

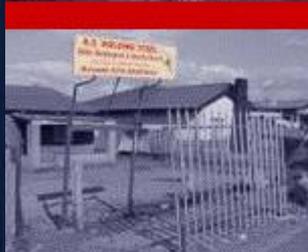
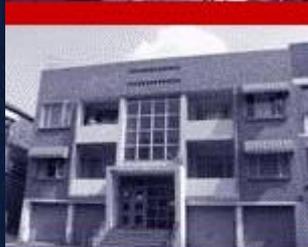
# Incremental housing:

## An analysis of the market, and opportunities for housing micro lenders

Presentation to the RHLF 11<sup>th</sup> Annual Workshop  
How Can Incremental Finance Accelerate Housing Delivery?

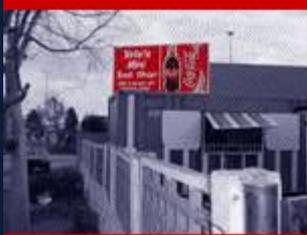


6 September 2007  
Misty Hills, Muldersdrift - Johannesburg  
Kecia Rust, FinMark Trust



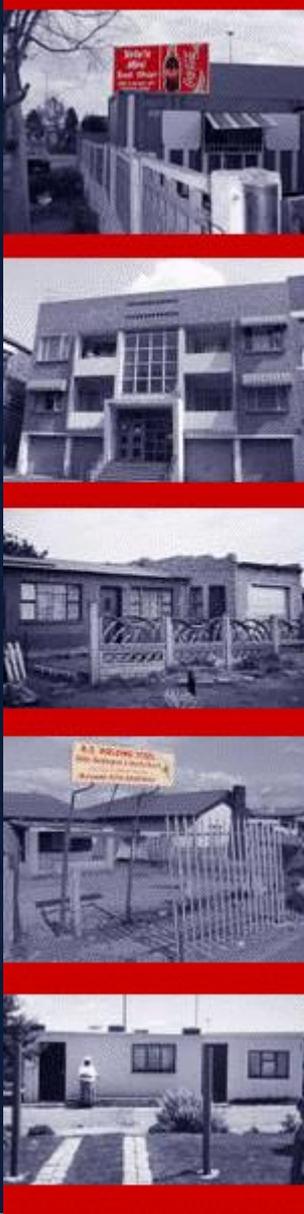
- What is incremental housing?
- What is the market for incremental housing?
  - Target market
  - Construction push and pull factors
- What is the role of housing microfinance in an incremental housing process?





# What is incremental housing?

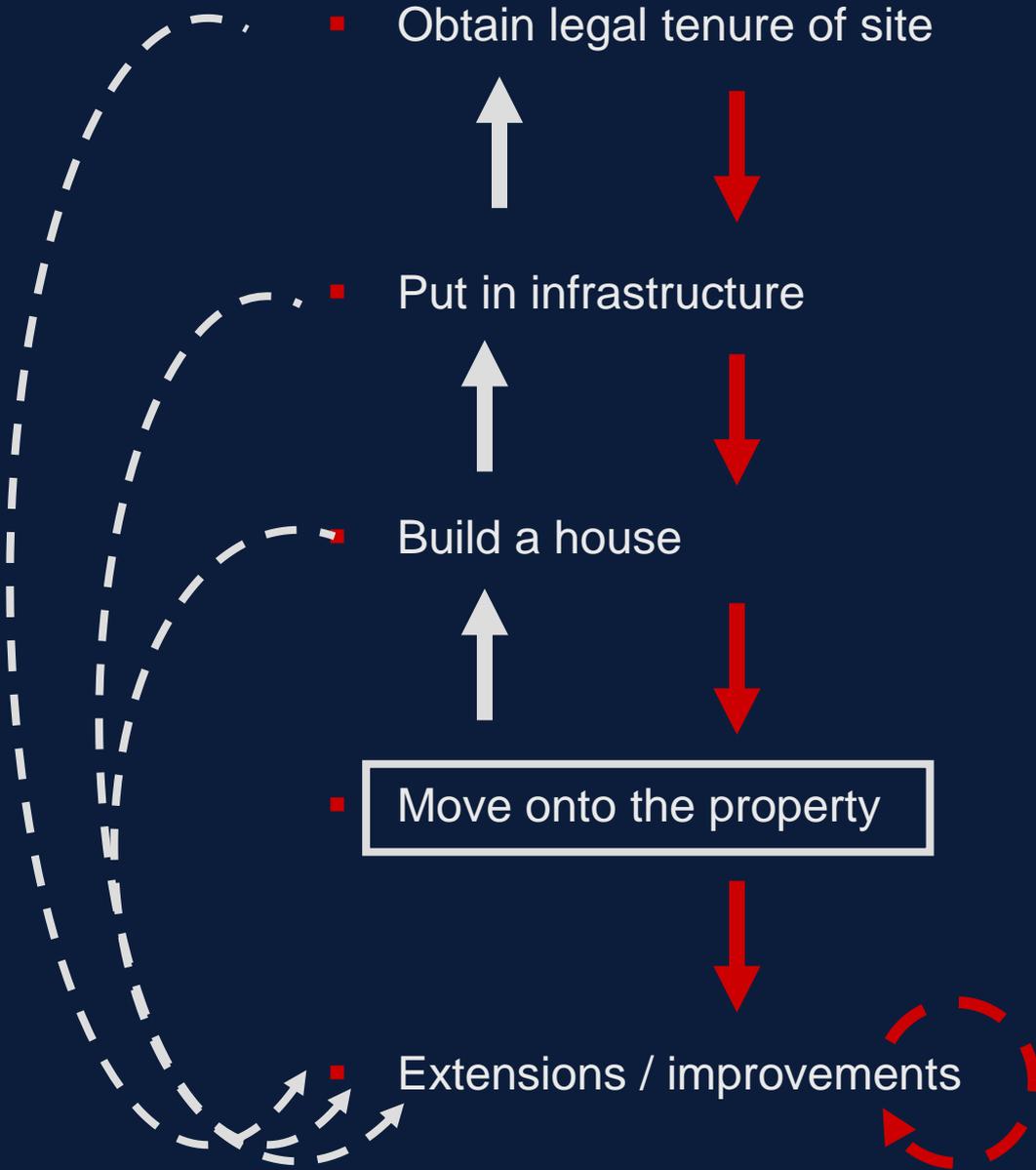




I  
N  
F  
O  
R  
M  
A  
L

F  
O  
R  
M  
A  
L

- Obtain legal tenure of site
- Put in infrastructure
- Build a house
- Move onto the property
- Extensions / improvements



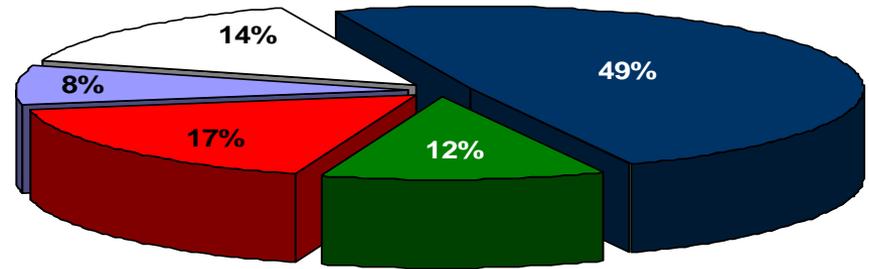
**Whether formal or informal, housing is an incremental process**



