

**AN EXPLORATION INTO THE  
LOWER MIDDLE INCOME HOUSING MARKET**

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## **ABSTRACT**

The study explores the factors hampering the growth of a sustainable lower middle income (LMI) housing market. The LMI group includes members of the working class who earn between R3,500 and R7,000 per month. The motivation for the research followed an observation made in 2003, that the policies of both the Department of Housing and the traditional banking system excluded this income category from accessing housing assistance. However, during the course of the study, the state started extending subsidy assistance to this income group, through the Breaking New Ground (BNG) policy.

The study employed oral and written data collection methods. The housing market participants was divided into three broad categories, namely, demand side participants, supply side participants and the housing market facilitators. Interviews were conducted with both supply side participants and facilitators. On the demand side a questionnaire survey was conducted to establish the experiences of households in respect of the home acquisition process.

The research findings revealed that LMI households require a housing typology which is described as a two bedroom detached starter house, within close proximity to a public transport system, and other community facilities for ease of accessibility. The data showed that the LMI households required financial education before getting involved in the home acquisition transaction. In addition, it emerged that professional services offered by the estate agents were not being fully utilized by the LMI households simply because the households were not aware of the responsibility of the agents in the home acquisition transaction process.

It is maintained that the LMI housing market is inundated with multi-faceted hurdles from both intrinsic and extrinsic sources. The intrinsic sources include household character, past experiences amongst others, while the extrinsic sources comprise housing stock availability, loan approval criteria, etc. These hurdles require both long and short term interventions addressing the convoluted home

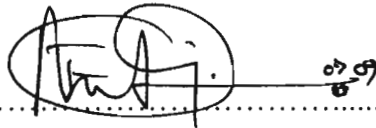
acquisition process which involves various facilitators and a costly immovable product.

In conclusion, it is recommended that demand side home ownership education is necessary, whereby LMI households are prepared for the home acquisition process. On the supply side long and short term interventions are recommended towards creating enabling environments for the supply of starter houses located close to neighbourhood facilities particularly a reliable transport network.

## DECLARATION

I, Tinuke Ojo-Aromokudu declare that this masters dissertation entitled AN EXPLORATION INTO THE LOWER MIDDLE INCOME HOUSING MARKET, is my original and independent research work. It has not been previously submitted for any degree and is not currently being presented in any other university. All sources and literature have been duly referenced.

Signed

A handwritten signature in black ink, consisting of stylized initials and a surname, written over a horizontal dotted line. The signature is enclosed in a hand-drawn oval.

Tinuke Ojo-Aromokudu

February, 2009

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## **LIST OF ACRONYMS**

ABSA	Amalgamated Bank of South Africa
BEE	Black Economic Empowerment
BNG	Breaking New Grounds
CSIR	Council for Science and Industrial Research
DoH	Department of Housing
EAAB	Estate Agents Affairs Board
EPWP	Expanded Public Works Program
FNB	First National Bank
FSC	Financial Sector Charter
LMI	Lower Middle Income
MFRC	Micro Finance Regulatory Council
NHFC	National Housing Finance Corporation
NLR	National Loan Regulator Council
PAI	Previously Advantage Individuals
PDI	Previously Disadvantaged Individuals
RDP	Rapid Development Program
SWOT	Strengths, Weaknesses, Opportunities and Threats

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## **CHAPTER 1**

# **THE LOWER MIDDLE INCOME HOUSING MARKET IN SOUTH AFRICA**

### **1.1 Introduction**

Participation in the housing market is a complex process of transactions involving the demand side, the facilitators and the supply side participants. The complexity of the housing market is strongly linked to the nature of the commodity itself. Housing as a commodity is costly and immovable. Similarly, the involvement of the participants that is the buyer, the facilitators and the supplier (developer or seller), further complicates the process. As a result, the housing market is faced with problems ranging from access to finance, shortage of appropriate housing and ignorance of policies guiding housing transactions by both buyers and sellers (Khan 2003; Hindson and McCarthy 1994). This research seeks to explore the housing market in South Africa focussing on the home acquisition process of the lower middle income (LMI) group with a view to understanding the challenges faced by them in the process.

### **1.2 Background to the Study**

The South African economy has been described as an emerging economy, with a high level of inequalities (ANC, 1994). Disparities are evident in levels of income, urban planning principles and access to basic infrastructure being in favour of one racial group over another due to past policies. Thus, it may be reasonable to expect that with the high level of diversity, the response to the inherent issues in the housing market also need to be diverse. The 1996 census revealed that over 80% of the total population earn in the low income category (less than R3,500.00 per month), 13 % in the middle income category and a mere 2 % earn over R8,000.00 per month (Baumann 2003). Of the 13% in the middle income group, 70% fall in the LMI category and are the focus of this research.

The LMI households' contribution to the National Economy is significant, and increased by 3.9% between 1996 and 2003, despite a decrease in gross income in other sectors over the same period (Statistics South Africa, March 2003). The LMI

group consists mainly of teachers, clerks, factory supervisors, policemen and others at this level, comprising to a large extent people from the community and social and personal services industry (Statistics South Africa, March 2003). The LMI households earn more than R3,500.00 a month but less than R7,000.00 per month.

When this study commenced in 2003, the LMI group did not qualify for state housing subsidy as they fell outside the state subsidy bracket, where only households with up to a monthly income of R3, 500 qualified. Neither did they qualify for mortgage loans from the private banking systems, where a minimum monthly income of R7,000.00 was required (Rust 2002). As a result the LMI households were left with little or no assistance from both the public and private sectors therefore leaving them with minimal financial leverage. Current interventions by the Financial Sector Charter (FSC), have committed to providing finance in the lower income market in a bid to get the large banks to provide finance products to the lower income groups.

### **1.3 Transformation Within The Lower Middle Income Group**

The character of the LMI group is one that is undergoing transformation. Since 1994, with the various economic development policies in place towards the redistribution of wealth, one would have expected to see a radical transformation in the socio-economic character of the LMI group. However, post-apartheid policies have brought about mixed results. Some positive results have emerged from the Government's Black Economic Empowerment (BEE) policies. These policy interventions have brought about an increase in the number of previously disadvantaged individuals (PDI), who are now experiencing an improved lifestyle directly or indirectly. Life style changes are reflected in location, type and size of home ownership options now accessible to PDIs (Luhabe 2002, Statistics South Africa 2003). Luhabe notes that affected PDI households now look for homes bigger than 'match boxes'.

The effect of the BEE policies on a second group who may be referred to as the previously advantaged individuals (PAI), is not as positive as it has seen them being denied business opportunities (and consequently income). A drop in income,

fall in the lifestyle, and consequently a fall in housing conditions, and choices of housing has resulted (Statistics South Africa, 2003). This situation has led to this group buying into the lower value property markets, and thus also demanding moderately priced housing stock.

Apart from those affected by the government economic policies, there is a third group wanting to participate in the affordable housing market. This group comprises of those, who during apartheid dispensation qualified as middle-income households, but were restricted to owning property in the black townships. As such, this group was restricted to housing that was of lower quality, despite the fact that they could afford to own property of higher value in terms of location, type, and size of houses.

The demand side is therefore made up of three categories of LMI households

- the emerging LMI category;
- Those that have always been in the LMI category but were restricted to certain PDI townships where there was lower quality housing like in the suburbs of Pinetown eg Cleremont, Nagina, Kwadabeka etc.
- the 'down grading' previously advantaged LMI group, who lived in the previously advantaged townships.

In light of these three categories, LMI group can be described as a mix of all racial groups, all demanding moderately priced housing stock, which can be accessed through the market.

With the increase in the LMI population, there is consequently a higher demand for affordable housing stock, suitable to the needs of the LMI group. If ownership is not possible via subsidized housing packages of the national government, participation in the market is essential for the LMI group towards home ownership. Despite this increase in demand, there seems not to be corresponding increase in the supply as would be expected, as a result limiting the growth of LMI housing market. What hinders the growth of a sustainable LMI housing market is the motivation for this research, focusing primarily on the interaction between the

three market participants that is the demand side participants, the facilitators and the supply side participants.

#### **1.4 Problem Statement**

The LMI group have to participate in the housing market in a bid to address their housing need. Despite the Breaking New Grounds (BNG) policy interventions beginning in 2005 this remains the case. Participation is however a complex process of transactions involving various intermediaries. This is further complicated by housing being costly and immovable. From a financial point of view, efforts of the government have been to intervene in lending practices to the LMI by legislations through the financial sector charter in 2003. Other interventions in the area of supply have been the BNG program. In summary, the limited assistance to the LMI group remains a challenge and needs to be responded to in a number of ways.

#### **1.5 Research Objective**

The study explores how the efforts and attempts of the LMI households, in participating in the housing market, are supported or frustrated by the existing structures and processes.

The objectives are:

- To understand the choices made by the LMI households in respect of the housing commodity and what informs such choices.
- To explore the demand side, supply side and facilitation aspects of the LMI market.
- To highlight the challenges faced by the LMI in their interaction with facilitators in the home purchasing process.
  - To outline policy implications of the study's findings.

#### **1.6 Research Question**

What are the hurdles hindering participation of LMI households in the housing market? What choices do the LMI households have in terms of the avenues towards home ownership?

### **1.6.1 Sub Questions**

1. What choices do the LMI households have in their bid towards home ownership, and what informs such choices?
2. What are the limitations created by supply of housing stock in terms of housing form, size, typology and location?
3. What can the private sector suppliers and facilitators do to assist access to the market?
4. What can the government do to develop a sustainable LMI housing market in terms of supply of the housing commodity?

### **1.7 Hypothesis**

The LMI households have limited choices in their bid towards home ownership, due to the nature of the housing product they seek, which is both costly and immovable, and the complex nature of the transaction process for which the LMI are not equipped to participate in.

### **1.8 Research Location**

Given that housing as a commodity is immovable, the research location is now outlined. The research was carried out in the Inner West City Council the Ethekwini municipality, in KwaZulu-Natal. The Inner West area started as the little town of Pinetown. Struik (1974) and O'keefe (1988) records that over the years, Pinetown was occupied by the indigenous African tribes, the Voortrekkers, and then the British in 1843. In 1951, about the time of the enactment of the Group Areas Act, it was thought that spatial separation was necessary for the control over urban natives. Townships such as Kwadabeka and Cleremont were planned, but were not sufficient to meet the demand of housing for the native African people, hence the consequent emergence of informal settlements in the area. Over the years, Pinetown and its environs grew to accommodate all racial groupings.

