household income in Cape Town in 2014 was R3260 – the highest of any province. One would presume a level of housing affordability in a household where at least one member is employed. The persistence of informal living would therefore be a factor of housing supply not meeting the particular housing affordability of such households. This is a function of market targeting and, at these incomes, municipal support for incremental housing processes.

Figure 38 Building permit plans approved and completed, Cape Town 2012-June 2015

Building permit plans approved and completed

Number of building plans approved and completed
City of Cape Town - June 2016

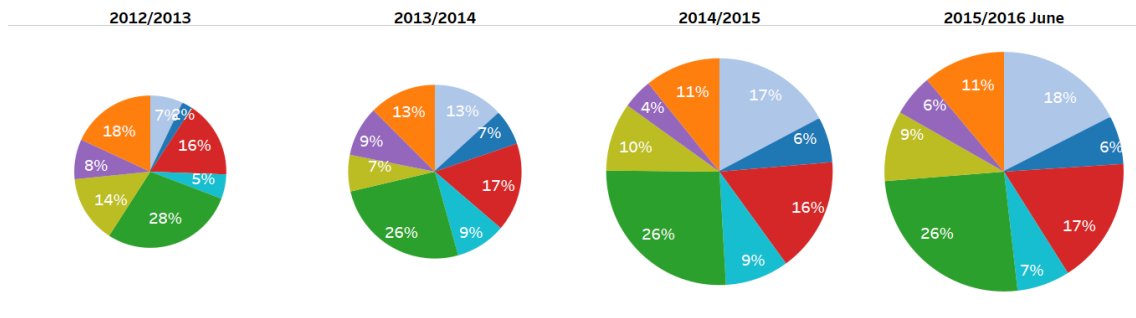


Source: <https://webs.capetown.gov.za/webs/OpenDataPort>

- District Code
- Blaauwberg
- Cape Flats
- Helderberg
- Mitchell Plain/Khayelit
- Northern
- Southern
- Table Bay
- Tygerberg

The value of investments, as defined by building plans completed, is illustrated in the pie graphs below. The size of the pies illustrates the total value of all plans passed in that year. In terms of building plans completed, the value of investment has been growing steadily in Cape Town since 2012. By June of 2016, the value of building permits completed was already about the same as for the entire twelve months of the previous year.

Figure 39 Building permits completed: Value, City of Cape Town 2012-June 2015, by region



Source: <https://web1.capetown.gov.za/web1/OpenDataPort>

Total Value of Permits	District Code
R2.39B	Blaauwberg
R3.00B	Cape Flats
R4.00B	Helderberg
R5.00B	MitchPlain/Khayelits
R5.90B	Northern
	Southern
	Table Bay
	Tygerberg

4.5 Targeted market performance

Cape Town has adopted a corridor development strategy to focus its investment in particular zones of opportunity and connection. The Voortrekker Corridor, running along Voortrekker Road to the east of the central business district, and the Metro South East Integration Zone, running past the airport, through the Cape Flats towards False Bay, are the City’s development priorities. While these initiatives are broader than housing, they recognize that all interventions are interlinked in the creation of local value and investment opportunity, whether by the private sector or households themselves.

The two areas demonstrate quite different property markets: Voortrekker Corridor is smaller, and generally a higher value property market with the majority of properties (70%) in the middle market segments of properties valued between R300 000 – R1,2m market segment. Metro South East, on the other hand, is about double the size, with far many lower value properties: 61% are worth less than R300 000, and another 26% between R300 000 – R600 000. The Voortrekker Corridor seems to be a more active market, with higher churn rates. Metro South East, however, has seen more investment in the delivery of new properties.

Figure 40 Location of the Strategic Zones in Cape Town

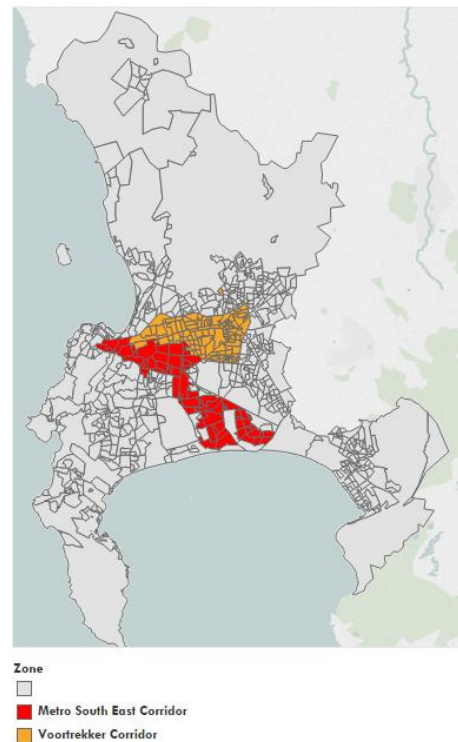
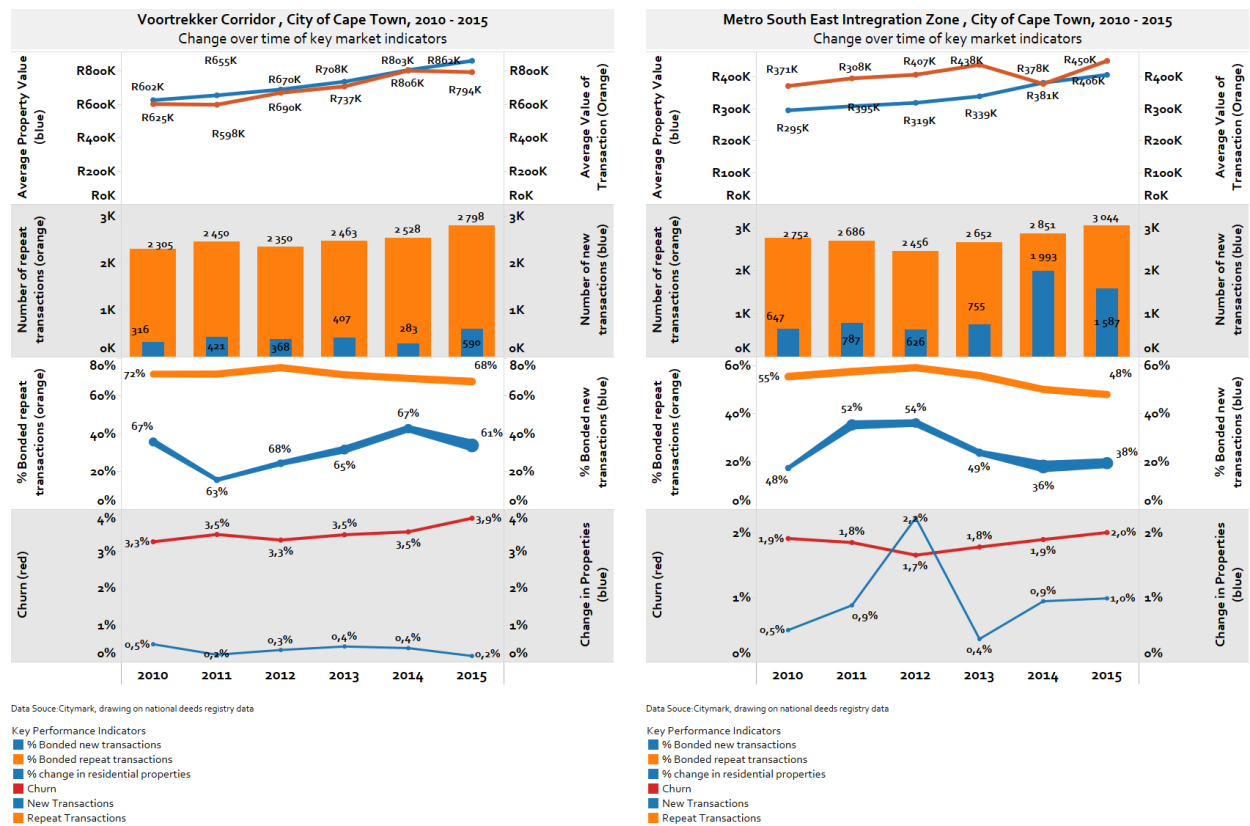


Figure 41 Key Performance Indicators, Targeted Zones in Cape Town 2010-2015



4.5.1 Voortrekker Corridor

The Voortrekker Corridor comprises 71 700 properties of which 8.4% (6 026 properties) look like they are government-sponsored. Just under half of all properties in the corridor (42%) are worth between R600 000 – R1,2m, with a further 28% worth between R300 000 and R600 000 and 22% worth more than R1,2m. Average transaction prices have risen moderately since 2010, but have lagged just under property values, suggesting a fairly good balance between demand and supply, or perhaps a slight oversupply. Churn rates are moderate and rising, comparable to than the city average, but the level of new build (change in new registrations) is below the city average.