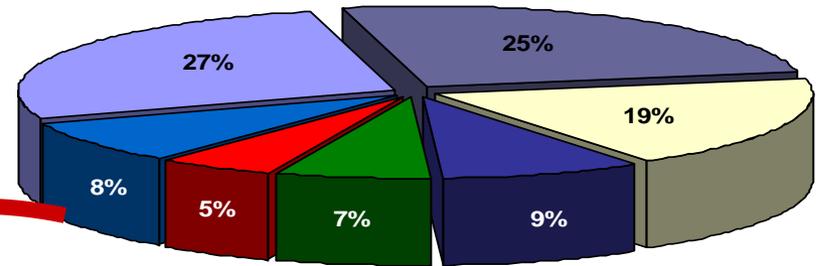
Source: Ruth McLeod, Homeless International (2002),  
 Research on Bridging the Finance Gap in Housing And  
 Infrastructure and the Development of CLIFF

- RHLF client loans: cumulative since introduction of HIM report 1999 to March 2005

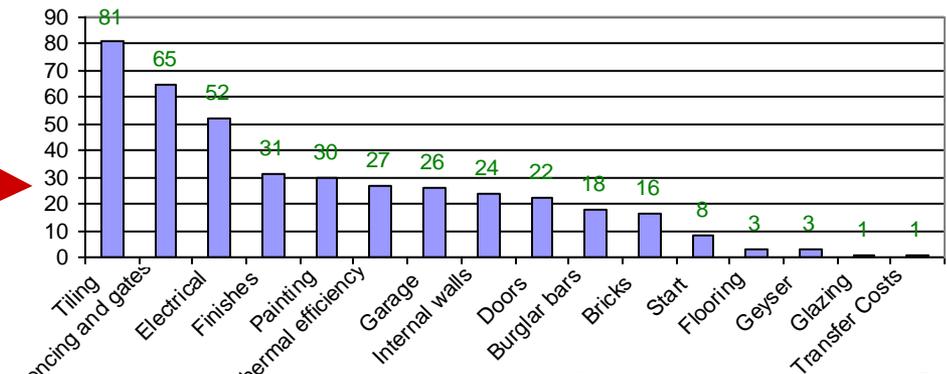
- Kuyasa fund loans (N=4805)



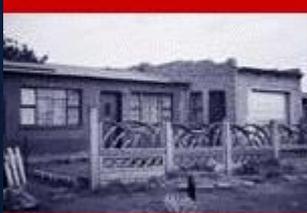
■ New House □ Extension ■ Improvement ■ Services ■ Others (mainly education)



■ Plastering, ceiling, cubing ■ Extension  
 ■ New structure ■ Improvement  
 ■ Roofing ■ Plumbing/Bathroom  
 ■ Other



**Many different loan uses contribute to an incremental housing process**



## What is the market for incremental housing in South Africa?

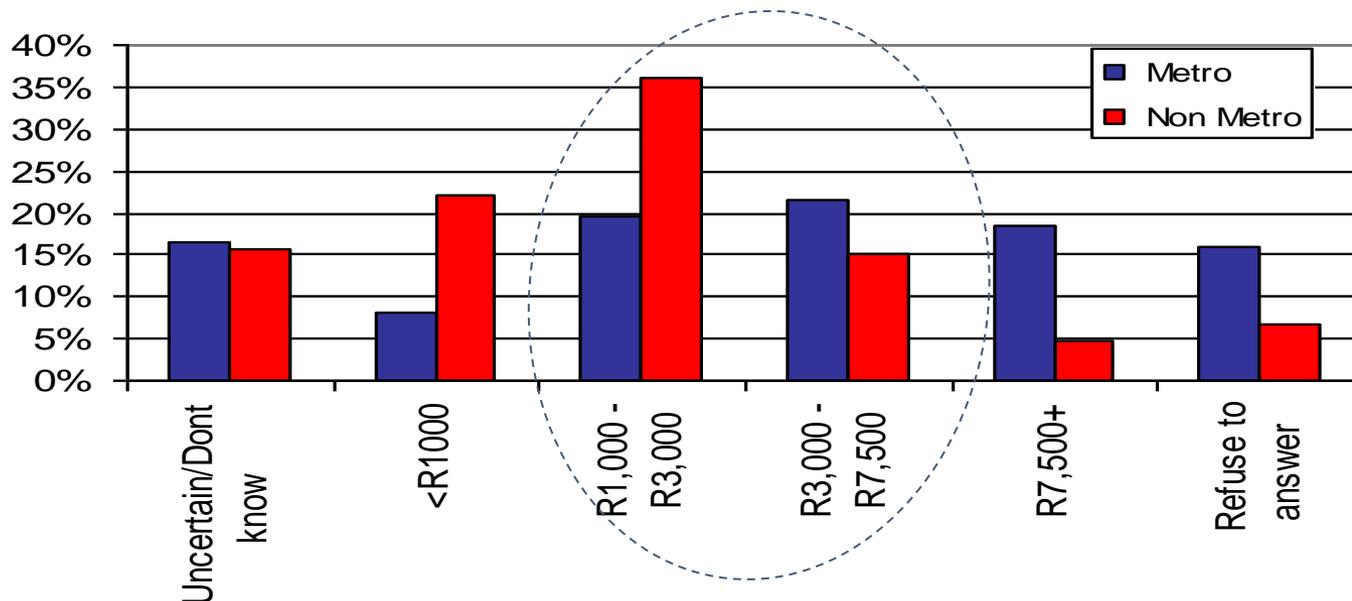
- The target market
- Push and pull factors



- Household income distribution:

- over 50% of non-metro residents earn R1000-R3000 per month; 15% earn R3000-R7500
- Over 20% of metro residents earn R3000-R7500; another 20% earn R1000-R3000