Pinetown offers a good mix of 21 previous white townships, as well as 17 previous black townships. While it has a predominance of previous black townships, the area offers a residential settlement for all races. The table 1.1 below shows racial composition of Pinetown.

The area also offers moderately priced housing within the price range of the LMI group as shown in the The KwaZulu-Natal Home Guide Property Magazine, attracting LMI households. Pinetown therefore offered a suitable research location to explore the LMI housing market.

**Table 1.1 Suburbs of Pinetown as at 1994**

	No of suburbs	Total no of suburbs
Previously White townships	21	21
Previously non white townships	Indian 5	17
	Coloured 2	
	Black 10	

Source: Pinetown Museum 2005

### 1.9 The Home Purchase Process

The process of home ownership requires the involvement of various players, taking on different responsibilities at various stages of the process. As mentioned earlier these players include the demand side participants, the supply side participants and the middle men as illustrated below.

In an open market system, demand opens up the need to supply a commodity. With reference to the housing market, the buyer makes demand first and then the suppliers respond. Where there is equilibrium in the market, demand equals supply. The interaction between supply and demand participants is facilitated by the middle men as shown in illustration 1. All participants involved in the market are discussed below.

Illustration 1: Home Purchase Participants

<b><u>Demand Side Participants</u></b>	<b><u>Middle Men</u></b>	<b><u>Supply Side Participants</u></b>
Lower middle income (R3,501 – R7,500 monthly income )	Financiers Estate Agents Conveyancers	Government Private Sector



### ***1.9.1 Demand Side Participants: the LMI Buyer***

LMI buyers are a mixed racial group demanding housing stock suited to their needs. The group came about as a loophole between public sector target beneficiaries and the market. At the onset of the study, households earning less than R3500.00 monthly income had access to the government-housing subsidy, as the cut off for RDP housing subsidy was set as R3, 500.00 monthly income (DoH 1994). On the other hand, households earning over R7, 500.00 monthly can in principle afford a home costing R100, 0000 or more, which can be financed with a normal mortgage bond (Rust 2002). However, as Rust further explained that households earning more than R3,500.00 monthly income but less than R7,500.00 monthly at the time, did not qualify for state housing subsidy and generally do not qualify for mortgage loans either. (ABSA now has a product called MyHome which is targeted at those earning less than R7,500.00).

The LMI household income was therefore defined as made up of households earning monthly income of between R3500 and R7500. Using Rust's formula this group demands a peculiar housing product within the price range of R50,000 and R180,000 herein referred to as affordable housing (Rust 2002).

### ***1.9.2 Middleman: Facilitators***

The facilitators involved in the housing purchase process constitute three major groups: financial agents, estate agents and conveyancers. Each group is described below.

#### ***1.9.2.1 Financiers***

Financiers provide capital loans to applicants at a premium. With particular reference to the LMI group, financiers are faced with higher lending risks than when offering finance to the higher income groups (Rust 2002).

At the time the study began banks were reluctant to offer financial packages at this income level. This was attributed to the high risk with both the housing commodity and the attitude of lower income borrowers to loan repayments (Rust 2002). In 2003, the government intervened on the demand side of housing finance to the lower income groups through the Financial Sector Charter requiring a number of banks to offer home loans to the lower income groups (Finmark 2006).

Legislative interventions were put in place to compel the bigger banks in South Africa to lend to the lower income brackets. In 2003, the Financial Sector Charter (FSC) mandated the four large banks in South Africa, viz First National Bank (FNB), Amalgamated Banks of South Africa (ABSA), Standard Bank and Nedbank to extend mortgage products to the LMI group in a bid to give the lower income groups better access to finance (Finmark Trust 2006). The intervention has yielded positive results with ABSA offering the MyHome product, which offers financial assistance to households earning a joint household income of less than R7,500.00.

The following are the minimum requirements to access a loan from ABSA bank (one of the large banks in South Africa):

- Last 2 salary slips as proof of income.
- 6 months bank statement of which the last 3 months must be consecutive,
- proof of residential address,
- ID document, and proof of marital status.

With regards to mortgage loans, additional requirements include,

- fully completed and signed application forms,
- copy of offer to purchase including property details.

This gives the lender an indication of property to be bonded, which traditionally would be repossessed by the bank should there be default in repayment. However, over the years, using property as collateral proved not to be a safe way of guarding against non payment of loans in some previously disadvantaged areas (Porteous & Naicker 2003). Lenders have had to be more innovative in providing loans where the property may prove to be difficult to repossess, mainly due to its accessibility (ie owner not moving out). These innovations include employer guarantee, whereby the employer stands a surety for the loan. This document may also be required by the bank (ABSA 2006). One of the documents required for a home loan is the copy of offer to purchase. This is a document from the buyer to the seller indicating the interest to buy the property in question. It is legally binding document without clauses, and is usually provided by the estate agent.

The next middle man to be discussed is the estate agent.

### *1.9.2.2 The Estate Agent*

The estate agent performs an intermediary role in the home acquisition process. Usually, the purchaser will approach an estate agent to buy a property. The purchaser on viewing appropriate property puts in an offer through the agent to the seller, who accepts or turns down through the estate agent. Once a willing buyer and a willing seller have been brought together, the estate agent introduces the financing and conveyancing agents into the transaction. The estate agent charges commission for the services rendered. The seller usually pays this negotiable commission. Activities of the estate agents is governed and regulated by the Estate Agency Affairs Board (EAAB). Its primary function is to control certain activities of estate agents in the public interest; and for incidental matters such as disputes. Therefore should the buyer be unfairly treated by the estate agent he has a recourse with the board.

In an informal manner the estate agent also carries out checks on the affordability rating of the prospective purchaser. The estate agent may ask of the client's place of work, present residential address, the kind of car he drives and preliminarily sizes up the client., This is usually done via an application form prepared by the agent. The estate agents code of conduct mandates the agent to explain to every prospective party any written offer, the meaning of and consequence of the material provisions of such offer. The code further makes it the estate agents responsibility to draw up an agreement of sale which is used in taking the transaction forward, thus facilitating the process. The estate agents may be required to hold funds in trust for the transacting parties. The board warns in the interest of the buyer, that payments should be receipted and made in an estate agents office or in an attorney's office.

The third middle man to be introduced is the conveyancer.

### *1.9.2.3 The Conveyancer*

Housing, being an immovable property, changes hands when the name of the registered owner, changes in the deed office. The role of the conveyancer then is the facilitate the process of registering new property. At a simplistic level the process of registering property involves At Lower income groups in South Africa Legal services are made available through the Legal Aids Board. However the

board does not make any provision for conveyancing services. This implies that the LMI have to access conveyancing services in the private sector.

### ***1.9.3 Supply Side Participants***

The responsibility to supply housing in South Africa lies with the different tiers of government, and with private sector. The National Department of Housing sets the targets, norms and standards to assist provincial and local governments to develop capacity, establish institutional and funding frameworks, allocate funds according to 3-year Medium-term fiscal expenditure framework, and evaluate housing sector performance (Housing Code 2003). Both public and private sector housing initiatives are guided and or monitored by the National Departments framework that sets delivery targets time frames and budgetary guidelines towards broader national objectives such as poverty alleviation.

Guidelines set by the National Department will speed up or restrain the overall participation in the home acquisition process (housing codes). At provincial level, the role of the provincial government is to determine provincial, policy and legislation, co-coordinating housing developments, capacitating and evaluating Local Authorities, approving projects, monitoring and disbursing funds. It is the role of the local municipality to carry out the actual implementation of housing as stated in the housing code (Engelbrecht 2003). The state supply of the RDP housing, targeted at the lower income households is a slow, but steady process that has contributed to the residential housing stock nationally. Beneficiaries of the state supplied stock were until 2004, required to earn less than R3500.00 monthly income to qualify for state assistance. Above this level of income, households were required to address their housing needs via the private sector supply.

The private sector supply of housing is competitive and focuses on the upmarket bracket (ie higher income categories earning over R7500.00 monthly ), and utilizes scarce resources to supply housing. Suppliers in this sector target the most lucrative market that gives maximum returns in the shortest period possible. Supply of housing in the private sector could be owner built or by the involvement of housing developers. Examples of such driven developments can be found in Umhlanga and Mt. Edgecombe areas of EtheKwini municipality in KwaZulu-Natal.

However private sector supply of housing in the lower income groups, offers low returns on investment, and is often met with challenges during the development process. For example the identification of land poses a challenge for developers at lower income categories. The NIMBY syndrome <sup>1</sup> (Royston 2003) has been used to describe this behavior in the housing sector. At the lower income categories, land has first to be purchased (either by the government, or other non-governmental bodies) on behalf of the end users. For the land to be purchased, endusers may be required to form a legal entity (eg co-operative or section 21 company). The release of land may further be to conditions set out by the land provider, this could be the stipulation of housing typology to be developed as in the case of low income developments, where housing typology has to be detached housing on single plots. This condition may not be profitable to the private sector developer and as deters the housing development process.

Housing typology suitable for the LMI group could vary from detached to attached dwelling units, all moderately price within the affordable range of R80,000 and R100,000 (see appendix 1 for details of calculations This market price value is set by various factors that pertain to prevailing market conditions as well as the housing conditions. These conditions include the physical environment (terrain, vegetation, topography etc) in which the dwelling unit is located. As such a house built in a previously black township with lesser environmental quality that a previously white township would have a lesser market value also (Bizzel 2002). Research has shown that the black townships offer a large market of affordable housing waiting to be tapped into (Finmark 2004). The accessibility to facilities such as schools, shops, public transport networks, etc can add to the value of property or otherwise reduce property value. Supply of LMI housing poses a problem in availability of land and interest of developers to participate in the LMI market.

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<sup>1</sup> **NIMBY** is an acronym for **Not In My Back Yard**. The term is used to describe opposition to a new project by residents, even if they themselves and those around will benefit from the construction. Often, the new project being opposed is generally considered a benefit for many, but residents nearby the immediate location consider it undesirable and would generally prefer the building to be "elsewhere".

## **1.10 Definition of Concepts**

### ***1.10.1 Lower Middle-Income Group***

The Lower Middle-Income group came about as a loophole between public sector target beneficiaries and the market. This was as a result of households earning less than R3500.00 monthly income having access to the government-housing subsidy, as the cut off for RDP housing subsidy is set as R3, 500.00 monthly income (DoH 1994). Those households earning R6, 000.00 monthly income or more can in principle afford a home costing R100, 0000 or more, which can be financed with a normal mortgage bond (Rust 2002). Rust goes further to explain that households earning more than R3,500.00 monthly income but less than R7,500.00 pm do not qualify for state housing subsidy and generally do not qualify for mortgage loans either. This group is herein defined as the lower middle-income (LMI) category.