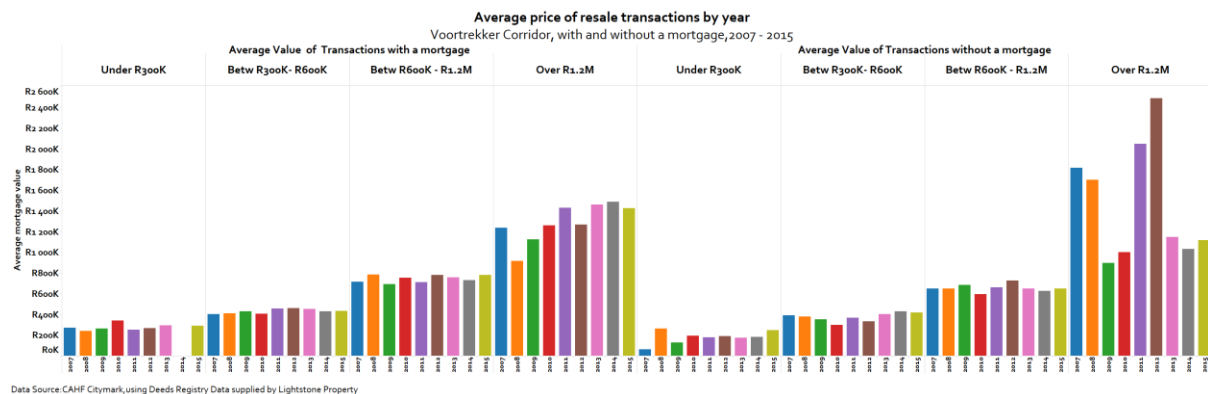
This area has a fair number of sectional title properties (37%), concentrated in the middle market segment with an average price of R499 000. The most significant of these is in Avondale Parrow, with 15 241 sectional title properties, averaging R468 000 and collectively worth R7 billion.

In the period between 2007 and 2015, 3 821 properties were newly registered for the first time in the corridor, and the total number of properties in the Corridor grew by 3%. A total of 22 833 properties changed hands in the period (resale transactions), or 32% of all stock in 2015. Almost three-quarters (73%) of these transactions were financed with a mortgage, and together these transactions represented R12,5 billion of investment. While 30% of this value was invested in the highest value category of properties worth over R1,2m; half (51% or 6,3 billion worth of transactions) was for properties worth between R600 000 – R1,2m, and 17% worth of transactions were in the R300 000 – R600 000 market segment. Transactions without a bond represented a further R3,6 billion, the bulk

of which (44%) was in the category of properties worth R600 000 – R1,2m, while another 33% was in the highest value category.

The impact of mortgage finance on the value of transactions is significant, especially for the lower value market segments. As illustrated below, the average value of bonded transactions in the bottom market segment (R255 709) are about 57% higher than transactions in that segment that were not bonded (R162 913). The difference in the R300 000 – R600 000 category, where the average bonded price achieved (R426 205) was about 27% higher than the not-bonded price (R355 435), is also striking. It is worth noting that the high value band showed only a marginal difference (3%) between prices achieved with or without a mortgage bond, suggesting that investments in this segment are better supported by existing equity and less dependent on finance to achieve value, and perhaps also that there is an investment ceiling to what buyers are willing to pay for properties in the Voortrekker Corridor.

Figure 42 Average price of resale transactions per year, Voortrekker Corridor, by market segment, with and without a mortgage, 2007-2015



Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property

No. of transactions	Resale transactions, Voortrekker Corridor, properties financed with a mortgage bond										Resale transactions, Voortrekker Corridor, properties financed without a mortgage bond									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2007	2008	2009	2010	2011	2012	2013	2014	2015		
Under R300k	209	204	121	91	98	79	50	35	43	68	87	83	72	77	51	49	51	54		
Betw R300k-R600k	1237	765	381	504	535	442	432	332	360	272	224	259	262	279	221	251	186	239		
Betw R600k-R1.2m	1418	862	575	878	897	940	858	813	792	200	201	251	265	266	241	281	341	350		
Over R1.2m	230	91	93	178	225	302	415	573	699	44	34	30	55	73	74	127	197	261		
TOTAL	3094	1922	1170	1651	1755	1763	1755	1753	1894	584	546	623	654	695	587	708	775	904		

4.5.2 Metro South-East Integration Zone

The Metro South-East Integration Zone is quite different from the Voortrekker corridor, across virtually all metrics. It is about double the size of the Voortrekker Corridor in terms of properties, with about 152 026 properties. Of these, the majority (82 176 properties, or 54%) look like they are government-sponsored. Just over half (61%) of all properties in Metro South-East are worth less than R300 000 and a further quarter are worth between R300 000 and R600 000. Only 13% of properties are worth more than R600 000.

Average transaction prices in Metro South-East have risen, although very gradually. With the exception of 2014, transaction prices have been higher than established property values, suggesting a demand pressure and an opportunity for the delivery of new supply. The market has been somewhat responsive to this with a spike in delivery in 2014 (number of new transactions).

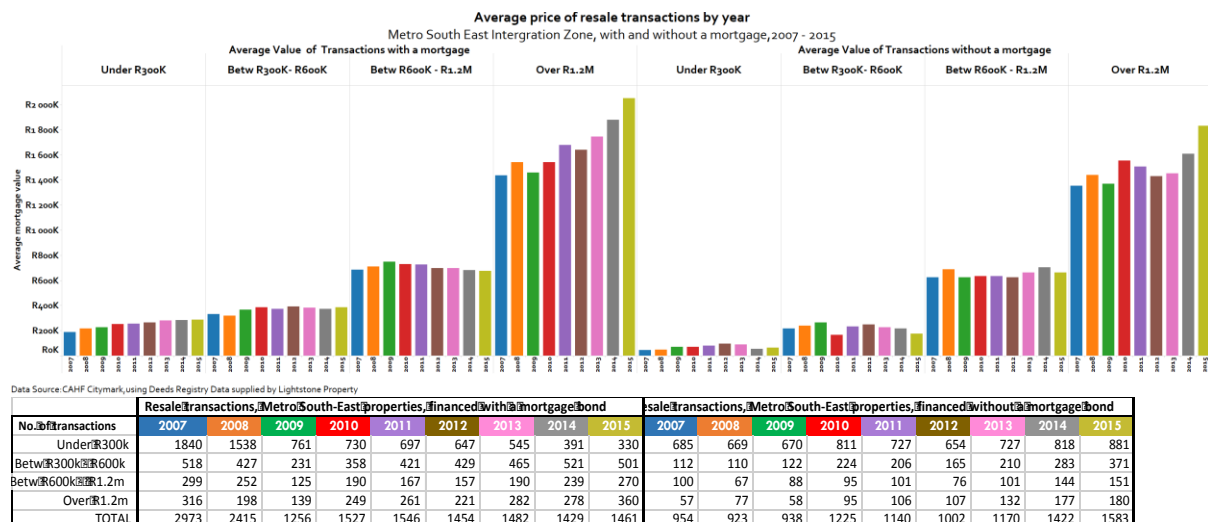
This area has virtually no sectional title properties (2.7%). These are concentrated in the higher value bands, and as would be expected, closer to the Voortrekker Corridor where such properties are more

common. According to the City valuation data, the average property price of sectional titles in Metro South-East is R847 000.

In the period between 2007 and 2015, 12 402 properties were newly registered for the first time in the corridor, and the total number of properties in Metro South-East grew by 8%. A total of 25 900 properties changed hands in the period (resale transactions), or 17% of all stock in 2015. Sixty percent of these transactions were financed with a mortgage, and together these bonded transactions represented R8,5 billion of investment. While 45% of this was in the highest value category of properties worth over R1,2m; a fifth (R1,8 billion worth of transactions) was for properties worth less than R300 000. Transactions without a bond represented a further R3,2 billion, the bulk of which (46%) was also in the highest value category.

The impact of mortgage finance on the value of transactions is significant, especially for the lower value market segments. As illustrated below, the average value of bonded transactions in the bottom market segment (R243 215) are about 127% higher than transactions in that segment that were not bonded (R105 898). The difference in the R300 000 – R600 000 category, where the average bonded price achieved (R388 034) was about 52% higher than the not-bonded price (R255 392), is also striking. Clearly there is a strong argument to support neighbourhood value fundamentals that encourage lenders to invest, while also supporting affordability on the borrower side (and value realisation on the seller side) with existing policies such as FLISP in achieving access to mortgage finance.