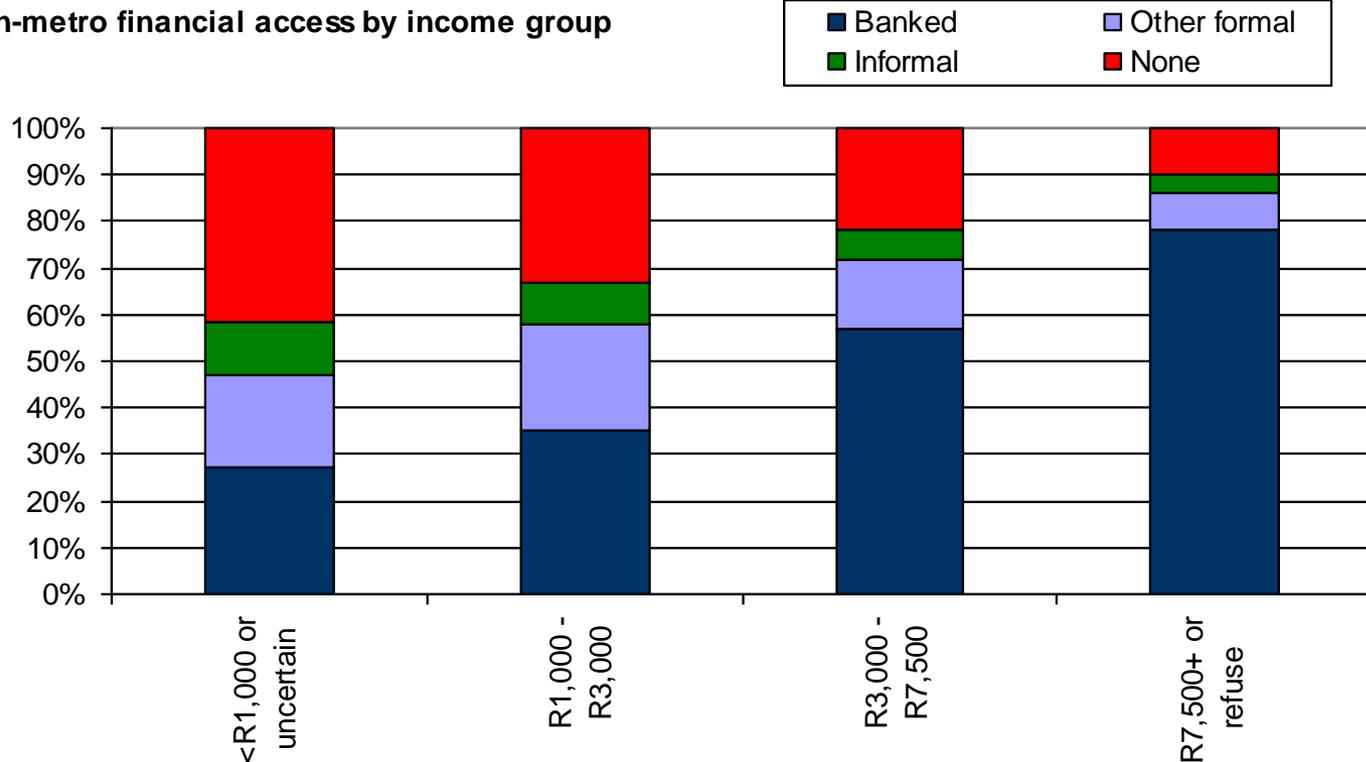
Distribution of household income in metro and non-metro areas



The target market: **household income**

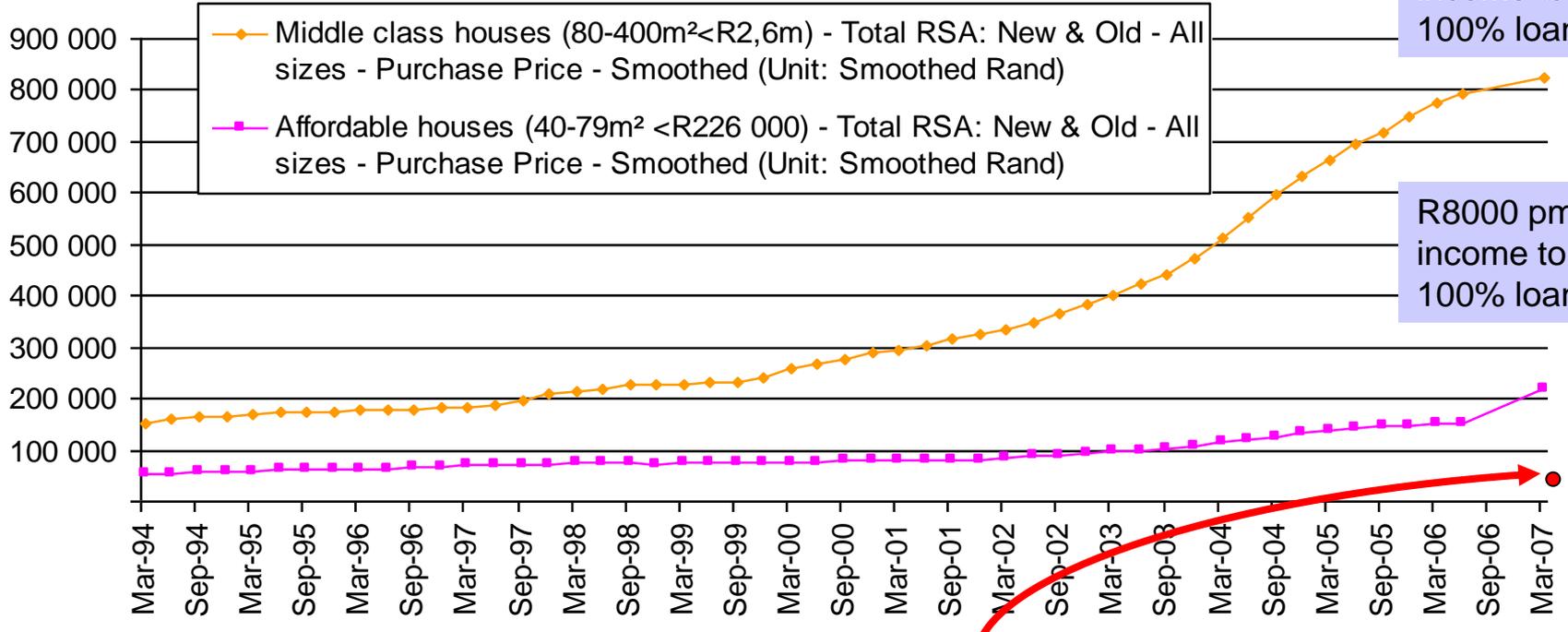
- 20% of non-metro households earning R3000 – R7500 are not formally banked.
- Over 30% of non-metro households earning R1000 – R3000 are not formally banked.

Non-metro financial access by income group



The target market: **financial access**

Purchase price (R)-smoothech



R31 238 pm income to afford 100% loan

R8000 pm income to afford 100% loan

Subsidised house = R39 400 for households earning less than R3500

About 10% of the population earns > R8000 per month



# The target market: housing affordability

- An estimated 2,355m subsidised houses need home improvements



- A further estimated 850 000 old township houses need home improvements

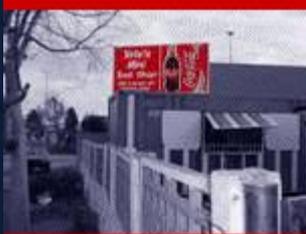


- And with no where else to go, it is likely households will improve and extend.

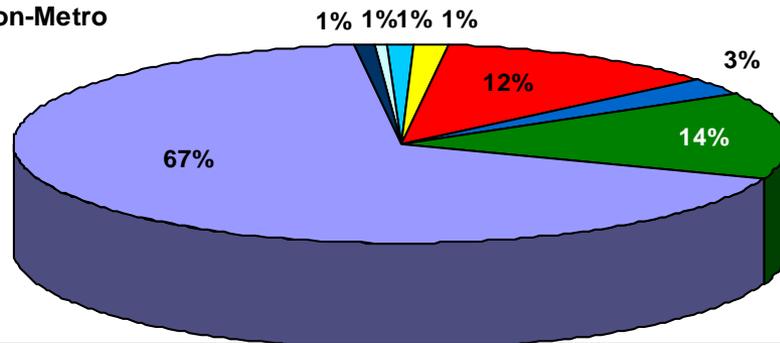


The target market: **current housing situation**



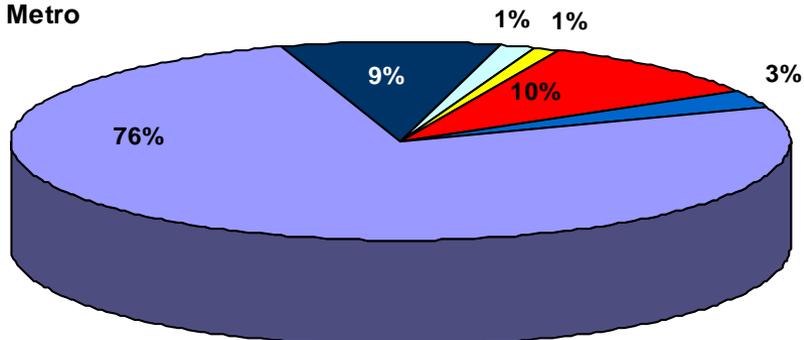


Housing types in non-Metro



- Brick house or part of brick house
- Hostel
- Backyard Outbuilding/Garage/Back room
- Shack in urban area
- Flat/Maisonette/Townhouse
- Other formal dwelling e.g. wooden home
- Squatter Shack
- Other informal dwelling