### ***1.10.2 The Housing Commodity***

The housing stock is defined as a completed housing unit, within a physical context, setting, and location. The housing commodity is increased when a home owner decides to put his home on the market for sale or a developer decides to build a new house. Existing property is referred to as secondary housing stock and the new property is referred to as primary housing stock. This scenario is similar to the car sale industry where a new car is the primary product and the old is a second hand (or used) product. The total housing stock includes both primary (new) stock and secondary (existing) stock.

### ***1.10.3 Housing Developers***

The term developers refer to suppliers of primary housing stock. The developer is defined as the one who invests capital in the development, either for resale or personal use.

### ***1.10.4 Historically Disadvantaged Communities***

Historically disadvantaged communities refer to formerly non-white residential communities. The communities give a socio-physical context, setting, local area to the housing commodity.

### **1.11 Structure of the Research**

The research starts with a conceptual framework where the home acquisition process is outlined and examined. The perspective of the study is predominantly from the point of view of the LMI group and examines how other players in the home acquisition process responds to the socio cultural and challenges of the LMI group as they address their housing needs. Fieldwork is carried out and the data collected is then examined and analysed along side the Home acquisition process earlier outlined. At the end, trends are highlighted, and recommendations made.

### **1.12 Limitations to the Study**

The research is limited to those who are formally employed, and does not consider the informally employed or self employed who may have incomes in the category considered. This was done as information regarding the informal income could not be taken as a steady monthly income but may vary from one month to another depending on the nature of the source of informal income. The formally employed within a predetermined sector were therefore targeted. The employment sectors were identified as the community, social and personal service providers. It is however noted that this sample does not cover the entire lower middle-income category.

Another limitation to the study is that the study perspective has been taken from the point of view of the buyer (the consumer) and not that of the seller (property owner i.e. the one who has invested capital). It is also recognized that the seller in the informal previously disadvantaged areas, is more often than not, the owner of the property, while in the white suburbs the involvement of estate agents is the norm. In both instances the seller has been left out of the discussion.

## **CHAPTER 2**

### **RESEARCH METHODOLOGY**

#### **2.1 Introduction**

This chapter seeks to outline the steps taken in carrying out the research. Critical to the research was to identify the LMI group, the facilitators of the transaction process and to examine the appropriate housing typology for the LMI market. The research is exploratory in nature, and seeks to understand the challenges faced and choices made by the LMI household towards home ownership. As discussed in chapter one, at the time when the study was conducted government policies focused on the lower income households, with minimal assistance to the middle and high income households. In 2005 the government introduced the BNG strategy which takes on a holistic approach towards the development of human settlements and not just the delivery of housing, thereby shifting from product uniformity to a demand responsive response (Department of Housing 2005).

In a Radio Metro interview in January 2008, Joseph Leshabane of the Department of Housing talked about the BNG program. He said quality of housing delivered in the past was of concern to the department and that the BNG program was set up to address these problems. He explained that the program places more emphasis on the quality of housing being delivered than was the case over the past years. It seeks to improve the system of delivery, workmanship, and also the quality of product in size and design. To achieve its objectives the BNG program recognises various stakeholders such as the large employers for example Mining sector, the financial sector, NGOs and various professional bodies, including the architects and engineers.

Apart from the state assistance, the LMI household has to interact with the open housing market. The research focuses on the formal market, and looks at the three basic components which are the demand side participants, the facilitators and the commodity. Both primary and secondary data are collected using oral and written data collection methods.



## **2.2 Demand Side Survey**

The demand side survey firstly considered what the LMI group could pay. With a monthly income of between R3,500.00 and R7,500.00 per month, the household could afford to pay a monthly bond of between R1,050.00 and R2,250.00. This is based on the affordability criteria of the traditional banking system where the borrower is assumed to be able to spend 30% of monthly household income on housing (30% of R3500 is R1050. Appendix 1 gives detailed calculations). This repayment would be on a property valued at R50,000 over a period of 20 years (ABSA bond calculator). Residential areas with property valued between R50,000 and R180,000 was therefore targeted.

The research went on to examine the character of the LMI group in respect of their knowledge and understanding of the requirements and expectations involved in the home acquisition process. This aspect of the survey was carried out by handing out questionnaires to the LMI participants. Questionnaires were used as they allow for a standardised sequence of questions (Sarantakos 2005). Where freedom of expression was required, open ended questions were asked. As discussions regarding income can be sensitive, the questionnaire allowed respondents a level of anonymity and freedom in participating in the survey. No names were therefore required. The questionnaire method allowed for groups to be issued questionnaires at the same time, and in some instances collection of the questionnaire was done on a later pre planned day and time.

### **2.2.1 Questionnaire Structure**

The questionnaire comprised eight sections, each dealing with different aspects of information required from the respondent as follows:

- Section 1 dealt with the tenure type and asked questions up front about what kind of tenure the respondent was engaged in, to establish whether or not they were involved in the housing market and what kind of housing commodity they had purchased.
- Sections 2 and 3 dealt with the demographic structure of the household to see if there were any trends that could be established with regards to households involvement in the market.

- Section 4 dealt with the current housing conditions and asked questions such as type of accommodation, the length of stay in the area and the place of birth and travel time to work place.
- Sections 5 and 6 dealt with the respondent's approach to the housing finance issue, and experiences in acquiring their present accommodation. The responses gave an indication of experiences with accessing finance and also if the household had bought or built the dwelling themselves. Furthermore, the awareness of credit rating was also questioned.
- Section 7 dealt with how income was paid to the respondent to establish if the respondents would be in a position to have salary slips and bank statements as required by financing agents, and lastly.
- Section 8 dealt with the income category of the respondent, to ascertain any trends that may be peculiar to the groupings. A sample of the questionnaire is presented as Appendix 2.

These questionnaires were distributed to carefully targeted respondents. The process of targeting the respondents is outlined next.

### ***2.2.2 Targeting Respondents***

Pinetown offered a range of affordable housing within the price range of the LMI group Between R50,000 and R180,000, Over the years, Pinetown and the environment grew to accommodate all racial groups. The KZN Property Magazine was used as an indicator of where to find property within the price range of the LMI group. The areas identified include Sherwood, Pinetown, and Chesterville. Pinetown was chosen as the study area because it had a greater mix of people and offered 21 previous white as well as 17 previous black townships. It is centrally located in terms of formal and informal settlement patterns and has also been identified as a transport node and industrial center.

The option of targeting respondents at their places of residence was not followed, as it had various constraints which included undetermined household socioeconomic status. Determination of household income would require households to provide a proof of income. It would have therefore been difficult to determine which households in the residential area could be included in the research. Residential areas are more easily defined on a racial basis and not socio-

economic character due to past apartheid policies. What clearly existed at the time of the empirical study was the low-income government subsidised houses in the 'townships' and the formerly white residential areas. Both of these residential areas are racially biased due to past apartheid policies and were therefore not suitable as research areas. It was therefore difficult to target the LMI group through the residential approach. In order to remove the racial bias, respondents were targeted at their places of work. This approach offered a racially inclusive sample as place of work was not racially differentiated by the Group Areas Act of the past.

The research location was in Pinetown, the choice of which was based on the assumption that the majority of people would prefer to live in close proximity to their place of work. It was therefore assumed that respondents working in Pinetown would prefer to live in the Pinetown and peripheral areas offering a range of affordable housing.

### ***2.2.3 Selection of Sample of Respondents***

The respondents were approached at their place of work and not within residential areas for reasons earlier explained. Respondents were chosen from the community, social and personal services industry sector of the economy and from formally structured larger organisations and institutions within the area, with long serving loyal employees.

In making this selection it was assumed that the formerly structured larger organisations had long standing employees who are more likely to qualify for housing loans<sup>2</sup> and consequently more likely to be able to participate in the housing market. The target group approached were from educational, government services, hospitals and industrial sectors. Care was taken to include both the private and public sector workers. Table 2.1 shows the occupational composition of respondents. The average number of years at present post was ten years, with each respondent having spent at least one year in the current post. This

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<sup>2</sup> The requirements for a loan include 2 months salary slip and 6 months bank statement. It is assumed that employees in larger organizations will be provided with these documents.

characteristic of the group meant that all respondents should have been in a position to qualify for housing loans..

**Table 2.1: Occupational Composition of Respondents.**

<b>Occupation</b>	<b>Number of respondents</b>	<b>%</b>
Clerical	11	28
Educator	13	32
Factory supervisors	8	20
Nurses	7	17
Technicians	1	3
Total	40	100

Source: Field Survey 2005

A total of 40 respondents were included in the study. The target group was reached by first talking to the employers who confirmed that the respondents were in the income category targeted. On establishing this, some employers chose to organise groups, who were addressed during their lunchtime, while others gave permission for their staff to be approached individually. The organised groups were a critical and useful route to explore, particularly because these people arrived at work early and worked through the day with only their break/tea time in between, and many had to leave on time to catch their lift home. Very few had their own transport while others had lift clubs and many used public transport. A questionnaire was prepared so as to obtain the most information from the respondents in the limited time.

The questionnaire was explained to the groups and left with the respondents and collected at a later date, as agreed with the respondents. This gave the respondents time to contemplate and respond to the questions without being rushed during their working hours. This was also applicable with some of the individual respondents. Respondents were willing and happy to respond but also wanted to know how they would benefit from the survey. Once all the questionnaires had been collected, the

findings of the demand side survey were evaluated against the findings from the facilitators.

### **2.3 Interviews with the Facilitators**

While questionnaires were used to collect information on the demand side, the interview method was used with facilitators. Interviews were conducted with three representative groups of home ownership facilitators: legal conveyancers, financing agents, and estate agents. Interviews were arranged with each participant, and a structured format of questions was used. It probed the policy framework of housing transactions, and the understanding of LMI groups of these guidelines as well as how the nature of the commodity affects their service delivery in terms of location and typology. This method of data collection allowed for a uniform series of questions to be posed to all the facilitators taking part in the survey. It allowed for a high level of flexibility in the sequence of questions, taking into consideration the exploratory nature of the research (Sarantakos 2005). Where there was need for clarity to questions being asked, the interviewer was able to explain the question and thus allow for clarity where ambiguous answers were given. The interview allowed for discussion of experiences that could easily be expressed during the interview process.