Figure 43 Average price of resale transactions by year, Metro South East Integration Zone, with and without a mortgage, 2007-2015



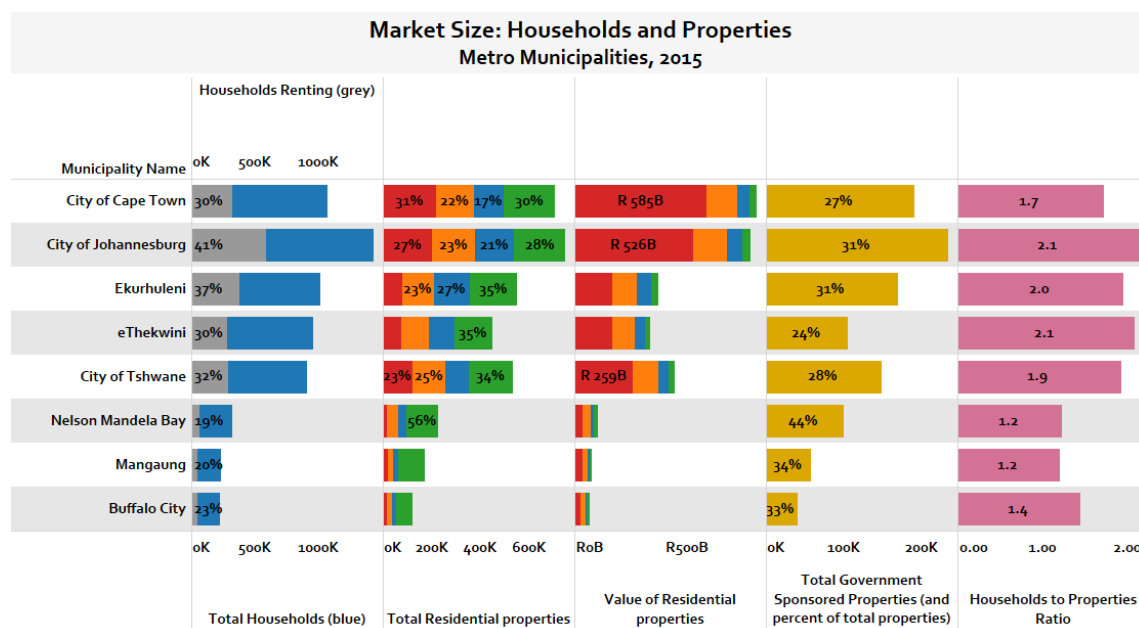
5 Cape Town by Comparison: High Level View

With just over 1,2 million households, Cape Town has the second largest household population of the eight metros, just behind Johannesburg, and ahead of Ekurhuleni. The city's 703 801 residential properties make it also the second largest in property terms. Twenty-six percent of Cape Town's residents say they rent their housing, placing the city fourth overall in terms of this metric. While Cape Town has the highest percentage of properties worth more than R600 000, and the highest total residential property value of the eight metros, 47% are worth below R600 000. Still only 17% of these are in the crucial middle-class market segment of properties valued between R300 000 – R600 000: a

key indication that there is a very real gap market in the City. To this end, Cape Town is not alone: most cities struggle to support their markets with sufficient housing in this segment.

Although Cape Town’s estimated 191 887 government-sponsored properties comprise the second most in number of all metros, the City is fifth of all metros when considering government-sponsored properties as a percentage of total housing.⁵⁵ An indication of the city’s housing backlog is in the households to properties ratio, which considers the potential undersupply of households. Bearing in mind the supply of rental housing (which is not included in the datasets at this time), Cape Town has 1.7 as many households as it has properties, suggesting an undersupply of formal homes that is putting pressure on prices. The balance is absorbed in informal settlements, backyard rentals and untitled RDP/BNG older township homes converted under the Discount Benefit Scheme. This is not different than the other larger metros, however, which place Cape Town fifth overall. Still, it is a critical issue to watch as the City’s planners consider building plan approvals in particular market segments.

Figure 44 Market size: households and properties, all metros, 2015



Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property and Stats SA census data 2011

Market Segment
 Under R300K
 Betw R300K - R600K
 Betw R600K - R1.2M
 Over R1.2M

The following table sets out key indicators for all metros.⁵⁶

⁵⁵ Counting the number of government-sponsored properties in the city is surprisingly difficult, as no database is conclusive, each having been compiled for different reasons. The approach to this is clarified in a separate report entitled “Understanding Municipal Housing Markets: A Process Guide for Cape Town” delivered to the World Bank as part of the programme that enabled this report.

⁵⁶ All figures include formal residential properties registered on the deeds registry, worth at least R15 000, and 32 square metres. They do not include non-residential properties, vacant land (which is not considered currently residential), properties worth less than R15 000 or smaller than 32 sm, nor informal properties not on the deeds registry.

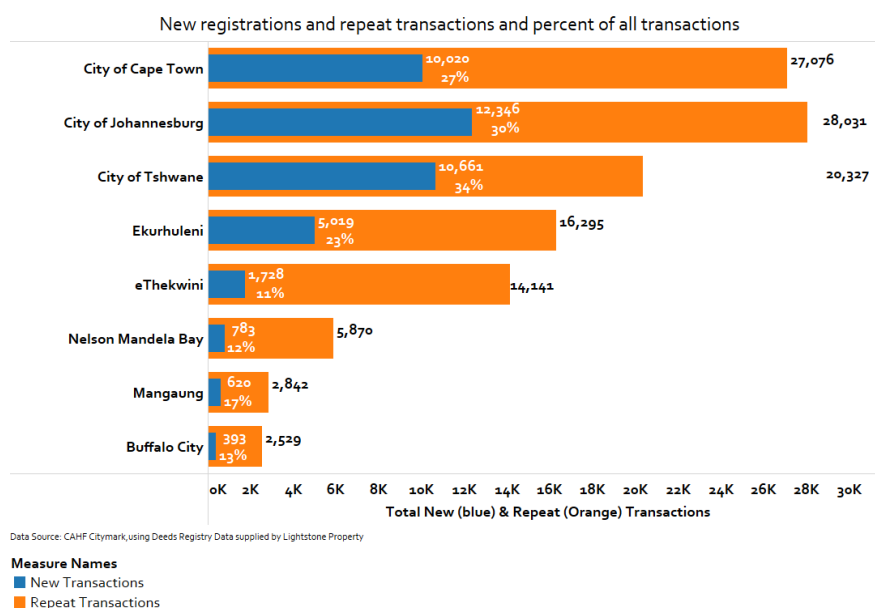
Table 11 Key residential market indicators: properties, transactions and bonds, all metros, 2015

	Buffalo City	City of Cape Town	City of Johannesburg	City of Tshwane	Ekurhuleni	eThekweni	Mangaung	Nelson Mandela Bay
Total Residential Properties	123,706	703,801	747,003	534,338	547,551	447,318	171,865	225,162
Total Value of Residential Properties	R67.7B	R807.5B	R778.3B	R442.9B	R372.2B	R337.4B	R78.2B	R105.2B
Number of Bonds Outstanding	32,992	405,401	392,419	288,078	233,706	200,567	39,064	80,837
Total Value of Bonds Outstanding	R13.1B	R182.2B	R229.6B	R137.1B	R100.2B	R77.5B	R16.4B	R24.4B
Total Transactions	2,943	37,663	41,663	31,558	21,645	16,072	3,597	6,714
Value of Residential Transactions	R2.6B	R49.3B	R48.8B	R26.2B	R18.3B	R16.4B	R3.1B	R4.5B
Total Bonded Transactions	1,708	19,662	27,535	18,350	13,558	8,969	2,206	3,706
Total Value of Bonded Transactions	R1.7B	R28.0B	R34.2B	R18.3B	R12.8B	R10.4B	R2.1B	R3.0B
New Transactions	393	10,020	12,346	10,661	5,019	1,728	620	783
Value of New Transactions	R0.3B	R7.1B	R8.9B	R4.3B	R2.8B	R1.6B	R0.4B	R0.4B
Total Bonded New Transactions	301	3,913	7,998	5,117	3,072	737	445	407
Total Value of Bonded New Transactions	R188M	R3,839M	R6,609M	R3,094M	R2,003M	R918M	R297M	R250M
Repeat Transactions	2,529	27,076	28,031	20,327	16,295	14,147	2,842	5,870
Value of Repeat Transactions	\$2.3B	\$41.0B	\$38.3B	\$21.2B	\$15.2B	\$14.4B	\$2.6B	\$4.1B
Total Bonded Repeat Transactions	1,403	15,533	18,783	13,076	10,368	8,173	1,717	3,288
Total Value of Bonded Repeat Transactions	R1.5B	R23.6B	R26.7B	R15.0B	R10.7B	R9.3B	R1.7B	R2.7B

Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property

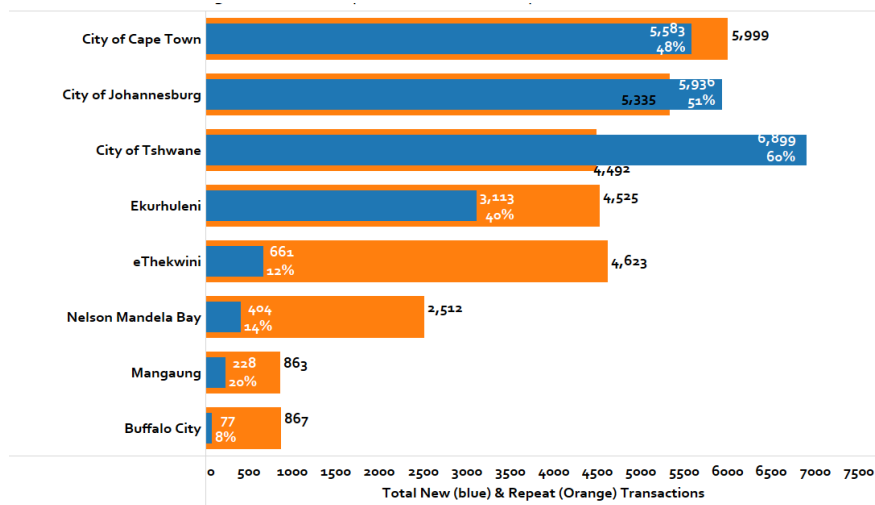
A few factors are worth noting. Cape Town has the highest absolute number and proportion of properties with a mortgage outstanding – 58% of properties in Cape Town have a mortgage outstanding, followed by Tshwane with 54%. Cape Town lags behind Tshwane and Johannesburg in terms of new registrations (blue bars), but is second, behind Johannesburg in terms of resales (orange bars).