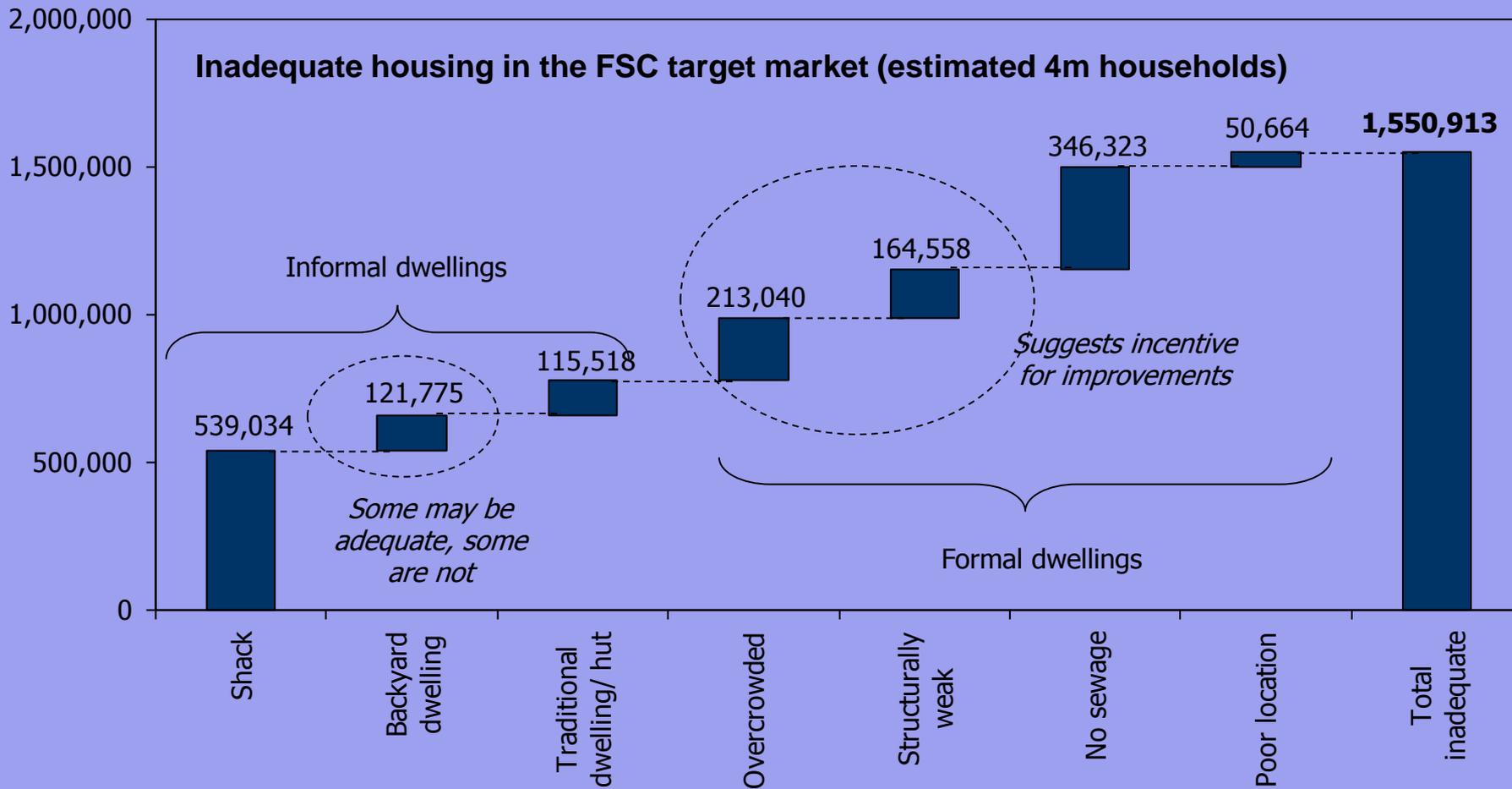
Housing types in Metro



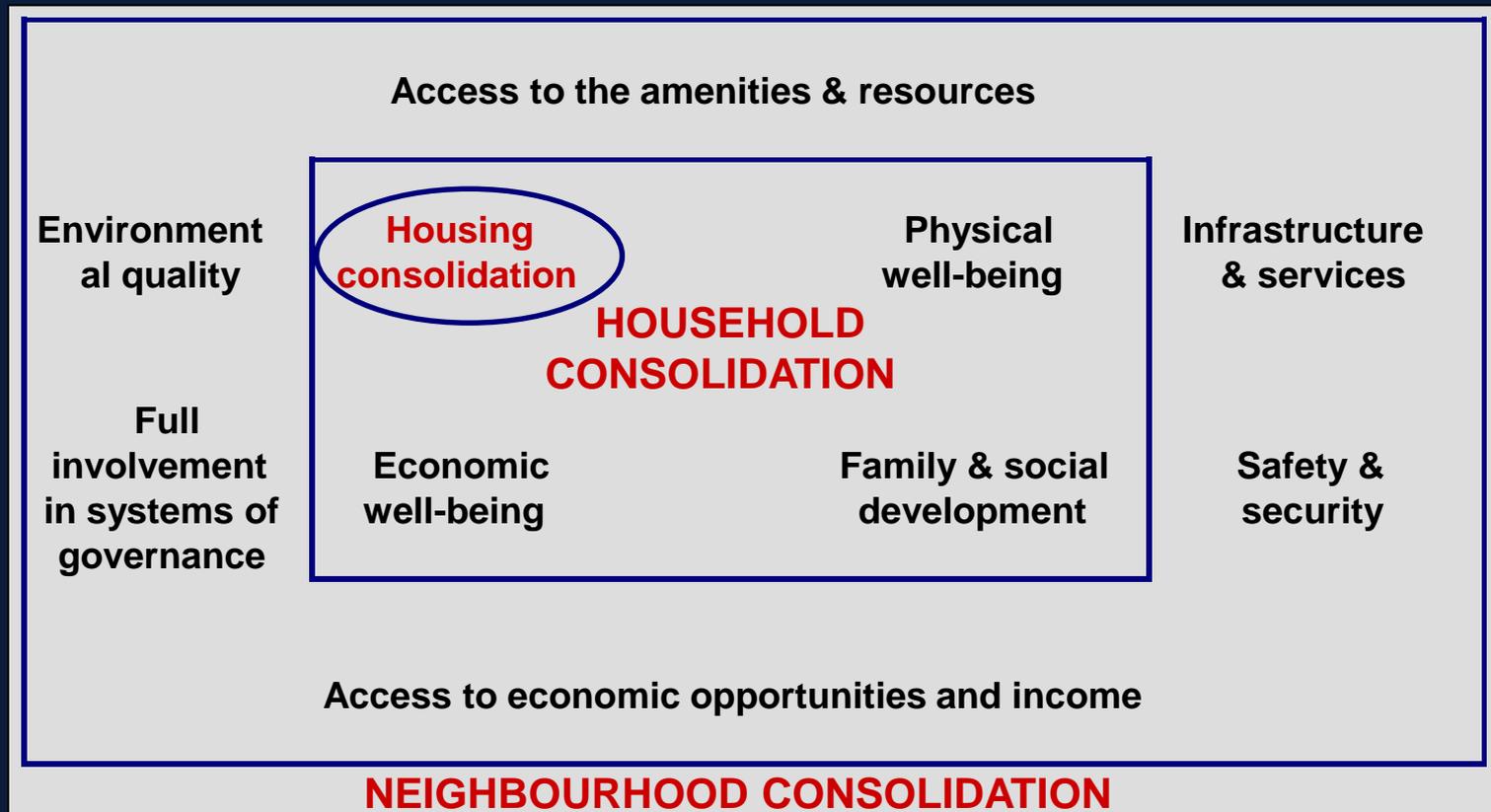
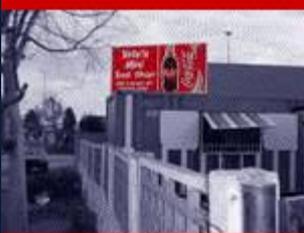
- Brick house or part of brick house
- Hostel
- Backyard Outbuilding/Garage/Back room
- Shack in urban area
- Flat/Maisonette/Townhouse
- Other formal dwelling e.g. wooden home
- Squatter Shack
- Other informal dwelling