#### ***2.3.1 Interviews With Legal Facilitators***

Locating legal agents who have dealt with LMI groups was a challenge. As the research was being conducted in Pinetown, legal agents working in that area were key to the research. One of the estate agents interviewed referred the researcher to Ms. Y, a conveyancer with Sinclair & Co., working in Pinetown. Initially, Ms Y was hesitant to participate in the survey until she was reassured by the estate agents that the exercise was for academic purposes and had no legal implications for the respondent or their offices.

#### ***2.3.2 Interviews With Finance Agents***

Financiers provide capital loans to applicants at a premium. With particular reference to the LMI group, financiers are faced with higher lending risks than when offering finance to the higher income groups (Rust 2002). Bearing in mind the reluctance of the large banks to lend to the lower income groups as discussed in

chapter 1, the financiers were asked questions relating to targeting of LMI groups, the understanding of loan requirements by the LMI group and the lending criteria used. Two non traditional lenders operating in the Pinetown area were approached. These were the Africa Bank, and Blue, a Micro-Finance lender.

At African Bank Mr. K, a respondent who has worked extensively in the field of home finance at the branch was approached. His experience comes from his background as a banking official who had worked on the strategy of “taking the bank to the people”. The strategy looked at overcoming the problem of lower income households not approaching the banks for financial assistance.

Ms. B of Blue, the micro lending finance institute was interviewed on the institution’s experiences in dealing with LMI groups.

### ***2.3.3 Interviews With Estate Agents***

Two well established estate agents offices in the Pinetown area, dealing with property in previous black townships, were interviewed. Participants were Mr R and Mrs R of Wakefield and Ms E of the Max Prop group. The venue for the interview was at their offices and at a prearranged time. Interviews were conducted separately at respective agents offices so as to obtain independent answers during the interview and have feel of the environment they work from.

### ***2.3.4 Interviews with Developers***

In order to tap into the activities of the supply side of the LMI housing market, interviews were set up with respective parties involved in supplying housing products. These include private developers, and government housing development agencies. The interviews hinged particularly around the housing typology in demand, and the developers experiences with the LMI group and type of housing commodity available. Selection of the respondents was based on the researcher’s knowledge of service providers in this sector. ‘Ithala Development and Finance Agency’ was contacted as the public sector developer. An appointment was arranged with the business development manager Mr Z at the Ithala offices in Pinetown.

## 2.4 Secondary Survey

Secondary survey refers written sources which discussions, comments, debate and interpret primary sources of information (Mouton 2001). The method of research forces explicit assumptions and theory that underlie the information. Mouton goes further to explain that the secondary data collection method saves time and costs because documented information is used. However he warns that the main sources of errors are those associated with contextual analysis in multi-level or hierarchical data set and misunderstanding of original objects to the principal investigator.

The aim of the discussions is to scan the secondary sources of information. Literature review referred to literature regarding the demand side LMI household character, the legislative framework within which the facilitating agents are required to operate and the supply side participants.

The secondary survey on demand side looks at literature on the characteristics and behavioural patterns of the households in general. This information is then analysed with particular reference to the income category of the LMI households. While the method provides a basis to start the debate, Mouton warns that main sources of errors are those associated with contextual analysis in multi-level or hierarchical data set and misunderstanding of original objects to the principal investigator.

The secondary survey further more carries out a literature review of the guidelines within which facilitating agents are required to operate. This is done by scrutinizing respective code of conducts and review of other studies on the topic.

All sources of information is referenced in the body of the thesis and listed in the bibliography.

In order to capture the availability of existing housing stock, a secondary survey of property listing is carried out. Once again the method has the disadvantage of only including information as listed in the magazines. It was however decided that the property magazines were sufficient as it is assumed to be the means by which LMI households would primarily search the market.

## **2.5 Chapter Conclusion**

The chapter outlined the steps taken in carrying out the research and presented preliminary findings from the interviews conducted. A questionnaire survey, as well as interviews, was conducted. A secondary survey regarding the listing of property on the market was also conducted.

The chapter went further to establish the role of the facilitators in the transaction process. A common concern expressed by all facilitators interviewed was that the LMI household was not being properly prepared for home ownership especially from a financial point of view. Apart from limited understanding of the home acquisition process, other areas of concern to the facilitators were with the supply of appropriate housing stock.

The next chapter further examines research findings taking into consideration the experiences of the LMI households in the housing market.



## **CHAPTER 3**

### **CONCEPTUAL FRAMEWORK: THE HOME ACQUISITION PROCESS**

#### **3.1 Introduction**

This chapter outlines the home acquisition process from the perspective of the demand side participants. As set out in Chapter 1, the home acquisition process is a complex process of transactions involving the demand side participants, the facilitators and the supply side participants who are transacting the complex commodity of housing. Consequently, the failure of any of these participants to fulfill their transactional obligations hinders the market. Drawing on relevant literature, the conceptual framework therefore looks at the critical parts played by each participant in the transaction process from the perspective of the demand side.

The following home buying process steps recommended by the Home Buying Institute (Cornette, 2007) are explored and used as a step by step guide for buying a house:

- Deciding to buy a house
- conducting a financial self assessment
- making a home buying wish list
- getting pre approval for a loan
- finding a real estate agent
- beginning the house hunting
- making an offer
- requesting approval for the loan
- getting a home loan and
- getting a home inspection

These steps are now examined below, with a view to fully understanding the part played by each participant.

### **3.2 Deciding to Buy a House**

The first step in the home acquisition process is deciding to buy a house. The housing product embodies a large amount of capital and labour and is expensive (Gibb, et al 1999). It is influenced by many factors which include availability of institutional finance, legal and administrative requirements, and the availability of land and other infrastructure (Shisaka, 2003). The ABSA home loan team describes the decision to buy a house as a big one, as it has long term financial obligations and responsibilities (ABSA 2007). The decision to buy is however not only of benefit to the home owner, but also to the larger community and economy as a whole.

At the micro level, the benefits of home ownership are that a house offers comfort and a place of ones own. Housing is said to be the best indication of a person's standard of living and of his place in society (Onibokun 1985). The owner can carry out additions and alterations within regulatory guidelines to the home, and has a level of freedom to use the property to the benefit of the household. The property may also be used as collateral when needing to access finance, and may be sold at will.

Ownership benefits the community because buildings that are owner occupied are kept in a better state of repair than dwellings that are not owner occupied (Fish, 2003). Fish explains that ownership promotes management of housing schemes '...as people have a sense of pride and a commitment to making a scheme work...' For instance, where a house is owned by the employer, as in the case of staff quarters built and owned by the state, a broken window can be left unattended to by the occupier, who waits for the owner to make arrangement to repair the window. Should a good management system not be in place by the owner, the building and its environment deteriorates faster than when owner occupied. The occupants also remain irresponsible and ignorant as to how to make arrangements for maintenance of the house, and as such remain un-empowered in the area of building maintenance.

The benefits of home ownership are further experienced by the greater economy. Malpas and Murie (1999) explain that the demand for housing and the availability

of resources for the supply of housing from the public and private sectors, fundamentally affects the growth of the economy and vice-versa. As opposed to renting or occupying staff accommodation, where housing is offered as a social wage, ownership allows for capacity building experienced from getting involved in the complex transaction process to actual home ownership, as it involves many requirements and pre-qualifications.

The decision to buy, despite all the hurdles in terms of requirements and pre-qualifications, remains of benefit to the LMI household and the community as well as being in the interests of both micro and macro economic development. The factors that affect the decision making process are now discussed below.

### ***3.2.1 Factors that affect the decisions made***

Decision making is a process wherein a choice is made and implies the availability of alternatives from which a household can choose. It means the household can balance cost, tenure, location and the characteristics of one dwelling against another to obtain the mix best suitable to meet their needs (Fischer et al 1977). Fischer further attests to the fact that as conscious beings, with the capacity to weigh implications in the mind prior to acting, human beings select as best they can among the choices available to them. They must choose, within a framework of constraints. Constraints are established by the social systems and by their place and their experience within it. With respect to the LMI housing market these constraints are those generated by the demand side which refer to the intrinsic characteristics of the household, and constraints generated by the supply side being factors pertaining to supply of housing typologies and location.

The decision making process is determined by the availability of options to choose from, which are the extrinsic factors mentioned above. Renaud explained that aspects of cost, tenure, infrastructure, and location of the housing product affect household choices and behaviour, (Renaud 1987). Does the market present an option to sell? If no, the circumstances do not allow for a market to thrive. The answer may be 'no' because the socio cultural group does not accept the decision made. Kamete (2000) refers to such external forces as 'busy bodies' that affect household decisions, for example, the decision of a black African household to

move out of the township and into a previous white suburb may be considered a bad move by some political colleagues who would prefer that all comrades remain in the townships.

Even though the decision may be one of access to better quality of education for the children of the household, the busy bodies may find the decision unacceptable. The implication is that households would have to make decisions taking into consideration acceptability in the new residential area as well as the one being left behind.

### **3.3 Conducting a Financial Self Assessment**

The next step in the home acquisition process is for the household to conduct a financial assessment. What is the monthly household income and how much can be used for housing on a monthly basis, can the household access finance, and from where? However the availability of financial products that meet the needs of this income category is a factor beyond the control of the LMI household.

#### ***3.3.1 Access to finance***

Access to finance is mostly dependent on the kind of employment held by the buyer, job security and the level of remuneration associated with the job (Malpas and Murie 1999). However, the availability of financial products that meet the needs of the LMI group is a factor beyond the control of the LMI household. Economists note that banking institutions owe it to their share holders to run a reasonable profit margin as is expected of any business venture (Schiller 2000). The institution's motivations are therefore controlled by the goals and objectives of the institution, which are often capitalist in nature and marginalises lower income earners.

Since 2003, to intervene in getting the unbanked banked in South Africa, the FSC's mandate to banking institutions has been to loan down market. This has seen many banks offering financial products targeted at LMI earners. The expected outcome of the initiative is that LMI households will have access to their banking records and financial history, which are requirements in the evaluation process when being considered for a home loan.

In being considered for a home loan certain documents are required from the home loan applicant. For the home loan to be approved however, a good financial record is required which can only be built over time with responsible management of a bank account. It is therefore the home owner's responsibility to keep good records of documents that may be required for a home loan. One of the documents required is a bank statement generated by the bank and provided to the account holder on demand. or on a monthly or quarterly basis.