Figure 45 Total new & repeat transactions, all properties, all metros 2015



Looking specifically at the market segments below R600 000, however, Cape Town is first in resales (orange bars), and third in new build (blue bars).

Figure 46 Total new & repeat transactions, properties under R600 000, all metros 2015



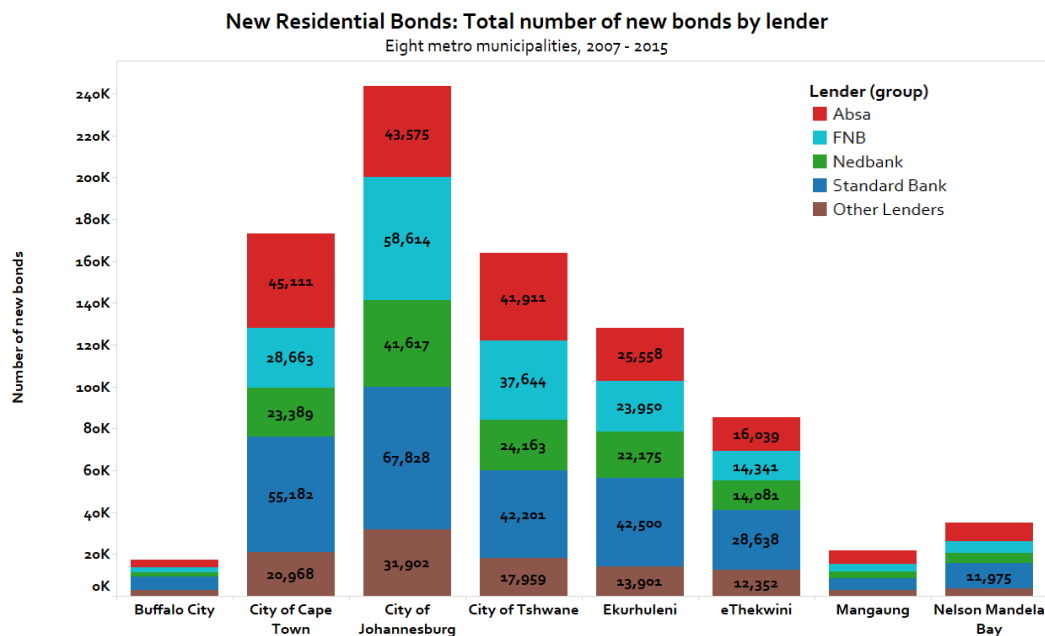
Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property

Measure Names
 ■ New Transactions
 ■ Repeat Transactions

The four main mortgage lenders and other banks are well represented across all eight metros, although primarily in the big five metros of Cape Town, Johannesburg, Tshwane, Ekurhuleni and eThekweni. As noted, Cape Town has the highest number of bonds outstanding, and is

second behind Johannesburg in the total value of bonds outstanding. In the nine years between 2007 and 2015, Cape Town had the second highest number of mortgage loans attached to transactions (new and resale), after Johannesburg and followed by Tshwane. Standard Bank was the dominant lender, by both number and value, just ahead of Absa.

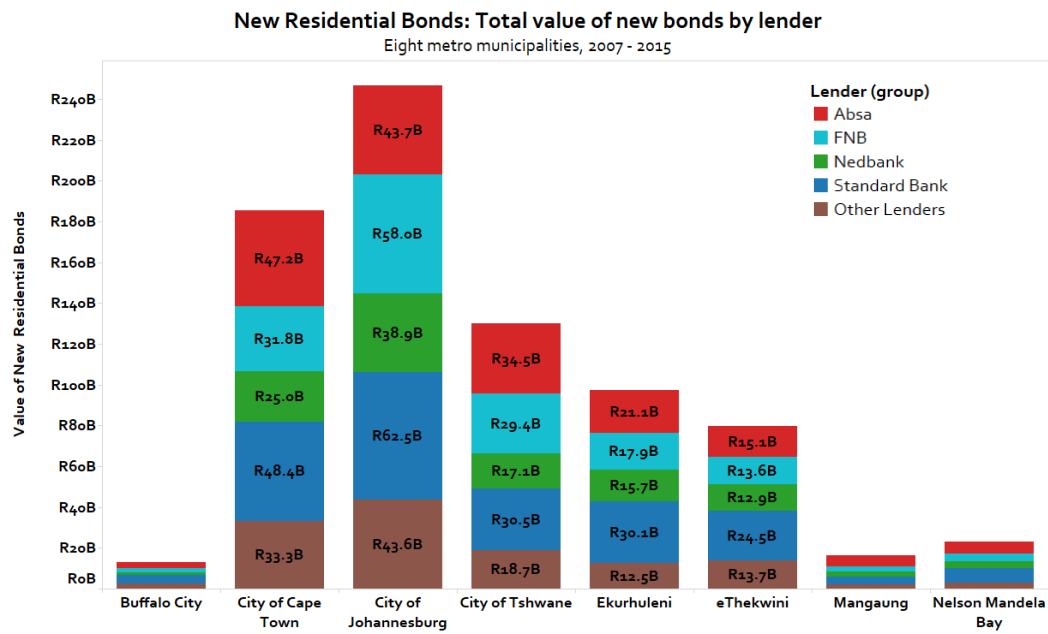
Figure 47 Total number of mortgaged financed transactions by lender, all metros, 2007-2015



New residential bond is a bond that has not appeared on the deeds registry before.

Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property

Figure 48 Total value of mortgage financed transactions by lender, all metros, 2007-2015



Data Source: CAHF Citymark, using Deeds Registry Data supplied by Lightstone Property

In all of the data, and across all the analyses, the clear challenge for Cape Town is to extend the exceptional performance of its market overall to lower value properties so that the City's lower income residents benefit similarly from the opportunities that the residential property market in Cape Town provides overall. In part, this is a challenge to the lending sector itself, to recognize value in the new, lower value housing that is coming annually on stream through the national housing subsidy programme, and to support quality home improvements through the provision of credit for this purpose. It is also a challenge internally, to the City, to engage in value creation at the neighbourhood level through the range of services it provides and the investments it makes.

6 Building an inclusive residential property market in Cape Town

Cape Town's property market dynamics present City management with a set of challenges that are complex and diverse. Residential property is a major and growing asset for both the city and its property owning residents: at the end of 2015, Cape Town's 703 801 residential properties were worth R807 billion. The bulk of this value (77%) however, was held by the property owners of houses worth more than R1,2m: 31% of the properties in Cape Town at the end of 2015 represented 77% of the value. The ratio is reversed for the property owners of the city's lowest value properties. In this case, properties worth less than R300 000 comprised 30% of total stock, but only 3% of total value.

The various segments that comprise Cape Town's property market perform differently, in some cases for the benefit of residents, and in others exacerbating inequality. In some areas, informal transactions, and informal housing activity more broadly, is significant, and may well be crowding out formal markets, norms and mechanisms. In these areas, the available data indicates that markets underperform, with low rates of churn and properties trading below replacement cost, some informally. This reflects a context in which households struggle to access and navigate administrative systems to access funding, obtain information and transact formally. This discount of market value on replacement cost itself reflects poor governance, with high crime and poor connectivity. Often city management is limited, and competes with alternative governance structures. Secured lending is minimal, as lenders avoid additional risks - both financial and reputational - of operating in these areas.

At the other extreme, some property market activity appears irrationally exuberant, with buyer participation quite possibly encouraged by a belief that prices will continue to rise indefinitely. While data reflected in this report captures the market until the end of 2015, there has been visible activity since then that suggests substantial development activity in high value areas, with properties subdividing or sectionalizing. While this may be positive in the sense that it densifies key areas and contributes to the city's growing rates base, it should be monitored closely to ensure that the city is not inadvertently encouraging a speculative bubble.

To add to this there are some well-located areas that have historically underperformed, that are now beginning to correct. As they do, affordability is constrained and some households are displaced, leading to social and political instability. The question of gentrification and displacement is a key issue for attention.