# The target market: **current housing situation**



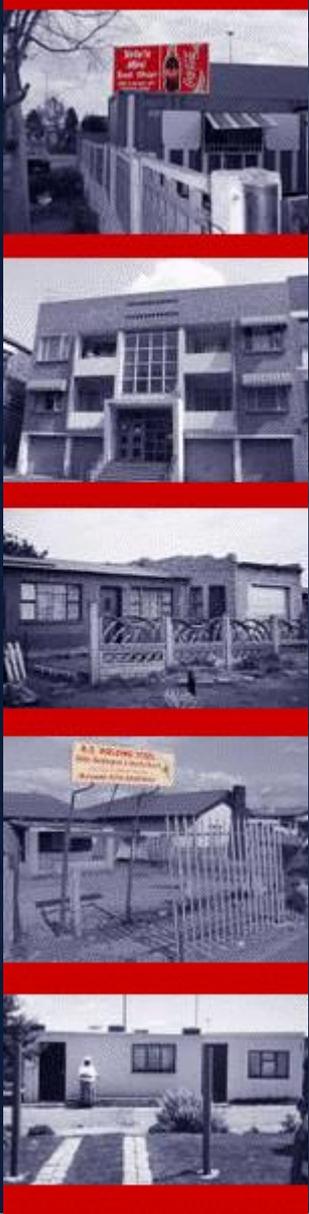


## The target market: **current housing conditions**



Push and pull factors: **why improve?**





# Push and pull factors: **about the housing asset**



Source: Shisaka Development Management Consultants (2006) Research Report: Consolidated analysis of research into small scale landlords and home based entrepreneurs.

## Functional

*No no no, it was sheer need. ... my children had no room of their own and I just could not share a room with them. We all needed our privacy. (Motherwell respondent)*

*I changed because if it's raining water gushes into my house and my children sleep on a sponge on the floor. One of them has a chest problem and the plastering that was done there led to her contracting TB. So I changed the door [to the other side]. I took the window and placed it in the front because I had a window problem as you could not see people coming into the house. So I thought that wasn't safe particularly because my neighbours are shady characters. (Vosloorus respondent)*

## Aesthetic

*Yes I changed the structure of the house and added more windows. At the front I've redone it with a face brick so it looks nice. (Motherwell respondent)*

## Neighbourhood

*Well, where I am, both of my neighbours have extended. So I took that as an encouragement to extend my house as well, because I would be adding value to all the properties. (Vosloorus respondent)*

## Comfort and amenity

- Extensions
- Improved fittings
- Repairs

## Inheritance

- Reticence to use as collateral

## Home base for wider family

- Collective decision making



Push and pull factors: **the social asset**

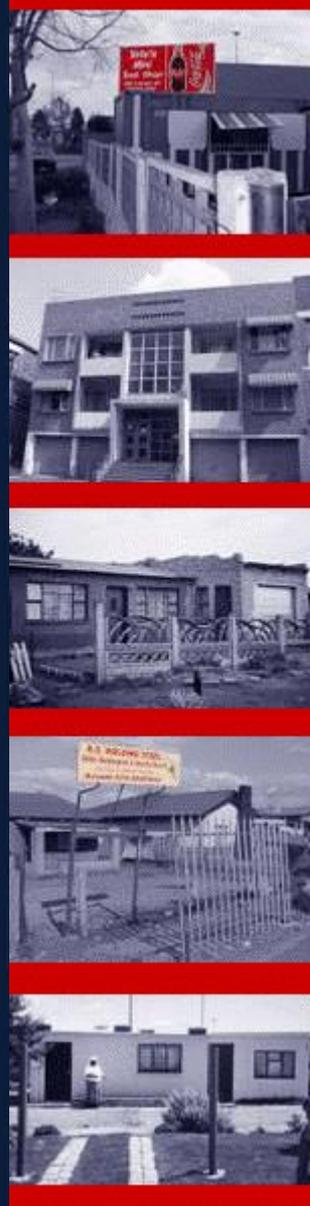
- Property price appreciation becomes a retirement benefit
- A tool to climb the housing ladder
- Collateral to be used towards business development



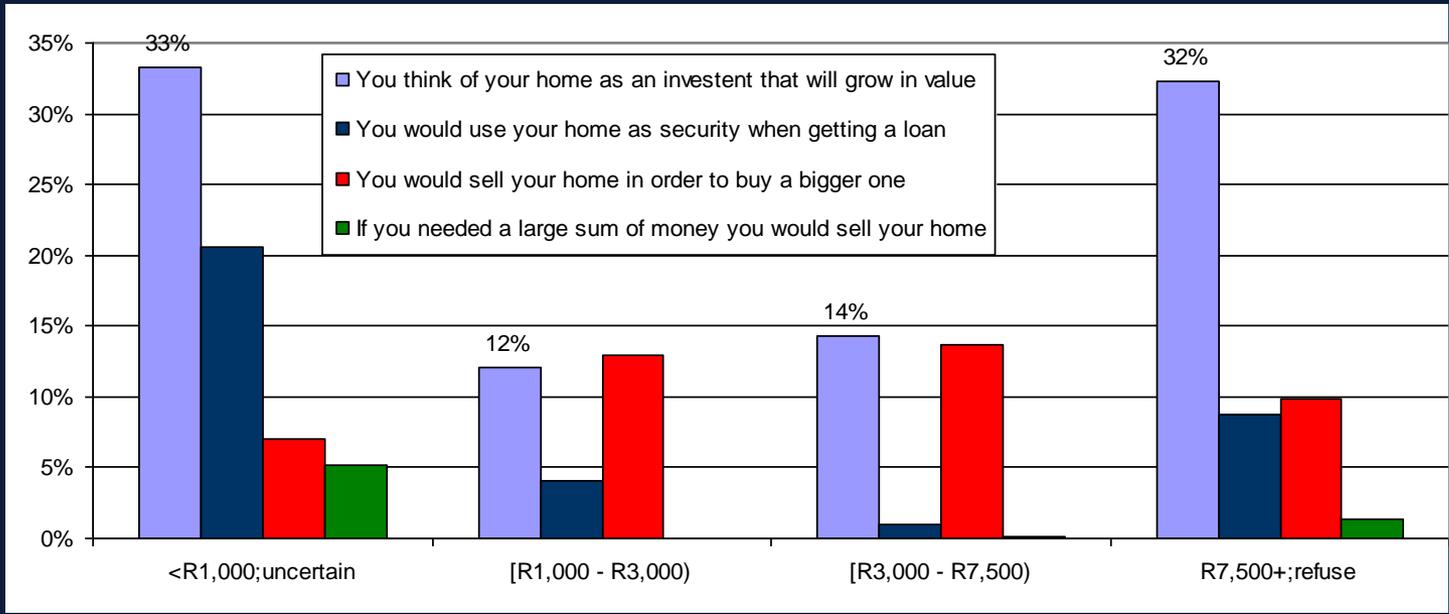
### But is it realistic in the current market?