Other documents are generated by the employer and the state. The employer generates the salary slip, a letter of surety if standing as surety for the home loan applicant. The employer also generates a letter of employment which can also be used to evaluate an application. Access to finance greatly depends on the kind of employment held, job security and the level of remuneration associated with the job (Malpas and Murie 1999). A valid ID document provided by the state is of utmost importance and without which the application will not be considered.

While private, institutional and state bodies generate the necessary documentation required for home loan applications, it is the LMI applicant's responsibility to obtain and present the necessary documentation when required.

Gathering relevant documents can be very time consuming, requiring the LMI applicant to take time off work and travel backwards and forwards by public transport to banks, Department of Home Affairs, etc., to obtain relevant documents. Here time constraints become a challenge and hinder the effective functioning of the LMI housing market.

### ***3.3.2 Affordability***

Affordability is usually perceived as the ability to pay but not necessarily the willingness to pay, Kamete 2000. Attitude to repayments is therefore a factor to be considered by financiers when considering a loan application. Despite the loan applicant's background, it is important, in terms of financial obligations for households to honour their obligations. Kamete explains that "borrowers are bound by contract to repay the correct amount at the right time. However, the existence and the awareness of an obligation by the borrower are not enough to guarantee

loan repayment; neither is the awareness of constantly looming threats of foreclosures and evictions”. Home financing is not a once off payment but a series of reoccurring payments that require the discipline and commitment to repayment. It is therefore essential that households demonstrate, by keeping good financial records, that they will honour financial commitments and loan repayments as agreed.

### **3.4 Household Needs Analysis**

This is the third step in the home acquisition process. It is carried out by taking into consideration the following factors:

#### ***3.4.1 Household Composition And Character***

As described earlier, household decisions with respect to what type of house to buy and its location, are influenced by certain intrinsic factors such as stages in life cycle, stability of the household and the lifestyle of the household. The decision made by the household would vary based on the fundamental motivation of the decision to buy a house. Smith, (1964) describes three basic household typologies which are familism, careerism and the consumerism (Smith, 1964).

In the familism typology, the decision to buy is made based on the stage in the family life cycle, described as pre-child stage, childbearing stage, child-rearing stage, child launching stage, post child stage and later life.

As opposed to the motivation in the familism typology, which occurs at the earlier stage of life, in the careerism typology, motivation is orientated towards the goal of career improvement. With the careerism motivation, households make decisions putting their career first, and seek smaller dwellings in close proximity to social facilities like shops, cinemas, learning institutions, etc.

The third typology is the consumerism, which Smith, explains as a motivation driven by the desires for the good life, where there is a preference to spend money and time on entertaining and being merry (Smith, 1964). Smith further explains that the effect on decision-making is seen in the choice of housing type, with family-centred households preferring single detached family units, while career

and consumer orientated households would be more likely to choose living in rented apartments.

Over time, changes in life cycle may necessitate a change in housing needs. The family size increases and more rooms may be needed requiring extensions. Where children are at school going age housing location may need to be changed to allow better access to the school or transport. However, at the lower income levels the choice to move may not be possible. The need would therefore be for a product that can respond, not just to immediate needs, but to needs as dictated by changes over time from familism, to careerism and then to consumerism, each stage having different housing needs. It is therefore important for the market to take into consideration the dynamic need of the LMI housing market by providing a housing product that responds to the evolving housing needs over time.

#### ***3.4.2 Household Lifestyle and Past Experience***

The intrinsic force of lifestyle also impacts on the decision of what is demanded. Life style is influenced by the socio-cultural and religious composition of the household and also past experiences (Fischer et al 1977, Kamete 2000). Life style is also influenced by the social composition of the household and as well as past experiences. Inherent racial, cultural and religious background of the household dictates the social composition.

Research findings have shown that groups of people, based on their socioeconomic and demographic backgrounds, behave in similar ways (Kamete, 2000). For example, rich young adults have total freedom of choice. They are able to start by renting flats, get married, have children, and then move on to buying a house, as their household needs and tastes change (Smith, 1964). Kahn explains the scenario of the lower income groups: this group will start work early, have less money, and start their family early. He argues that they cannot afford to change houses as frequently as their needs change. The marital status of an individual influences their response to capital investments. Single people are known to enjoy their freedom and minimal responsibilities.

Unlike single people married couples tend to aim for prominence and social status. Housing is said to be ‘the best indication of a person’s standard of living and of his place in society’ (Adeniyi, 1972). All these factors affect the choice a household makes and consequently what is demanded from the housing market. It therefore implies that groups of people based on their socio-cultural, and religious backgrounds, behave in similar ways and are likely to demand similar housing products.

In South Africa, past experiences of households influence their own choices. Generally, these experiences have been different for the various socio-cultural groups, even at the same income level. Previously advantaged groups lived closer to places of economic benefits and did not have to rely on the mass transit movement systems (Gelderblom 1994). However, social engineering saw the Black African population commute on a daily basis to and from places of work, due to outlying residential locations, and constrained economic power (Bizel 2000). Thus, the PDIs relied on public transport; either rail or road systems, to commute to their workplace. This has resulted in the development of a public transport system that is predominantly non-white as well as a culture of commuting for PDI black Africans

So while PDIs have few problems with commuting, it may be a new culture for PAIs who now find themselves having to rely on mass transit systems and have to commute long distances. Other options open to them would be to live within walking distance to work, to hitch a ride, or to invest in their own private transport. The last option puts strain on the household income and may reduce the chances of accessing credit towards home ownership. Accessibility to a public transport network system then becomes vital for a sustainable LMI housing market.

### **3.4.3 Residential Acceptability and Safety**

The LMI group includes all racial groups such as black, coloured, Indian and whites and, more recently, the Chinese. During the apartheid era, each group was restricted to separate residential areas based on their race. Black Africans were not permitted to live in white townships as per the Group Areas Act No. 41 of 1950. This led to many areas being described as black, coloured, Indian, or white



residential areas. With the lifting of the apartheid policies under the new democratic government, vital changes have taken place and in principle all racial groups can now reside wherever they chose to. This implies that a black African family can buy and live in a previously white neighbourhood, provided they can afford a home in that area. In principle, it also implies that a white family should be able to buy and live in a home in a black neighbourhood if they can afford to do so. While the first scenario has been achievable, it is not common to see whites buying and living in a black neighbourhood, even though affordable. This is where other factors such as acceptability and safety come into play. Finmark Trust (2006), notes that the black township market has always operated as a closed market with high communal qualities. This limited accessibility to the township market therefore puts more pressure on housing offered in the white areas where there seems to be more acceptability of all racial groups thus presenting a more inclusive market.

#### ***3.4.4 Spatial needs***

From a socio-cultural point of view, the use of space in the different households would differ with the different socio-cultural and religious groupings. The different backgrounds are reflected in the way spaces are used and the attitudes towards others living within the community. As such, a one size fits all approach would not be applicable in the demand for housing. For example, from observation, black African people are known to utilise communal outdoor spaces more in a multifunctional way, using the roads as a kids' play ground in the evenings - probably because their plots are small. Whereas in previously white neighbourhoods where there are larger plots and open parks, playing on the streets is not common. Therefore, where the culture of extending a household activity beyond the property boundaries is acceptable for PDIs in non white townships, it tends to be offensive in previously white townships, and may consequently have an effect on the perceived neighbourhood character (Rust 2002). Socio-cultural needs determine the functionality of space and therefore impact on the housing typologies demanded.

In making a wish list, the above factors all come into play. These are the household composition and character, the household life style and past experiences, the

acceptability and safety factors and the functional use of space. All these factors impact on the needs of the LMI household's choice in terms of housing typology and location. The socio-cultural transformation in the LMI group, in terms of socio-cultural and effect of different previous experiences, therefore raises the need for a critical needs analysis to develop a housing product (typology and location) suitable to the transforming LMI group. Such a housing product must take into consideration the diverse socio-cultural character of the emerging LMI group.

### **3.5 Loan Pre-Approval**

Once a wish list has been drawn up, it is necessary to source funding. The process of getting a pre approved loan necessitates the involvement of the financing agents. Finance may be obtained from conventional banks or alternative lenders. These two options are now discussed.

#### *3.5.1 Loans from Conventional Banks*

Tomlinson (2001) and Rust (2003) have indicated the reluctance of conventional banks to participate in the lower income brackets. Major concerns of the private sector financing agent have been with respect to the high default rates and the non-profitability of lending to lower income groups. Kamete (2000) argues that “financiers have a responsibility towards depositors and shareholders, as custodians of investors and shareholders funds”, and that “not only do financial institutions need to be aware of their obligations and responsibilities they also need to establish, institutionalise and actively pursue cost recovery”. Due to this problem of recovery, many conventional banks avoid the lower market sectors. While much emphasis has been placed on the importance of mobilising and allocating finance down market, it is also important for financial institutions to be able to recover debts. Over the years, many government interventions have tried to address this stalemate with market interventions such as the attempts of the Community Reinvestment Bill of 2002 and the Financial Sector Charter (2003), both of which were brought about to force financial institutions to give back to the communities by setting targets that are to be met by the financing institutions, indicating whether they are complying with the set obligations of reinvesting in the communities.

The conventional lending institutions, such as ABSA, amongst others, have commonly used the housing product as collateral for finance. Tomlison (1997) reports that the practice of using the property as collateral failed in the early 1980s due to political intervention, which brought about the rent boycott (an expression of unwillingness to fulfil payment obligations to the financial institutions as a mode of protest), during the struggle against apartheid. The resulting situation not only led to losses for the bank but more long term losses as the banks were unable to recover losses by repossession of the property involved (particularly those located in previously black townships), despite court injunctions. The banks were consequently left at a loss. This past experience of the traditional banks left the banks rethinking their involvement in financing housing in the previously black township markets. According to Kamete (2000) financial institutions involvement in the housing market (particularly at the lower income levels) is purely a business decision because of their responsibility to their depositors and shareholders.

Kamete (2000) goes further to describe conventional financing institutions as being too formal, legalistic, and rigid. He notes that the banking environment creates a highly formal impersonal environment for loan applicants, and often lacks a personal touch to sensitive issues of housing. As a result, many of the LMI group tend to find interaction with the banking institution complicated. Many LMI households, who are first time buyers and qualify for a loan, have the challenge of understanding the contractual implications and responsibility of making loan repayments. The mortgage instrument may therefore not be the most appropriate instrument for lending to the lower income categories as noted by Rust (Rust, 2002). SERVCON (2003) also notes that the challenge of understanding the contractual implications of the loan and failure to fulfil these obligations remains a main concern for financial institutions, due to the associated risks of non payment and lack of a workable collateral system. The lower income categories are reported to be in need of smaller loans than those offered by the conventional financing institutions, such as those that may be obtained from micro lenders.