Clearly to navigate this complex diversity the city must closely monitor activity with the best available data that is regularly refreshed. It must also provide market participants - whether in the public or the private sectors - with access to data to ensure that decisions they take are well informed. The data in this report ends at the end of 2015. Significant developments that have happened in Cape Town's property market during 2016 and the early part of 2017, are therefore not captured. The city itself collects data on a daily basis through its regular governance functions. Capturing this for analysis within a housing markets framework will assist the city get on top of the property market so that it can better manage the dynamics and channel its value for the benefit of lower income households and its under-performing areas. The City of Cape Town is already doing this in support of better use of commercial, industrial and mixed use land, through its e-Camp (Economic Areas Management

Programme) initiative⁵⁷. Applying the e-Camp logic to the city's planning and management of its residential property assets should be the next step.

The overall goal for building an inclusive residential property market in Cape Town suggests five broad areas of attention for the city:

- Growing Cape Town's rates base
- Creating opportunities for inclusive housing and dealing with gentrification
- Understanding and working with informality
- Considering the dynamics and potential of the rental market
- Realising priorities with data-supported development decisions

These issues are explored below.

6.1 Growing Cape Town's rates base

Real estate departments within cities have always had a strong focus on property values, as property taxes are a critical source of municipal revenue. Property taxes are especially useful as a mechanism for transformation because they are redistributive: rising property values contribute to a growing rates base that can then offer opportunities for the city's investment in under-performing areas. In addition to their financial value, however, property taxes are a direct way in which the City enters into a contract with its residents, confirming local citizenship and participation in the local economy. To this end, they are an important part of enhancing the social asset value of housing, while also supporting the sustainability of the city's human settlements.

Cape Town currently exempts the first R200 000 of value of all residential properties from taxation. This means that about 15% of the properties on the valuation roll are not taxed. Aside from the impact this may have on the City's revenue stream, it would seem that this is also a lost opportunity for contractually connecting the city with property owners in this market segment. The impact that this may have on local area governance – basic urban management – has not been established but is worth exploring. Certainly, low value areas are commonly associated with poor urban management, and high rates of crime and grime. Local NGOs are now beginning to seek ways in which to hold the city accountable for service delivery in these areas, but it would be worth testing if the simple 'contract' of property taxes – billing by the city and a payment obligation, however small, by the residents – might support improved attention by the city, and an improved response from residents.

Beyond the 15% of properties that are fully exempted from paying rates, roughly R120 billion of taxable property (R200 000 on each of about 600 000 properties) is overlooked as a result of the city's rates policy. Given the very high value of many of Cape Town's residential properties, affordability for this payment would not seem to be an issue. Would it not be worth exploring how this might be collected, to support redistributive investments that achieve the city's overall goals for inclusive markets?

⁵⁷ City of Cape Town (2015) Towards an evidence-led approach to local intervention: Introducing the Economic Areas Management Programme. Presentation available from <https://web1.capetown.gov.za/web1/ecamp>

Beyond simply realizing value from its existing rates base, the City can also contribute towards growing its rates base through various 'value-creation' measures as have been set out in this analysis. On the one hand, property prices reflect underlying supply conditions, which the City can influence through the management of its development controls. Increasing prices might indicate limitations in the supply zoned or serviced land. On the other hand, prices will reflect the success or failure of city-led strategies designed to make some areas more habitable or to improve the quality of life of residents. The simple implementation of development controls in support of quality home improvements can also have an important impact. The HPI model has shown that the existence of a garage, and the size and quality of the dwelling have noticeable impacts on property values. The city can use these insights to identify areas that are under-performing in terms of value, and actively support targeted household investments on these particular metrics.

At the same time, the City must be awake to the risk of a property bubble, fed by property market speculators with cash to spare. The desirability of Cape Town's luxury property market, together with the physical limitations imposed by the mountain and the sea, makes it especially prone to this risk. As the city considers building permit applications for areas with higher than average rising property values, it must also consider the potential for buyers to ultimately absorb that supply in that market, lest the buildings remain empty, causing investors to exit, and the bubble to pop.

The city has a number of tools at its disposal to influence the market focus of the supply side. While developers naturally target high value properties where they can anticipate a high margin, the development controls imposed by the city can change the financial parameters in favour of lower value properties that better serve the city's demand for accommodation. For example, the city could prioritise redevelopment applications in low value areas, offering an expedited approval process. Or, the city could impose a subdivision tax of sorts in high value areas where the market is naturally seeking returns, and direct the revenue from this into lower value areas. By understanding where developers naturally focus and why, the city can insert its will with the role it plays in the development process.

The key goal for City management must be to see Cape Town's property market as a single property market, with high and low values that all have investment potential and worth. The rates policy itself can assist in shifting the approach in this way – by focusing on the twin goals of maximizing both financial and social value of the housing asset and using the strengths of one to support the growth of the other.

6.2 Creating opportunities for inclusive housing and dealing with gentrification

Debate regarding the incidence of gentrification and the ongoing challenge of socio-economic integration in Cape Town has become particularly heated in the past few years, as land prices have risen rapidly, in many cases undermining access to property by lower income earners, and highlighting the painful legacy of apartheid in the city's persistently segregated spatial form.

As the city seeks to improve the value of its neighbourhoods, and as investment by the private sector continues, there has been increasing anger about the risk of displacement that gentrification creates. In the context of insufficient supply at the bottom end, value creation is a double-edged sword. Rising property values lead to rentals that are unaffordable to local residents, and with limited supply and churn in their price range, displaced residents have nowhere to go. For low-income property owners, the risk of rising property rates is also a factor, or the potential of being bought out by a developer for

a price that is short of the next rung of the property ladder. This problem is not particular to Cape Town, and is being experienced in cities across the globe. The city's focus on the Voortrekker Corridor and the Metro South-East Integration Zone begs particular attention in this regard. How can the benefits of improving underperforming areas be mobilized for the benefit of the poor?

The first challenge that cities must address in this regard is an understanding of housing market dynamics and how these relate to demand. Demand is notoriously difficult to pin down – an analysis of three different data sets regarding household incomes found vastly different distributions. At the same time, residents have different needs – whether for home ownership or rental, for freehold or sectional title, for a one-bedroom or larger unit, and in terms of location, and so on. These needs change over time in response to a household's evolving context. An analysis of property market dynamics as set out in this report offers a first insight into demand – albeit formally expressed – by highlighting how and at what price households transact, at what rate and scale, and so on. This can be supplemented with a more detailed investigation into informality. There is much more analysis that could be done, and the depth of analysis could be much richer with the City's own data that captures behaviour such as the usage of infrastructure services, and household investment. With an understanding of areas at risk of displacement, for example, the analysis can then dig deep into local area dynamics and seek opportunities on the boundary. For example, would the displacement risk from gentrification in Woodstock be usefully served with targeting the delivery of social and affordable housing in Salt River?

Understanding housing market dynamics would also put the city in a position to address the second challenge – ensuring that the breadth of supply matches the diversity of demand in the various market segments that together comprise the city's population. While displacement may be unavoidable in some instances, the city could prioritise affordable or social housing in key areas that it has identified for integration purposes, to protect housing access for lower income households while neighbourhood prices rise. It might also choose to preserve affordability by choosing to lease out state-owned land specifically for social housing ends. With an understanding of price dynamics as might be provided with a well-tuned house price index, the city could identify specific land parcels with a strong social value that might not have yet been noticed by the private market; or from its own portfolio, those land parcels that should be protected into the future.

Understanding price dynamics would also help the city identify low-income resident property owners who are at risk of property rates rising above their affordability. In such cases, the city might wish to provide a rates freeze on certain properties to accommodate the continued tenure of their residents while the value of the neighbourhood rises, or to offer its rates discount on the basis of an assessment of indigence rather than property value.

Gentrification is feared because it appears to be about a curtailing of opportunity, as wealth squeezes out the poor and neighbourhoods homogenize around class. Cities can use their own development levers, however, to stimulate and broaden opportunity in those very same places – if they know where the deficit lies, and if they know how to capture land values for the benefit of their target.

6.3 Understanding and working with informality

A significant proportion of Cape Town's resident population lives informally, whether in informal settlements, or backyard shacks, in unregistered government-sponsored houses, in housing they bought informally, overcrowded units, or otherwise. There are many ways to be informal in residential

property markets. “Informal” could relate to the registration status of the land, the nature of the property transaction, the materials from which the building is constructed, or the planning process – any one of these or all together. The city has gone to some lengths to enumerate portions of this population, and while their existence is largely noted in the census and other surveys, informal *activity* is invisible to formal datasets, and escapes evaluation.

However it is expressed, the sheer scale of informality in the city, and the fact that it continues to grow, confirms the need to both understand and work with it. Understanding informality to be a response to market failure - to demand that is neither met by the formal market nor by the state - should give the city insight into where it could better target its services.