*What makes me really sad about it is that we starve our children because we want to make these improvements. We tell them that there's some stuff they have to go without because we are improving the house. What I mean is that improving a house does not mean that you have money, it's such a sacrifice for some of us, one ends up wondering if it really is worth the sacrifice. (Motherwell respondent)*

Push and pull factors: **the financial asset**

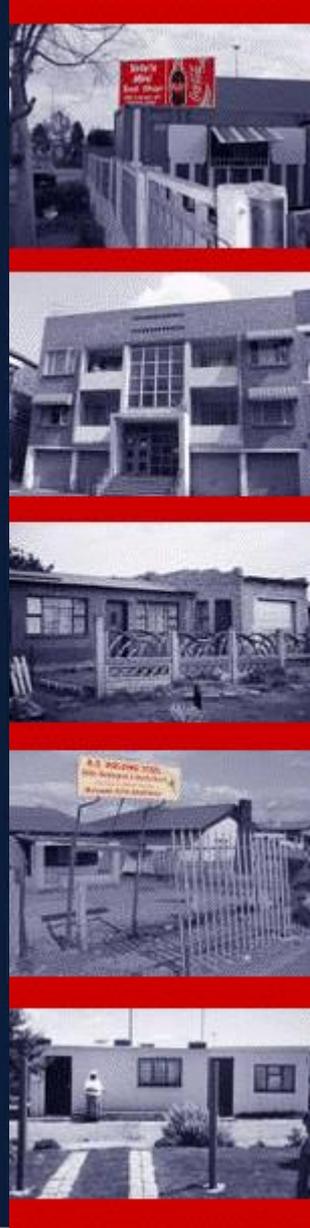


- Social asset perceptions appear dominant in lower income markets
- Gearing and collateralisation potential of a mortgage loan not fully realised in this market



# Push and pull factors: **the financial asset**



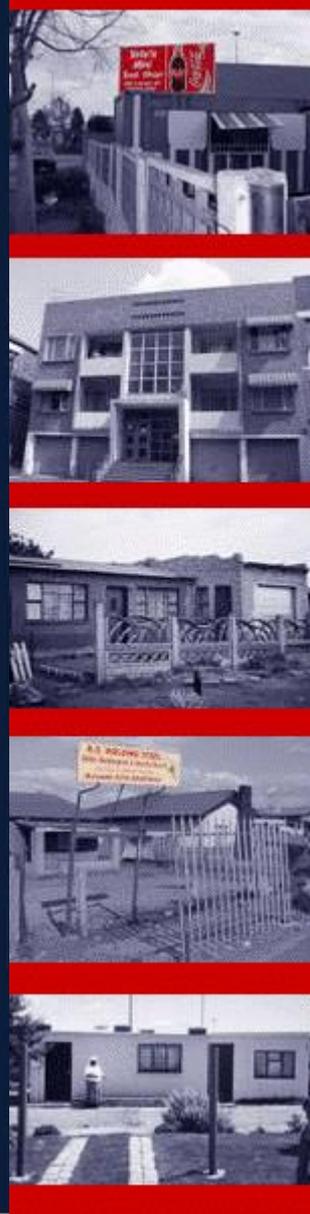


- Small scale landlords provide accommodation for 1,85 million households across SA, earning an income of R421 million per month

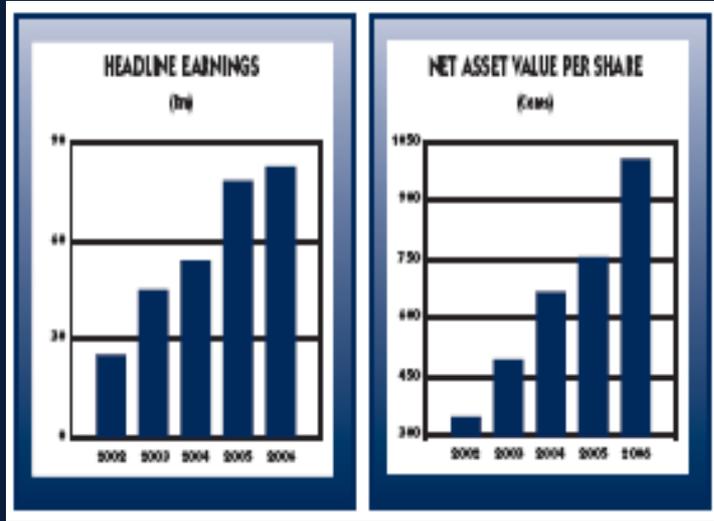
- Up to 355 000 home based enterprises are active in Townships and Inner Cities – comprising 13% of total population of these areas-generating approximately R476 million per month



# Push and pull factors: **the economic asset**



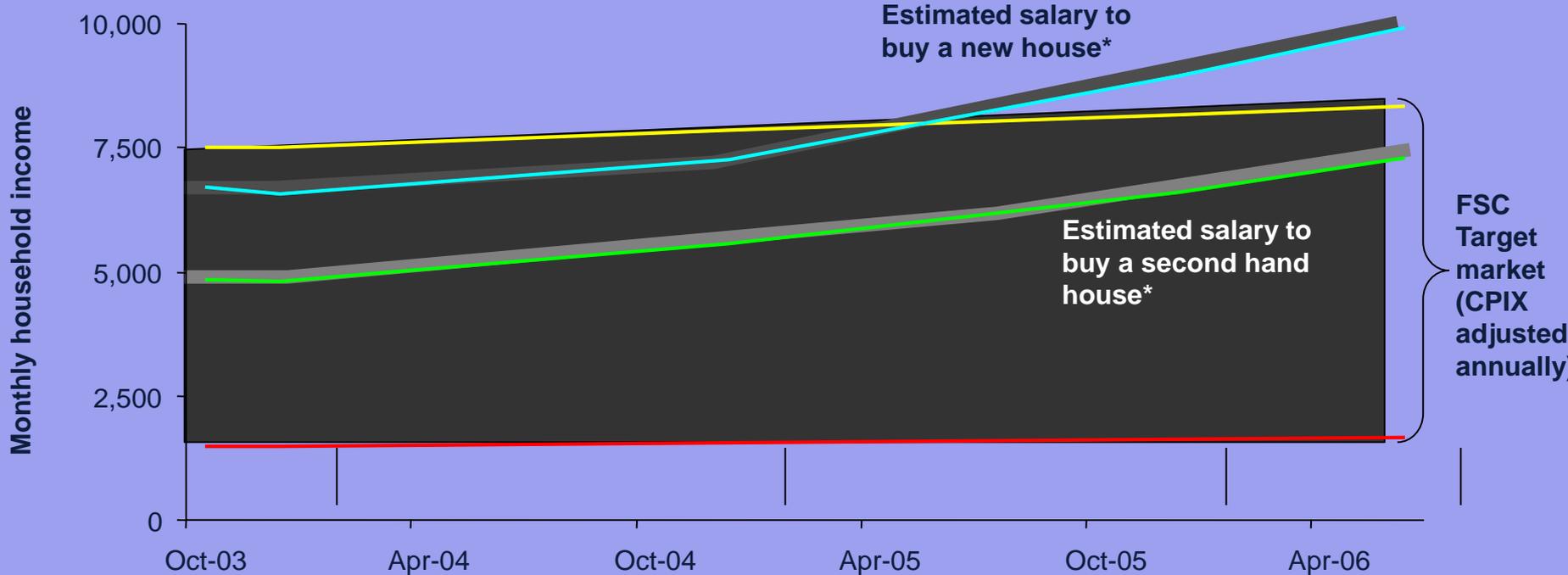
- Cashbuild headline earnings to June 2006