### ***3.5.2 Loans from Micro Lenders***

Accessing finance from micro lenders provides an option to the LMI households, where access to loans from traditional banks seems inaccessible. However loans

from the micro lenders also come with challenges. In the early 1990s, guided by the Usury Exemption Act of 1992, the micro lending industry emerged as the main lenders in lower income categories. Loans given by this sector are not limited to housing. They provide smaller loans and are less institutionalised than the traditional financing institutions. However, with lack of regulation in the industry at the time, most borrowers suffered from lending malpractices in this sector. As a result the Usury Act exemption notice of 1999 replaced that of 1992 establishing the Micro Finance Regulatory Council (MRFC) and also laying down specific requirements with which transactions had to comply (Davel 2004).

Micro loans are granted based on a set of criteria which include being a South African citizen or permanent resident, formally employed, earning between R3500.00, and R7,500.00 per month, and an employer willing to facilitate payroll deductions of instalments. In the early 1990s, when the conventional banks failed in debt protection by use of the property as collateral, the micro finance industry took initiatives to remain in the market. The MRFC reports that micro lenders opted for innovative ways of debt protection, which included unscrupulous lending practices with lenders taking borrowers' ID books as collateral for loans. The practice has been condemned by the Council, and brought about the introduction of the National Loans Register (NLR). The NLR keep records and monitor the micro finance industry in its lending practices. The NLR was established to provide lenders with reliable information on the client's debt burden. By 2004 it was reported that leading lenders reported a dramatic decrease in the levels of debt repayment defaults.

Loans from the micro finance industry therefore provided an alternative source of housing finance for the LMI households. One of the industry's initiatives for securing debt is pay roll deductions based on the concept that the employer provides the collateral for the loan instead of using the property as collateral. This secures the credit provider's funds. The system only works if the employer is able to stand as surety for the LMI when applying for a loan; the employer is however not obliged to provide this assistance to the LMI.

### **3.6 Engaging the Estate Agent**

So far in the home acquisition process, the household has decided to buy a house, a financial self assessment has been conducted, a wish list has been drawn up, and an appropriate source of funding has been approached. The fifth step is for the household to involve an estate agent to assist with the transaction process.

The estate agent brings together the prospective purchaser and the seller and liaises with the seller, organizing visits to the property in question. For the LMI buyer, finding appropriate time to view the house may be a challenge because of time and distance constraints. The purchaser, on viewing an appropriate property puts in an offer, through the agent, to the seller, who accepts or turns down the offer through the estate agent. The Estate Agents Affairs Board makes it unethical for an agent to pressure the buyer into buying a property. As payment for services rendered is on a commission basis, agents tend to be more interested in selling properties in the higher price range as opposed to LMI properties. To overcome this problem, initiatives such as the Ama-khaya of Wakefields was introduced to target prospective buyers especially in the township market such as Neginia and Cleremont both in the research area of Pinetown.

Estate agents are required to give prospective buyers the freedom and time to make an informed decision before committing to a transaction. Once a willing buyer and a willing seller have been brought together, the estate agent introduces the financing and conveyancing agents into the transaction. The estate agent offers a range of services through the home acquisition process but often, during the transaction, these services are left to to be done by either the buyer or the seller instead of the estate agent who then basically only acts as an intermediary in the transaction. The EAAB outlines the seven general duties of the estate agent to the general public. These duties are general and not specific in wording, for example, the code states in item 6.2.1 that an estate agent shall:

*“explain to every prospective party the meaning and consequences of the material provisions of such offer or contract, or if he is unable to do so, refer such a party to a person who can do so;”*

The wording implies that if the prospective buyer fails to understand the contract and, as such, defaults in any obligations to the contract for lack of understanding thereof, the estate agent can be held liable.

Item 6.2.2 of the estate agents code of conduct states that:

*“if the agent knows that an offer submitted by him as an estate agent to any party has been accepted, or has not been accepted by the expiry date thereof, he shall forthwith notify the offeror of such fact”.*

This implies that where the notification is not given the estate agent can be held liable.

The code of conduct goes further to say in 6.2.3 that:

*“The agent shall without undue delay shall furnish every contracting party with a copy of an agreement of sale, lease, option or mandate with which he is concerned as an estate agent, provided that the afore going shall also apply in respect of an offer to purchase or lease if the offeror specifically requests a copy thereof”.*

The implication of this is that should there be any delay in the transaction process due to the fault of the estate agent, he can be held liable.

Other statements in the code generally protect the public but may not necessarily be known to the public.

It can be seen that the role of the estate agent is not only one of bringing together the buyer and seller, but also offering guidance in decision making, keeping track of contractual timelines, and coordinating the transaction by keeping all parties informed of requirements and the outcome. The EAAB makes the estate agent responsible for various steps in the transaction process and places substantial levels of responsibility on the estate agent to see that the transaction is successful. The services offered need to be made known to the LMI group.

### **3.7 Beginning the House Hunting**

From the above steps, the LMI household is looking for a property with three basic characteristics which are:

1. property that is appropriately priced,
2. a property which has the possibility of extending by adding on rooms,
3. and easily accessible to public transport systems.

With this clear understanding of what is 'appropriate housing stock', the LMI household can engage the estate agents or start the house hunt privately. For a successful house hunt the LMI requires time and mobility to move around, and availability of appropriate housing stock is discussed below.

#### ***3.7.1 Time and Mobility***

Cornette 2007, expressed that the house hunting step is supposed to be 'the fun part' of buying a house. The process of house hunting requires time and a means of transport, to physically visit the appropriate properties on the market. However time and mobility are often challenges to the LMI households who work long hours and rely on public transport. The public transport system may not be available at the time needed, for instance if the house viewing is to take place after 6pm when the owner is available, transport home for the LMI after the inspection may be a problem. Another appropriate time for house viewing may be during the weekend but may not be suitable to the LMI as public transport may not be available. This in turn could result in the LMI turning up late thus hindering the transaction process.

#### ***3.7.2 Availability of Appropriate Housing***

The decision making process as to what kind of product is supplied is dictated by those who control wealth in a country (Schiller 2000). Considering the South African market generally, it is characterised by high levels of wealth serving narrow interests, due to its past policies of segregation (Nicholson et al 1994). This was achievable by the formation of small number of conglomerates that controlled business ownership. Those controlling wealth were characterised by a network of cross-holdings and shared directorships, entrenching the narrow basis of control over the country's major corporations. For instance, development in the then Bantu

lands was reported to have lacked adequate planning as opposed to the previously advantaged areas that were well laid out with provision for necessary infrastructural facilities, a decision taken by those in control, as promulgated by the Reservation of Separate Amenities Act, Act No 49 of 1953. The effect of those past policies is distinct settlement characteristics presenting different opportunities suitable for the LMI group.

These settlement characteristics can be guided by planning as Spreiregan (1965) points out that *“Meaningful plan-making involves design that takes both vertical and horizontal dimensions. For this reason, building plan regulations are such that they propose predetermined guidelines for the development of an area. It is concerned with the conscious formation of space, which elicits response from people at various scales. To this extent appropriate plans are plans of processes, accommodating the legitimate requirements of a full range of actors (i.e. the design team), processes and technology through which cities are built and in this way release those processes”*.

Horizontal planning however need not be so dispersed creating sprawls as argued by Stanley 1998, but compacted in such a way that the utilization of resources and facilities are up to maximum use. The compact development school of thought reasons that *‘houses closer together should reduce infrastructure costs since shorter roads, sewer lines, and water lines would be built. In addition, less land would be used for homes, leaving a larger share for forest and open space. More controversially, the authors argued that housing costs would actually fall under a compact development scheme because smaller lots would reduce land and infrastructure costs’* (Staley 1998).

The supply of housing is therefore an involved process, involving many actors (discussed below) who champion the different stages of the process. According to Spreiregan, as quoted above, planning is not an isolated process, but is guided by predetermined guidelines and is a conscious process. Therefore the supply of LMI housing stock also needs to be guided by predetermined guidelines and needs to be a conscious process that aims at producing appropriate housing stock for the LMI.



The requirements must take into consideration the various prevalent socio-cultural conditions, which would also affect responsive behaviour to regulations. Planning requirements provide the framework for sustainable development to meet current needs and preserve resources for future generations. For instance, density of development must be taken into consideration: what is acceptable to the end users and also what is acceptable for the development to be sustainable. Development guidelines need not be too conservative thus deterring developers from investing in the housing development. For example, in cases where developers are only allowed to build to an unprofitable floor area ratio (FAR), development is deterred, reducing the supply of appropriate housing stock for the LMI group.

Other factors affecting supply of appropriate housing stock are now discussed.

### ***3.7.2.1 Capital and Skills involved in Supply of Appropriate Housing***

As mentioned above the supply of housing is an involved process involving actors who champion the different stages of the process. These actors are now discussed.

Development of appropriate housing involves the design team that is the architect, the quantity surveyor, the engineer, and the construction team. Once the design has been completed in terms of choice of site location, and design within budget allowance, mobilization of other factors of production such as labour, finance and entrepreneurship now must happen. Residential development systems follow a pre-planned project management system that takes the project from conception to occupation, and not just to completion. The implication of this is that the team also needs to include not only the construction professionals but also those professionals that will see the property registered and transferred to the rightful owner. The process would require political will, financial stability, effective dispute resolution and negotiation techniques. Should any of these techniques fail, the developer should be prepared to pursue the matter through the courts if necessary (Engelbrecht 2003). Development is an involved process involving the coordination of the housing process (Taylor 1994). It therefore requires a specially trained multi talented team who can coordinate the activities of the construction process as well as the occupation process and manage the cash flow of the project, from conception to occupation.

The developer's challenge to access skilled labour in the construction industry has been a major focus of transformation agendas in South Africa (Thring 2003). To

this end, programs such as the Expanded Public Works Programme (EPWP) initiated in 2003 as a short to medium term program aimed at the provision of work opportunities coupled with training. The program is mandated to monitor skills development in the construction industry (EPWP 2008).