Residents in informal settlements, or households who transact informally, and are making choices, albeit constrained, to meet their housing needs. These choices are supported by their existing capacity and what can be accessed around them. It is understood, for example, that shacks are bought and sold, and rented out, and that values are attributed to shacks on the basis of their characteristics.⁵⁸ While these prices are not insubstantial, they are lower than what would be achieved in the formal market and therefore address real the affordability constraints that exist for many city residents. In this case, households have money to spend on their housing circumstances; just not enough to engage formally. Informal transactions are another example. Sellers may decide to forgo a higher sales price for their home in exchange for an expedited sales process that gives them access to cash immediately. That properties are transacted informally highlights the severe limitations of formal property transaction processes, which, in addition to the time factor, includes the high cost of formal registration processes, and the inaccessibility of the necessary service providers such as conveyancers and estate agents. Can the city intervene in these processes to support a better realization of value given the needs and capacities of the transactors?

Already, the City has been exploring strategies to improve household compliance with requirements regarding planning approval. Access to simple building plans and active support of in situ home improvements, through expedited and supported development approvals would also contribute to households own efforts to improve their housing situations. Similarly, given that informal transactions effectively remove housing assets from the pool of formal, titled properties in the City and undermine the performance of the property market in many areas in which the State has invested significantly it should be a matter worthy of urgent attention by City management.

It is worth noting that while informality expresses unmet demand, it is also an expression of supply – households or entrepreneurs who are meeting their own needs or delivering to meet the needs of others – outside of the formal system. Informal estate agents support resale transactions even of formal dwellings; homeowners construct backyard shacks and rent these out; informal contractors sell shack ‘kits’ on the side of the road – this is economic activity that the city needs to understand and incorporate into its economic development strategies.

As has been noted, it is difficult to quantify the extent of informal activity across its various categories, and to capture key data points such as sales prices, transaction fees, etc., that would assist in a better understanding of how the informal market functions, and what interventions might support better housing outcomes for both the city and the residents concerned. However, given the significance of

⁵⁸ Eighty20(2017) A House Price Index methodology based on municipal data. Prepared for the Centre for Affordable Housing Finance in Africa.

informality, the city must develop appropriate measures to track it. In the immediate term, it would be feasible for the City to monitor informal market activity through on-going interaction with community based organisations such as DAG, or the Legal Resources Centre, who actively capture such data in the course of their engagements in affordable areas. The identification of points of contact – where informality meets the formal system (for example, police stations) – and considering how data from these contacts might be somehow collected, would be a useful medium and longer term strategy.

6.4 Considering the dynamics and potential of the rental market

The affordability challenges in Cape Town are equally acute in the rental market. News reports highlight rapidly rising prices and speculate on the impact of the Airbnb economy. The recent State of the Central City report for Cape Town highlighted high monthly rentals starting from R10 608 for a bachelor flat.⁵⁹ Access to affordable student accommodation was one of the issues of contention in recent protests. And an analysis of perceptions of rentals and sales prices in the NIDS data suggests high rental yields even (especially) in the informal market.

Rental submarkets span across income segments and encompass degrees of formality. They are useful as a flow mechanism, putting liquidity into the housing market so that residents can move more easily from one property to another to meet their needs given their changing circumstances over time. Rental properties, whether luxury flats or backyard shacks, are often the point of welcome for new residents, migrants from other parts of the country or region. The landlord may be a large corporation, a social housing institution, an employer, the city itself, or an individual household. The accommodation available for rent may be a room in a house, a backyard shack, a flat, a townhouse or any other type of structure. The landlord may manage the property personally, or may contract in the services of a management agent. All of these factors, however they are mixed, impact upon the nature, scale and price of the rental available. By understanding these dynamics and applying their various development levers, cities can influence the rental sector and how it meets this diversity of demand, and the extent of private investment that it attracts.

There is, however, no comprehensive dataset of rental properties available – the only indication of the scale of rental in Cape Town is through the Census which asks households whether they own or rent. The City of Cape Town has a register of city rental properties, which suggests a total stock of 30 155 flats and 3112 houses; however, this data is not geo-referenced. Other reports suggest that City owned rental stock includes 43 500 units. A study done in 2011 and published by the Social Housing Regulatory Authority scopes the rental market in the Western Cape, but this is due for an update. Various news reports and area-based studies scope rental in particular, targeted areas, but there is no clear and consistent source of data for Cape Town’s rental market. As a result, rental has not been explored in any detail in this report.

This is a critical area for attention by the City. In the immediate term, the city can consider which of its datasets offer an indication of rental activity. A focused analysis on the supply of and demand for rental in the city, with particular attention on certain nodes, would be very useful.

⁵⁹ <http://www.citylife.capetown/work/item/209-rising-cbd-property-values-a-barrier-to-affordable-housing>

6.5 Realising priorities with data-supported development decisions

South Africa has a breadth of housing and property-related data on which policy makers and market players depend. The national deeds registry includes all formally registered property in the country. The four major banks produce regular house price indices and property market analyses, and property analytics companies add to the mix with their reviews of new build versus resale markets, the performance of coastal versus inland areas, and so on. South Africa's residential property market is well studied.

What these efforts almost uniformly overlook, however, is the very large and growing segment of the market comprising first time home owners, subsidy beneficiaries and other lower income households who transact less frequently and in lower value property, often without bank finance. This is a relatively new market, created in large part by the national subsidy policy, but also by the activities of households and investors, as well as government at national, provincial and local level, in the democratic economy that was created following the 1994 elections. It is on this less well observed segment of the property market that attention must focus.

Arguably, the city should be ahead of any developer in understanding property market performance: it has the data, and it is in charge of the planning process. There are three main reasons for prioritizing this knowledge and developing systems to track it:

1. First, understanding price and transaction dynamics contributes to the city's ability to value property appropriately, and this has a direct impact on the revenue base that supports city budgets through property taxation.
2. Second, cities can use their understanding of property to better support value creation in property markets across all market segments. This becomes especially important in under-performing areas, where city investment in infrastructure and services, zoning interventions and bylaw enforcement, or improved city management can turn these trends around or stimulate new growth. Better neighbourhoods attract more investment and this contributes substantially towards property values which respond to such activity.
3. And third, cities must monitor property market performance to understand and address patterns of inequality, exclusion, and market dysfunction. Cape Town has particular challenges of affordability and inclusion, given the desirability of its residential property market and the resulting competition for space. The private sector will seek to deliver to this demand. However, the city can shape this effort towards its own market interest – lower income earners and lower value properties – if it understands the place-dynamics that give or constrain access to affordable housing. This is something that changes quickly: constant monitoring is necessary.

A key aspect of a city's ability to track the property market is its ability to count it. The central source of reference must be the National Deeds Registry, on which the entire property market depends. The extent to which it represents the full property market, however, is complicated by the delayed titling process in the government-sponsored market, and other factors that affect low value properties in particular. Cape Town's Valuations Roll is a separate database that enables the city's property taxation regime – a critical component of its revenue base. At the moment, these two databases do not fully align. Understanding and addressing the anomalies must be a priority going forward.

The ability to track specific markets and characteristics allows municipalities to appropriately manage resource allocations in terms of infrastructure investment, while monitoring any economic disequilibrium in property prices. This would assist cities tremendously in understanding particular neighbourhood or area-based property market dynamics, which would both contribute to a more refined application of rates against property values, and to greater precision in the implementation of particular policy measures such as infrastructure investment or area-based management.

7 Methodology

A full outline of the methodology used for analyzing Cape Town's property market has been prepared in a separate report, entitled "Understanding Municipal Housing Markets: a process guide for Cape Town". This section provides an overview of the approach used specifically in preparing this report and the analysis.

This report draws primarily on two nationally-available datasets, accessed by CAHF and integrated in its Citymark database:

- **National Deeds Registry** data, is purchased from Lightstone Property, South Africa's only vendor of complete deeds registry data (besides the deeds registry itself). The data is aggregated to StatsSA-defined sub-places, on the basis of agreed parameters. From just over twenty data points, CAHF has created a series of indicators which then guide the analysis. These can be shown at the sub-place, main place, municipality, province and national level, and are available from 2007 to the present. This enables comparisons from one neighbourhood to the next, across cities and provinces, and from year to year.
- **Census 2011** data is accessed from StatsSA and considered, also, in terms of StatsSA-defined sub-places. Key data drawn from the census includes place names, tenure (households renting versus owning), number of households, and household income.

In addition, the report has used data available from the City of Cape Town – specifically:

- **The City's valuations roll:** Cape Town maintains a valuations roll, which records the values of all properties in the city and is the basis on which property taxes are levied. In 2015, Cape Town's valuation roll included 843 111 records, comprising 681 411 freehold and 161 700 sectional title property records. Cleaning the data, and focusing just on properties with clear residential dwellings brings the figure down to 699 504 properties. The difference with the national deeds registry is marginal: only 4 297 properties or 1% of the total. The valuations roll also provides information on the properties that the City has defined as being government-sponsored – though this list is not conclusive.
- **Building permit** data: This was sourced from Cape Town's open data portal, and provides data on building permit applications and completions for 2012 and 2015 by district. The data provides the number and value of applications and completions, and can be segmented to isolate residential investments.

- **Transactions data:** The City’s transactions data file is sourced by the City from the National Deeds Registry. The database maintained by the City includes sales prices and the last transaction date for new and existing properties.