- PPC Headline earnings: to September 2006



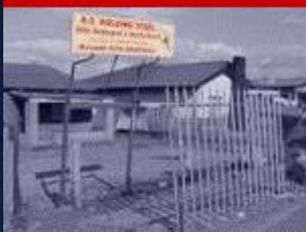
Push and pull factors: **supply inputs**



Contributors	Dec 2003	Dec 2004	Dec 2005	June 2006
<b>Stand</b>	46 000	57 000	80 000	<b>93 000</b>
Building cost (top structure)	86 500	93 100	99 000	102 600
2nd hand affordable house	102 500	122 600	140 900	151 500
<b>Prime interest rate</b>	<b>11.5%</b>	<b>11.0%</b>	<b>10.5%</b>	<b>11%</b>

## Push and pull factors: **supply inputs**

\*Based on calculated average house prices, 20-year loan at prime plus 2; 25% instalment to income  
 Source: ABSA affordable house price index; The Rode report 2004 & 2006; The Building Cost Report 2006



## What is the role of housing microfinance in an incremental housing process?

- Access to relevant housing finance
- Understanding of the housing process: targeted loans
- Housing market making

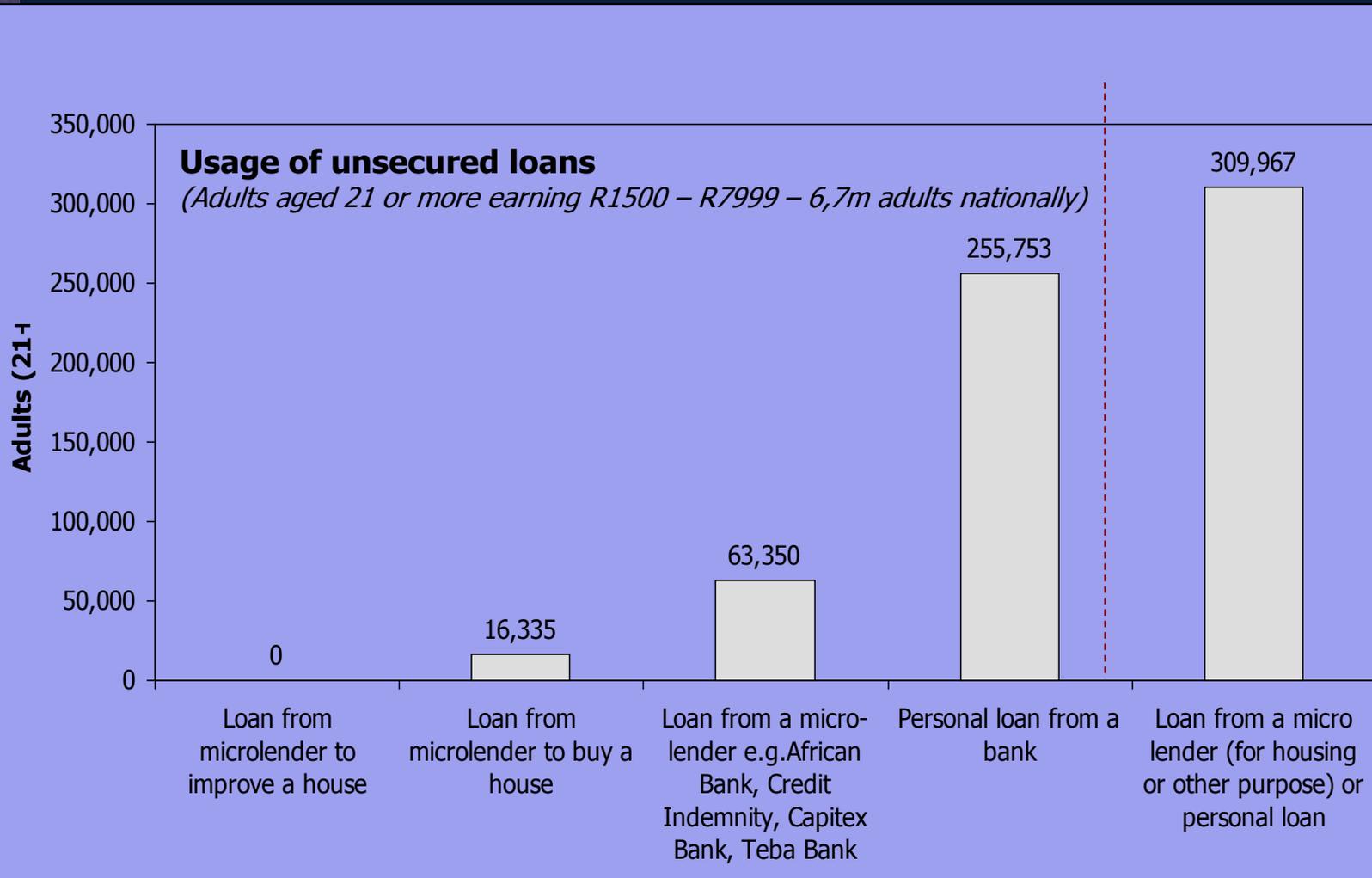


- Less than 30% of households in most emerging countries can afford a mortgage to purchase the least expensive developer-built unit because of:
  - House prices are high
  - High real interest rates of 10%+ amortised over years creates high monthly repayments that low income earners often cannot afford
  - Unavailability of long-term funding, which creates interest-rate risk and limits the supply of mortgage credit
  - Costly formal-sector systems for property rights, land use development, property transfer taxes etc., push families into the informal sector, and contribute to limit the demand for mortgage money
  - Instability of household income makes long-term debt risky to lenders and unattractive for many families
  
- So, most households build step-by-step, room-by-room

*As explained previously by Bruce Ferguson: IUHF Meeting in Brussels, June 2004.*