### ***3.7.3 Design Response of Primary Stock***

The design process requires an understanding of the needs of the LMI group. This may be difficult to establish as the LMI group is of diverse socio-cultural character. Due to limited interaction of the different socio-cultural groups, there is a limited understanding of the socio-cultural ideologies of the groups, thus creating complications. In many instances, the needs of the end users are often not properly understood by the suppliers of the housing product.

Formal housing typologies in South Africa are houses, flats, town houses, rooms and flatlets (Statistics South Africa 1999). Other housing typologies are informal shacks and shanties, traditional huts as well as other structures made out of traditional materials and other unconventional typologies such as the houseboats, tents and caravans (CSIR 1999). Government delivery is noted to be the detached RDP house and the social housing flats (Poulsen and Silverman 2004), which is a shift from the hostel typology offered in the apartheid era. The philosophy behind the RDP house of 'one man one plot' is in an attempt to rectify an injustice of the past, yet it fails to take into cognisance the extended family culture of the African people. The initiative gives households a place, even though it is small, with limited external space for extensions, and it would be against the law for LMI to buy from the poor. The RDP house is therefore not accessible and also not suited to the LMI household, who require larger housing typology with space for extensions over time.

### ***3.7.4 Supply of Secondary Stock***

In the private sector the formal housing typologies listed in the property magazines are primarily in the previous white areas. Listing does not cover many areas in the black townships where both formal and traditional housing typologies exist which could increase the number of known units to choose from. Access to the black township market is therefore limited to information by word of mouth in what has

been termed a closed market system by Finmark (2004), even though they may be responsive to the demand needs of the LMI.

The secondary housing market stock is seemingly an emerging phenomenon in the African setting (Adeniyi, 1985). Finmark also notes that ‘the attempt to create secondary housing markets in developing countries have encountered numerous obstacles, including economic, legal, social and cultural barriers’ (Finmark 2003). The report further notes that in South Africa the formal township housing market is often described as inactive and ‘dysfunctional’. The market is not socially inclusive and therefore fails to offer acceptability and safety to outsiders of other socio-cultural backgrounds.

Secondary housing stock comes on the market due to various intrinsic or extrinsic factors. Example of intrinsic factors for instance is a lower income household may consider selling an RDP house because of other pressing financial needs such as school fees, etc. However, the household needs to carefully weigh the implications of selling and understand that once they have sold their RDP house they will not be able to access another.

Extrinsic factors include situations like a change in neighbourhood character, deterioration due to failing infrastructure, etc. These scenarios imply that the household would want to sell and be in a position to buy another property. However, if the selling price falls short of the new purchase price for a replacement, it becomes not an option to sell, thus limiting the supply of secondary housing stock.

### **3.7.5 *Greenfield Sites***

Unconventional housing typologies require serviced land and transportation systems so as to become relevant to the LMI needs. Investment in infrastructure is reported to increase the supply of housing (Kentridge 1996). Infrastructure development such as roads, water, sewer ratification in certain areas, have concentrated development in these areas. Over densification of such areas, stretching the capacity of the infrastructure and often lead to the deterioration of the built environment. The lack of bulk services in undeveloped areas delays the

spread of development to these areas and therefore poses a challenge to the developers in terms of choice of developable land.

In a bid to address the failure of the planning processes of the past state intervention of in situ upgrade focuses provision of infrastructure in already developed areas, Opening up of greenfield sites in the site and service schemes purposely for LMI housing developments is lacking and needs urgent attention. The supply of moderately priced housing stock has been left unattended, creating a product gap (Rust 2000). Intervention is left to the private sector, which is not obliged to respond to the LMI housing demand especially if it does not offer attractive returns on investment, and is presented with bottle necks which developers have to contend with. More recent intervention is that of the Financial Sector Charter which has brought about more involvement from the private sector whereby private banks now offer products and services to the lower income groups such as the Mzansi accounts offered by Standard bank.

### **3.8 Making an Offer**

Having been made aware of the seller's price, the buyer puts in an offer in a prescribed format (sale agreement, or deed of sale). Before signing the sale agreement it is essential that the purchaser understands the content of the document. When involved it becomes the estate agent responsibility. The sale agreement spells out the responsibilities, penalties and process, including costs thereof. Appendix 3 shows a Max Prop sale agreement which serves as a sample sale agreement similar to that of other agents. If accepted, the sale agreement is signed by both parties and becomes a binding document. This implies that the buyer becomes contractually bound to the transaction. It is therefore important that the LMI buyer understands the implications of the contract. While the LMI buyer remains liable for any defaults, it is the responsibility of the estate agent to explain the sale agreement to the LMI buyer as stated in the Estates Agents Code of Conduct. The code makes provision for this responsibility to be given to another party if the estate agent is unable to explain the contract to involved parties.

### **3.9 The Loan Approval**

To conclude the deal, the financing agent would have to inspect the property and check that it meets the value for the loan being applied for.

The National Credit Act of South Africa 2007 requires financing agents to carry out a credit check on the loan applicant before approval of the loan. To do this, loan applicants are required to show records of their financial character. For this purpose, documents such as bank statements and salary slips are required for the loan approval. Once all the relevant documents are in place, and the property has been approved, the loan can be approved (ABSA 2007).

### **3.10 Registration of the Property**

The main objective of the conveyancers involvement in the transaction process is to legalise the title to the property. The process involves transfer and registration of the property into the new owner's name. The conveyancer also acts as an independent legal facilitator in the process especially with the handling of finances and becomes the custodian of monies involved in the exchange, which is held in a trust account during the process. The conveyancer sees to the conclusion of the transfer process, after which all accounts are settled from the trust account. The process of transferring property to the LMI end user calls for an understanding of what is required for the transfer to take place. However, due to the limitations of the end users in dealing with the documentation and institutional transactions, would-be investors are deterred from engaging in this particular market. This is further restricted by the inability of the end user to carry responsibilities in the home accession process (Finmark, 2003).

Transfer of property is a centralised process carried out by the transfer attorney, who must operate in the environs of the Deeds Office. If however his offices are not in the area the conveyancer needs to, with the authorization of his client, appoint a local attorney to carry out the transfer on his behalf. In KwaZulu-Natal, all property registration is carried out in Pietermaritzburg. Only legal practitioners operating in the area can register property at the Deeds office. Other conveyancers outside Pietermaritzburg have to appoint local attorneys to register the transfer on their behalf.

Communication channels are therefore not direct from the transfer attorney to the LMI buyer, but go from the registering attorney to the transfer attorney, to the estate agent, before a request for information reaches the LMI buyer, who may be unable to respond immediately due to work and family pressures. The prolonged communication channels therefore slow down the process of transfer and hinder the LMI housing market.

As facilitators in the home acquisition process, the conveyancers carry the responsibility of giving legal advice on the property transaction, a responsibility occasionally left to the estate agents to fulfil. Current legislation gives the seller the right to nominate the conveyancer of his choice, who is paid by the purchaser. The implications of this are that the LMI household is put at a disadvantage and left at the mercy of the seller to make payments before the transaction goes through. The seller on the other hand may be waiting for a bond approval by the bank towards the purchase of his replacement house. The process may be delayed in this way.

The transfer attorneys are assisted by the paralegals. The paralegals put together the documentation for the attorneys, and are able to spend more time with the client, explaining the documentation that may not be so easily understood before signing. This is a time-consuming process and if the conveyancers are only available during working hours, the LMI applicant may be challenged in taking time off work and arranging transport. The conveyancer's offices may also be located in an upmarket environment with an awkward public transport system. These are challenges that may require some assistance in the LMI housing market.

### **3.11 Chapter Conclusion**

The chapter has outlined the home purchase process, and summarised the implications of the steps involved and the implications to the LMI household. It establishes that the housing product suited to the LMI household should be one that is accessible to public transport, and one that allows for extensions as changes in life cycle occur. It also establishes some of the challenges in the supply of LMI housing product as it pertains to the developers which include the limitations of the developer in regards to the more involved and complex nature of delivering

housing to the LMI group. Furthermore, the issue of time presents a constraint to the LMI household - time to visit the bank, the conveyancer's office and the estate agents.

## CHAPTER 4

### DEMAND SIDE FINDINGS AND DISCUSSIONS

#### 4.1 Introduction

This chapter presents the data collected in the primary survey and discusses the findings under the following themes:

- The limitations of the LMI group in understanding the home acquisition process
- Housing needs analysis.

#### 4.2 The Limitations of the LMI Households

The LMI households are households that earn a monthly income of between R3,500 and R7,000. They were approached at their work place for purposes of the questionnaire survey. Table 4.1 shows the number of respondents and their occupation.

**Table 4.1: Respondents and Occupation**

Occupation	Number of respondents	%
Clerical	11	28
Educator	13	32
Factory supervisor	8	20
Nurse	7	17
Technician	1	3
Total	40	100

Source: Field Survey 2005

A total of 40 respondents participated in the survey, however it was revealed that only 63% owned their homes, 21% rented and 16% were sharing or living with family as shown in Table 4.2 below.



**Table 4.2: Tenure Type**

Tenure Type	No. of respondents	%
Freehold	25	63
Rented	9	21
Sharing/living with family	6	16
Total	40	100

Source: Field Survey 2005

The above tables show that while it may be desirable and beneficial for the LMI group to own their homes as established in the conceptual framework, the findings indicated that less than 75% of the sample actually own. Only 25 respondents (63%) of households who participated in the survey own their residences and were able to share their experiences in the home acquisition process. The other 21% and 16% had opted to rent and share respectively.

The concept of sharing is an indication that even though the respondent could afford to participate in the housing market by virtue of income level, participation has been deferred. The choice of rental option shows some kind of reluctance to participate in the owner occupier market. The rental option from the demand side presents a simpler and quicker way of attending to housing needs than getting involved in the home acquisition processes. It would be interesting to investigate the reasons why households opted to rent or share and not buy. Nevertheless, that is beyond the scope of this study, given that the focus of the study is to establish what happens in the owner occupier LMI housing market. Thus, the data analysis is based on those who actually participated in the market by buying their homes, and aims to explore their experiences in the transaction process in terms of choices made, challenges faced and the implications on policy.

The characteristics of the households that own their homes and how they have responded to the home acquisition process are now considered.

### 4.3 Household Characteristics

The questionnaire survey revealed the following findings in terms of household size, length of stay in residence and financial character.

#### 4.3.1 Household size

The data presented in Table 4.3 shows that over half (57%) of respondents' household size was between two and four.

Assuming two people sleep in each bedroom, the housing product sought needs to be a dwelling with a minimum of two bedrooms to accommodate the four people.