Lastly, the report has used the following additional data sources:

- **Housing Subsidy System:** The Western Cape Department of Human Settlements holds key data on the development and implementation of the national government’s housing subsidy programme, which is deployed through the provincial housing department. The Western Cape Department of Human Settlements dataset includes any project funded by the national department, whether the funds are disbursed by the province or the metro municipality. This data includes the name of the project, the location, total number of properties or units, value of investment, subsidy type, and date. This data becomes an important source of comparison for the designation of government-sponsored properties on the valuation roll, particularly as housing markets become more diverse (the deeds registry does not track this information).
- **National Income Dynamics Survey (NIDS):** This is a nationally representative panel-based survey conducted by StatsSA. It was launched in 2008 with a sample of 28,000 individuals in 7,300 households. The survey is repeated with these same individuals every two years and to date, four waves of the survey have been conducted. The survey includes the same categorisation of dwelling types used by StatsSA in the Census and other household surveys. The analysis of NIDS was done by Eighty20 as part of the effort to develop a House Price Index.⁶⁰

Across the breadth of datasets an analysis of the detail and nuance of Cape Town’s residential property sub-markets is possible. Still, there are limitations, however, that constrict the level of analysis that is possible.⁶¹ Key among these is the depth and precision of data that relates to the affordable property market, and within this segment, specifically the government-sponsored market. There are a number of reasons for this, but in particular, it has to do with delayed registration on the deeds registry (the backlog in title deeds registration of government sponsored properties has been noted), low levels of formal property churn as recorded in the deeds registry, and informal transactions that seem to persist. It is for this reason that we engage both with transaction and survey data to build a rounder picture of this under-studied segment of the market.

The analysis is undertaken in terms of three broad categories: market size and value; market activity; and market performance. Market size, value and activity are all status quo analyses. Market performance then considers these dynamics against specific performance objectives. These are outlined below.

7.1 Market size and value

An analysis of market size and value provides a picture of the entire residential market – how big it is (the number of properties) and how much it is worth (their total value). By segmenting the market – by value, or by property type – it is possible to see how the city’s residential properties are distributed

⁶⁰ Eighty20(2017) A House Price Index methodology based on municipal data. Prepared for the Centre for Affordable Housing Finance in Africa.

⁶¹ The report entitled “Understanding Municipal Housing Markets: a process guide for Cape Town” addresses these issues in detail and should be read together with this report.

across the different segments. This provides an understanding of the character of the market and who it serves.

This analysis tracks Cape Town’s residential property market along four value bands:

- **The entry market**—properties worth R300 000 or less, including government-sponsored housing;
- **The affordable market**—properties worth between R300 000 and R600 000;
- **The conventional market**—properties worth between R600 000 and R1.2 million;
- **The high-end market**—properties worth over R1.2 million.

Throughout the report, these are colour-coded in graphs and maps: **cool colours** represent the entry-level and affordable market; **warm colours** represent the conventional and high-end market. A brief view on the level of lending is also considered in this segment of the analysis.

The analysis is especially interested in the government-sponsored property sub-market and how this performs in relation to the wider market. In principle, all new government-sponsored properties enter the market valued at below R300 000. Over time, however, they may appreciate into higher value bands, and so the sub-market cuts across all market segments.

The analysis also considers a segmentation by property type:

- **Freehold properties** are those for which the owner has full title of the land, the top structure and all improvements. A subset of freehold properties are estates, which are those that are somehow bound in a development, but where the common space (roads, parks, etc.) nonetheless rests with the municipality and is not shared by the property owners as in sectional title.
- **Sectional title properties** are those for which the owner has full title over a unit in a development and shares collective ownership of the common spaces with other sectional title owners of the development.

To explore market size and value, the following indicators are presented:

Table 12 Indicators used to consider Market Size & Value

Indicator	Description
Distribution of residential properties by market segment: number and value	Provides the whole picture of the city’s residential property market by segment, and illustrates market concentrations – both in terms of number and value. Throughout the analysis, “value” refers to a calculation made by Lightstone Property, using their repeat sales methodology ⁶² . A reader with a fairly good understanding of the demographic distribution of the city can see quite quickly whether the distribution of the property market matches the affordability of the population. This is illustrated in two pie charts, and also by sub-place, on a map.
Neighbourhoods with higher levels of property value diversity	Similar to the distribution of residential properties by market segment, by sub-place, this indicator considers neighbourhoods where there is a diversity of property values, with more than 20% entry-level, more than 20% affordable, and more than 10% conventional market properties. It is illustrated on a map.
Number of properties with an outstanding mortgage	To illustrate how properties are financed, this indicator defines the number of properties in Cape Town that secure an existing, outstanding mortgage. The indicator also implies levels of equity held by home owners. Properties that do not have a mortgage outstanding are considered equity for the homeowner, and can be used to leverage loan finance.

⁶² See <http://www.lightstoneproperty.co.za/RiskAssessmentServ.aspx>

Indicator	Description
Distribution of government sponsored properties ⁶³	Illustrated on a map, this indicator shows the extent of government subsidized properties (27% of Cape Town's property market), and where they are located. Tracking this sub-market is particularly important because it behaves differently than market-delivered stock, and in some cases should be analysed separately. Government sponsored properties are all delivered in the sub-R300 000 category, to qualifying beneficiaries who at the time of application earn less than R3500 per month. They are first time homeowners and their housing asset offers them critical access to the property ladder. It is important to distinguish, for example, between new build and resales and the incidence of mortgage finance: credit is not expected in the new build market of government-sponsored housing, and in the resale market indicates market transformation and asset building. When it appreciates beyond the sub-R300 000 category, this is seen as a significant policy success, and the very real transfer of wealth to the previously disadvantaged.
Estimated market values for shacks not in backyards	Using the NIDS data, this indicator considers perceived market values for informal housing. Informal housing is often the first rung in the property ladder. By virtue of its informality, however, it is not usually possible to understand its value. The data offered by NIDS provides a proxy for understanding this sub-market that otherwise escapes analysis.

7.2 Market activity

An analysis of market activity then considers factors of supply – the incidence of new build and resale, and property financing – which change market size and value. Market activity is analysed by market segment, by property type, and with a specific focus on government-sponsored properties.

To explore market activity, the following indicators are presented:

Table 13 Indicators used to consider market activity

Indicator	Description
Percent change in total residential properties since 2010 by market segment	This indicator shows whether the four market segments are growing or getting smaller, because of new build and appreciation over time. Because the market segments themselves are static, reflecting nominal values true to the year in which the data is indicated, specific properties may move up or down from one market segment to the next, as they appreciate or depreciate. In addition, new housing is being built in the various segments. This means that the actual segment itself grows or shrinks. The percent change is a net result, after the addition of new stock and the loss of existing stock that has appreciated or depreciated into other bands. It tells the reader how much housing is available in that year in that band. It is relevant for comparison with the income distribution of the population to assess if the city's stock matches affordability.
Percent change in total residential properties since 2010 by property type	Like the indicator which explores change by market segment, above, this indicator explores change by property type – that is, freehold or sectional title. This is important to understand because of the very different character of freehold versus sectional title properties, in terms of their size, density implications, and market focus. An additional dimension offered by Lightstone is to offer a sub-segment of freehold known as 'estate'. This sub-segment those freehold properties that are in a development that is somehow defined as a cohesive estate. For some cities, this analysis may also be relevant in terms of their valuation methodology.

⁶³ While it is important to track government-sponsored properties separately (and to separate this sub-market out from other analyses of the property market), this is very difficult to do because there is no definitive indicator. The City's efforts to track this sub-market are haphazard and inconclusive. This is also true for the provincial figures. National deeds data does not specify whether a property was financed by the government or privately. Lightstone has developed a proxy to identify government sponsored properties, but this can only be taken as indicative. Nevertheless, the significance of the submarket requires separate analysis, bearing these limitations in mind.