In South Africa, about 90% of the population earns less than R8000 per month

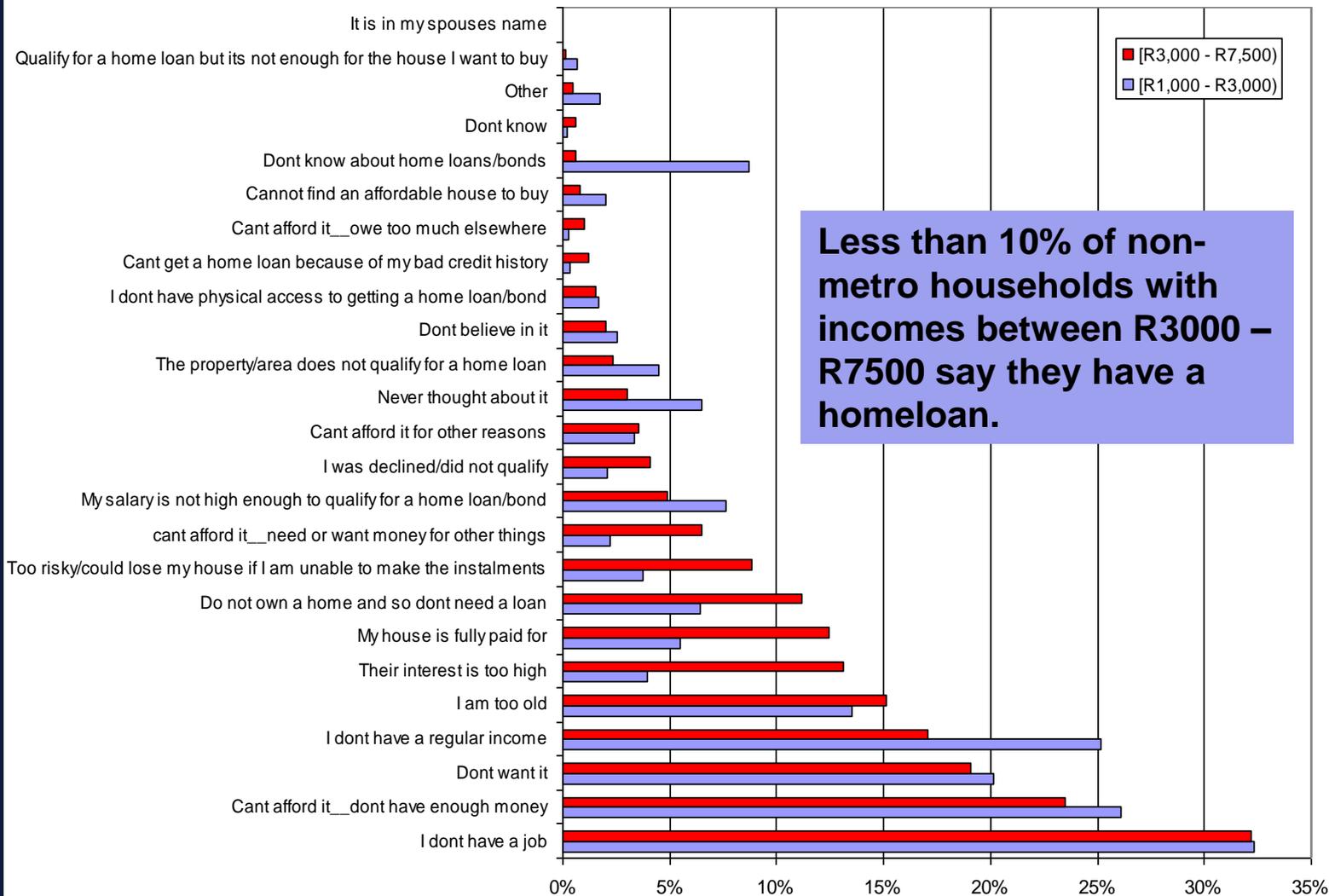
**The role of housing microfinance: access**



Source: FinScope 2006

**The role of housing microfinance: access**

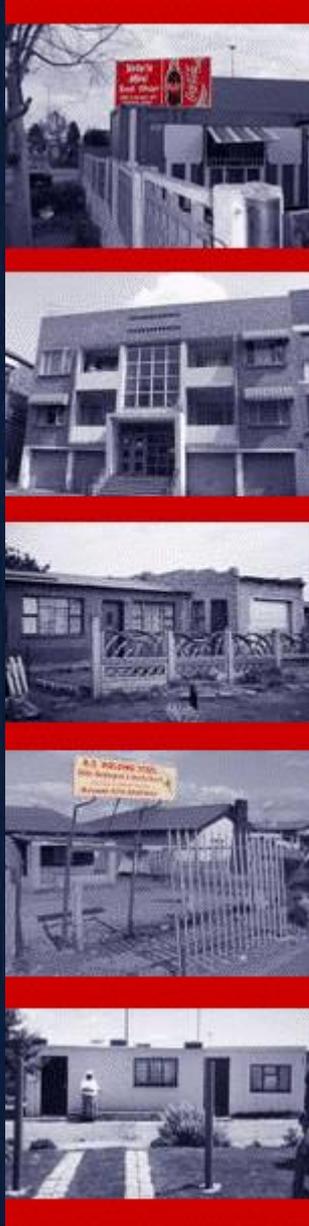
## Non-metro why don't have a home loan



**Less than 10% of non-metro households with incomes between R3000 – R7500 say they have a homeloan.**

Source: FinScope 2006

# The role of housing microfinance: **access**

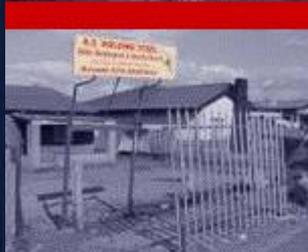
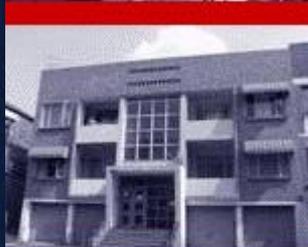
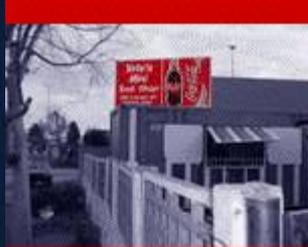


- Borrow microloan
- Make improvements
  - Accommodation for rent
  - Small business
- Realise income
- Pay back microloan
- Improved housing asset

Repeat loans

- What microfinance can do:
  - Fill in the gaps and “revive” **dead capital** housing through an incremental housing process
  - Create a **market of more “affordable” housing** that FSC signatories can fund, reaching deeper into their target market
  - Offer **income generation** opportunities to support sustainable livelihoods.
  - Encourage home improvements and **gentrification** towards sustainable human settlements

The role of housing microfinance: **understanding housing**



- Plan approval
  - negotiate with municipality?
- Access to building materials
  - preferential rates?
- Mortgageable house
  - Linkage with commercial lenders and estate agents



The role of housing microfinance: **market making**



← 2<sup>nd</sup> dwelling for business...

← Income for retirement...



Sell and buy...



Sell to buy...

Mortgaged 5-room house with granny cottage

Mortgaged 2-room house with backyard dwelling



Improved house with backyard room (for rental)

Borrow microloan(s) to improve



Starter house

Once homeless, now an investor, providing housing to other low income earners



# The role of housing microfinance: market making

*Thank you!*



**FINMARK TRUST**

[www.finmark.org.za](http://www.finmark.org.za)

[kecia@iafrica.com](mailto:kecia@iafrica.com)