Indicator	Description
Number of new transactions of properties above R300 000, by property type	Because of the significance of government's subsidized housing programme, it is sometimes useful to analyse the data for new transactions in the absence of this market. In this case, the analysis used new builds below R300 000 as a (very rough) proxy for government-sponsored housing. Excluding this enables the analysis to consider the increasing significance of sectional title and freehold estates as property types in the non-subsidised markets.
New registrations of government-sponsored properties	This indicator uses the Lightstone derived proxy for identifying government sponsored properties on the deeds registry, and then calculates how many new registrations appear per annum. It is well established that there is a backlog in new registrations, and that registrations lag delivery annually. For this reason, number is expected to be lower than actual delivery. It is important, however, because it demonstrates the number of new housing assets added to the deeds registry particularly for low income households.
Total repeat transactions: financed with and without a bond	Resale transactions are an important component of supply, as properties filter down while households climb the property ladder. Understanding in which market segments these transactions occur gives a sense of the relative thickness of the market and for which segments of the population it is performing. Whether or not transactions are financed with a mortgage bond illustrates the level of bank participation in different market segments, and the finance that such transactions are leveraging, and the additional value that is being put into the market.
Government-sponsored properties resale transactions	Government-sponsored housing comes with a resale restriction, so churn among such properties that are less than 8 years old is not expected, and overall, is expected to be lower than in other sub-markets. When resale transactions do happen, it is important to monitor the number of sales, where they are, and the prices achieved, as an important consideration towards supply through filtering at the bottom end of the market.
Percent government-sponsored resale transactions financed with a mortgage.	The incidence of mortgage finance in a resale transaction of a government-sponsored property is a relatively new phenomenon and reflects new territory for bank lending. Mortgage loans enhance affordability and thereby also support the achievement of higher sales prices, improving access to such housing for low income earners and the value realised from the transaction for the seller. Tracking mortgage-financed transactions in the government-sponsored sub-market gives an indication of the overall performance of this state-financed asset for the beneficiary household.
Transactions financed with a mortgage bond: number and value by lender	The incidence of mortgage finance in any transaction is important because it reveals the extent to which property can leverage additional capital and thereby contribute towards value creation. Tracking this by lender, and by market segment, reveals which lenders are active in which segments of the market, and by extension, which markets are underserved. Note, this figure only reflects mortgage loans attached to actual transactions. In addition to these, banks may extend loans that aren't associated with a sale, but might be used to finance home improvements, or to pay for other expenses such as education, or starting a business. These are known as secondary mortgages, and are not included in this indicator.
Total mortgage loans: number by lender	
Percent bonded transactions	Mortgage loans enhance affordability by spreading the cost of housing over a longer period so that the buyer doesn't have to pay the whole price up front. This supports the achievement of higher sales prices, improving the value realised from the transaction for the seller. Tracking the percent transactions financed by a mortgage illustrates the level of bank participation in a market and the extent to which property transactions can leverage finance.
Churn by property type	This indicator measures turnover in the property market. It is a calculation: the total number of repeat transactions within the year divided by the total number of properties, less new transactions within that same year. It is a useful indicator for understanding the functioning of pools and flows in a property market, and the extent to which filtering is working.

Indicator	Description
House Price Index (HPI)	A House Price Index tracks and predicts changes in value over time. Methodologies commonly used to calculate HPI are the hedonic regression (HR), simple moving average (SMA) and repeat-sales regression (RSR). The hedonic regression method links changes in price to the characteristics of houses being sold. This allows an analysis of the relative contribution of these characteristics to the house price. The characteristics can be at the property level (erf size, zoning), the building level (bedrooms, bathrooms) and at the broader locational level (neighbourhood or area). This methodology is well suited to housing markets given that houses vary significantly from each other and prices clearly reflect these differences. Real estate departments within cities have always had a strong focus on property values, as property taxes are a critical source of municipal revenue. An HPI assists a city make these decisions, by tracking and predicting market dynamics across the breadth of housing in the City. While not showing actual values, the index shows how property prices move up and down within specific market segments. This can then be translated into property price predictions, which can influence budget planning (in terms of the expected rates revenue) or investment decisions.

7.3 Market performance

An analysis of market performance considers the extent to which the city's property market is achieving key goals that have been set. This will vary from time to time, and from city to city. In this report, four key performance objectives have been identified:

- Housing affordability and access
- Economic and spatial transformation
- Sustainable human settlements
- Market responsiveness

In addition, the analysis considers how specific neighbourhoods that are of particular importance to the city are performing. For Cape Town, these are the Voortrekker Corridor and the Metro South-East Integration Zone. Indicators similar to those for market activity are explored, but against these performance objectives, and over time, to monitor improvements or to identify arising challenges.

To explore market performance, the following indicators are presented:

Table 14 Indicators used to consider market performance

Indicator	Description
<i>Housing affordability and access</i>	
Population income distribution	Housing affordability is a function of various factors including household income. Income is especially difficult to determine, so three datasets are considered to provide a broad overview: the 2011 Census by StatsSA, the NIDS Wave 4 survey from 2015, and the All Media Products Survey (AMPS) also from 2015.
Average property value, transaction value	The property value indicator is determined using Lightstone's repeat sales valuation methodology. The transaction value indicator reflects actual transaction prices as reflected on the deeds registry. This indicator tracks the relationship between the two. Where values exceed transaction prices, it suggests a depressed market and could signal limited access to mortgage finance. Where transaction prices exceed values, it suggests a heated market, and could signal the development of a property bubble. Offered here at the city level, the figures are indicative at best – showing trends and relationships. They should not be relied upon for the actual numbers. Comparing the city-wide averages for the whole market with the averages for the affordable property market (properties worth less than R600 000) shows some of the nuance and illustrates affordability challenges in the city.

Indicator	Description
Number of new and repeat transactions	These two indicators show supply into the market over time, through new build (new transactions) and resale (repeat transactions). Given that the city's population is growing annually, an annual increase of new properties would be expected. Dips in new registrations suggest constraints in the market – such as limited access to finance, or administrative delays in the construction process. While new transactions are important, the more significant number is the resale figure, which demonstrates the potential for filtering. At a city level, these figures hide sub-market dynamics, but do demonstrate activity nevertheless. Comparing the city-wide averages for the whole market with the averages for the affordable property market (properties worth less than R600 000) shows some of the nuance.
Percent bonded new and repeat transactions	The comparison of new and resale and new transactions financed with a mortgage shows the extent to which mortgage lenders are participating in the market. Again, comparing the city-wide averages for the whole market with the averages for the affordable property market (properties worth less than R600 000) shows how lending is concentrated in higher value properties, undermining affordability.
Churn and change in number of properties	This indicator measures turnover in the property market. It is a calculation: the total number of repeat transactions within the year divided by the total number of properties, less new transactions within that same year. It is a useful indicator for understanding the functioning of pools and flows in a property market, and the extent to which filtering is working. Compared with the change in the number of properties, it can show the relative strength of the resale versus the new build market. Again, comparing the city-wide averages for the whole market with the averages for the affordable property market (properties worth less than R600 000) shows how lending is concentrated in higher value properties, undermining affordability.
<i>Economic and Spatial Transformation</i>	
Compound annual growth rate (CAGR)	The compound annual growth rate (CAGR) is the average annual increase in property value over a specified period longer than one year. This figure is calculated from the City's valuation roll, using 2012 and 2015 data, for Freehold and for Sectional Title figures. It is an important indicator of both economic and spatial transformation as it shows the increase in property value at a sub-place level.
Median price	Among the range of prices that might be achieved in a sub-place or neighbourhood, the median price is one in the middle – so there are as many other prices above the median as there are below. This is often a better indicator than average because it is not distorted by outliers. It is calculated from the City's valuation roll, for Freehold and for Sectional Title.
Churn rates in high performing suburbs	Churn rates in high performing suburbs is a useful indicator for identifying those suburbs where resale transactions are high, indicating strong market demand and an effective process of property market filtering. It is especially interesting when churn rates are high in traditionally low-value or affordable market areas.
Suburbs with mortgage financed transactions under R300 000	A key challenge in Mangaung is the stimulation of market activity at the bottom end. For this reason, suburbs with mortgage financed transactions under R300 000 illustrate where lenders are engaging in new markets and contributing towards the leveraging of property values most likely for low income property owners.
Government sponsored properties by market segment: value	This indicator illustrates the value of the property asset as held by beneficiaries of government's subsidized housing programme. It is a key indicator of economic transformation.
Percent of government sponsored resale transactions financed with a mortgage / average price.	This indicator is provided again but mapped at the sub-place level to show areas where government sponsored properties have been able to leverage mortgage finance. This illustrates a level of spatial transformation as value is added to traditionally low-value areas. The second indicator explores the impact of mortgage finance on transaction prices specifically in the government sponsored sub-market, as an indicator of economic transformation

Indicator	Description
Estimated monthly rentals / rental yields for shacks not in backyards	This indicator is drawn from the NIDS survey and is based on national, not city-specific data. It reflects perceptions of rentals that can be charged, and then, considering it together with perceptions of property values, considers rental yields that may be achieved. In this case, it only refers to rentals for shacks not in backyards – the analysis has not been done for formal rental stock. Although it is only indicative, it provides a useful insight into the economic potential of housing that households leverage in the rental market.
Percent change in value	Another indicator similar to CAGR, this measures change in value between 2012 and 2015 and highlights this percentage on a map to show differences at the sub-place level. In this regard, it is a useful indicator of spatial transformation.
<i>Sustainable human settlements</i>	
Total residential properties by market segment	This indicator is used to consider the sustainability of human settlements by illustrating the number of properties on Mangaung's valuations roll that fall below the rates exemption threshold of R200 000.
<i>Market responsiveness</i>	
Building permit plans approved and completed	Building permit data was not available from Mangaung. It was accessed, however, from StatsSA. Comparing levels of activity – as illustrated through building permits approved and completed – by district can show where the market is engaging. A comparison by value also shows the relative size of planned and undertaken property investments, and provides further nuance of how the market is responding to local property market dynamics.