**Table 4.3: Household size**

No of persons per household	No of respondent	%
1	3	7.5
2-4	23	57.5
5-6	7	17.5
> 6	4	10.0
No response	3	7.5

Source: Field Survey 2005

For purposes of this research, it is assumed that the household decision makers are those who contribute to the household income. The findings reveal that where there are more than two income earners, the households have participated in the market but opted to build incrementally, whereas in households with one or two income earners, they bought existing structures.

Household with more than two income earners, but with a combined monthly income exceeding a total of R7,500, generally opted to build incrementally. Worthy of note is that a household with 5 income earners who had opted not to buy but to build incrementally over a 10 year period and are now living in a six bedroom house in a PDI township. Looking more closely at this household, the structure is a woman, her 5 children who are all income earners, and 5 grand children, making a total of 11 in the household. They have never applied for a bank

loan or loan from micro financiers. The house was built incrementally with savings and sweat equity, demonstrating an ability to address housing needs. It is however noted that only 20% of the respondents built from scratch with 80% opting to buy existing housing stock, indicating that by and large the LMI group chose to buy rather than build.

#### ***4.3.2 Length of stay in the household and finance for consolidation***

The research revealed that over 72% of respondents had lived in the residence they owned for over 5 years. It is also noted that 20% have been living in their present accommodation for over 10 years from even before the abolition of apartheid policies. At the time of the survey, none of these respondents had moved from their dwellings located in the PDI township, even though there was now the freedom to do so, and neither had they interacted with the housing market despite the opportunity to do so.

However they had lived in their present residences for a long time and had carried out extensions during that period. They had chosen to extend their existing residences, especially where dwellings were within 20 minutes from places of economic benefits. The length of stay in residences was also attributed to an inability to sell the housing unit by some respondents. Ms Y, the conveyancer, explained that in the process of selling a dwelling unit, all levies and rates must be fully paid up for the sale to be successful. She has noted that many LMI households default in the payment of rates and levies and therefore are unable to sell their residences, should they wish to do so. This point was also alluded to by the estate agents. As a result there is a limited supply of appropriate secondary housing stock.

Where extensions were made to existing dwelling units financial assistance was required. Respondents said arrangements were made between themselves and the financiers for direct payments to be made to the material suppliers. Ms A, from the micro lender 'Blue', confirmed that arrangements could be made for payments to go directly to the materials suppliers via bank transfer, on pre agreed payment terms. This is to ensure that the monies are used for the purpose intended ie housing. On the other hand the disadvantage is that should there be a delay or

shortage of materials required, the LMI household would have to wait for stock at the supplier and having not the option to source elsewhere.

One of the respondents suggested that the state could give incentives to the LMI households who take the initiative to start building themselves which might encourage others to do the same alleviating problems related to finance. This suggestion could encourage LMI households to make the first move to address their housing needs in the primary housing market and thereafter receive state assistance to complete their housing project.

Respondents reported that attempts to get financial assistance from the financial institutions proved a challenge. A quarter of the respondents opted not to approach financial institutions for assistance, instead they saved from their monthly income. The trend of not approaching the banks was confirmed by the financiers who noted that LMI clientele were not coming to the banks. Thus to overcome this, the banks had to come up with the innovative plan of taking the banking services to the people. Mr. K of the African Bank reported that with this initiative they were able to service more LMI households than before. It is noted that the underlying objective of this initiative is however not to make the housing market function better but rather to fulfil the business viability of the bank by selling more banking products and services.

The data collected showed that three quarters of respondents had approached financial institutions for assistance and just over half of them had been able to get the financial assistance needed. The reasons for rejection were mainly due to poor credit records and lack of collateral. Poor credit records were the result of garnishee orders, outstanding debt to clothing shops, which only came to light at the time of loan application. Credit records are therefore an important influence on the household's ability to participate in the housing market. Unwittingly, many LMI households generate poor credit records and therefore disqualify themselves from participation in the market.

### ***4.3.3 Concluding the sale agreement***

The literature review showed that the LMI group rely a lot on public transport system. As such, when the transportation system closes in the evening or over the weekends, mobility becomes a problem for them. For this reason potential buyers may fail to keep appointments to view houses or to sign contract documents. Failure to keep appointments is a common problem estate agents and conveyancers alike have raised. Both the estate agents interviewed explained that on many occasions they had scheduled meetings with an LMI buyer but he had failed to turn up or call to cancel the meeting. Agents went further to attribute this attitude to a lack of responsibility on the part of the LMI buyer. To deal with this the conveyancers indicated the use of legal tactics to compel parties causing delays (in this case the LMI) to attend to the transaction matters such as signing of contract documentation. Details of these legal tactics may need to be explored to see if this would not put unfair pressure on the LMI buyer. Facilitators need to check reasons why LMI clients miss their appointments, and explore ways of helping them solve these to assist in the growth of a sustainable LMI housing market.

Issues of LMI households' understanding and responsibility in respect of the transaction were also raised, particularly when it came to understanding of the contract documents. Facilitators felt that LMI buyers do not take enough care to read and understand the sale agreement they are entering into, and as such find themselves failing in obligations towards the sale.

In the interview with Ms Y the conveyancer, it was explained that the home acquisition process was long, and involved various legal representatives including the buyer, the seller, the seller's bond financing attorney, and the buyer's bond financing attorney. She further elaborated that the process involves the coordination of all legal representatives, who each had to act on behalf of their client and are required to give prompt responses to the buyer's conveyancer for the transaction to be timeously and successfully completed. Where the essence of time is not appreciated by the LMI buyer, the purchase process is delayed and may fail.

Ms Y explained that the conveyancer is required to open a trust account where initial deposits and payments are held in trust during the transaction period. Ms Y

pointed out that where there are outstanding amounts owed by the seller such as rates, payment may be made from the trust account on behalf of the seller.

Ms Y the conveyancer as well as the estate agents note that the LMI buyer is often anxious to sign the agreement on the pretext that they understand the content, instead of saying 'I do not understand' and asking for an explanation, which is their right in terms of the EAAB regulations.

The EAAB stipulates that it is the responsibility of the estate agent to explain the contract to the transacting parties. Therefore, if the LMI buyer does not understand the contract and fails to fulfil its obligations, some of the responsibility must lie with the estate agent.

Ms. E explained that most clients in the lower income groups were first time buyers and tended to be secretive about their income, making it difficult for her, as an estate agent, to assist and advise them appropriately. Furthermore, from her experience, she had noted that many people in the LMI group did not know their financial standing because they had not previously needed this information. Thus many households are unable to participate in the housing market and many are also unable to keep their properties due to default on repayments.

Ms E stressed the need for the estate agent to explain the cost implications to the purchaser, to avoid conflicts when these payments become due. The cost of buying a house goes beyond the purchase price and also includes transfer fees and agent's commission as well as running costs such as monthly levies, rates and electricity / water expenses. These costs needed to be made known to the first time buyer, especially those coming from townships where she claimed had generally been avoided with no penalties.

Mr. R of Wakefeild attests to the above point, noting that people from previous disadvantaged townships were appreciative of the environment in the previous white neighborhoods, but were not willing to contribute to the upkeep thereof. This unwillingness is expressed by refusing to pay levies and rates. He narrows this down to a 'don't care' attitude that persists in townships.

#### **4.4 Financing Challenges**

Some LMI households felt that banks were too fussy, requiring many documents before a loan could be approved. Financing institutions are willing to provide loans but at minimal risk and reasonable interest, and need to provide the loans responsibly as prescribed by the MFRC. This is why full documentation from the prospective loan applicant needs to be submitted for scrutiny. Unfortunately, as noted by the financing agents, many of the LMI buyers have not kept good financial records and are therefore declined. In the LMI buyer's mind providing so many documents, only to be turned down portrays the finance institution as being too fussy. However, this also indicates that the LMI buyers are not aware of all the implications of irresponsible financial behaviour, or of the need for financial institutions to safe guard themselves against risky borrowers

##### **4.4.1 Financial awareness**

Financial awareness refers to the LMI individuals' understanding of financial matters and is outlined as financial standing, financial records, and banking perceptions.

###### *4.4.1.1 Financial standing*

Ms A, the estate agent, and Mr E, the private developer, pointed out that it is common that the LMI group are not fully aware of their financial standing. Ms A explained that some individuals in this income category, have had court orders instituted against them without their knowledge. It therefore becomes difficult to make an informed financial self assessment as required by the home acquisition process, as the applicant's true financial status is unknown. 24% of respondents were unaware of their credit rating at the time of a loan application, only to find out that they had already been blacklisted by the credit bureau.

Ms B of the micro lending institute Blue also noted that individuals in this income group became aware of their negative financial standing at the time of loan application when a credit check is carried out. She explains that this is done electronically by entering the applicants name on the system provided by Compu-scan. She added that in her dealings with this income group she has noted that

many applicants were financially over-extended and some black listed, indicating high levels of risk involved in lending.

High levels of risk are also noted when a scrutiny of financial records are done. As part of the financial assessment carried out by finance providers, LMI loan applicants are required to show proof of a steady income, and a record of their financial transactions. Ms B of the micro lending institution 'Blue' explained that an examination of applicants financial records gives an insight into applicants financial history, and financial commitments such as stop orders, debit orders and garnishee orders are indicators of financial obligations of the applicant. In the case of garnishee orders, Ms B also said that some applicants are not aware that such amounts are being deducted; and did not even know from when the deduction actually took effect, making the loan applicant a high risk client.

However, in order to reduce the number of disqualified applicants, Ms. B further said that the micro lenders go an extra mile to investigate cause of black listing. She said that if an applicant is black listed for nonpayment of child maintenance this does not affect the loan application. However, if the applicant is blacklisted for nonpayment of consumer goods this could led to the loan applicant being turned down. Garnishee orders for nonpayment of child maintenance are usually recognized because the amount is rounded off, whereas a garnishee order for consumer goods is not rounded off, e.g. one hundred and ninety nine rand ninety nine cents (R199.99).

#### *4.4.1.2 Financial records*

Financial records required for the loan application are three months bank statement, and salary slips. As explained above, an examination of these documents gives an insight of the applicant's financial behaviour, making these documents important in the home acquisition process.

However, where the LMI buyer remains unaware of the use and importance of a bank statement as a record of financial transactions, which will be referred to on application for housing loan, many LMI households will be continue to fall short



of requirements for financial assistance. Concerted efforts on the part of both the LMI household and the financing agents, to correct this attitude are long overdue.

In correcting poor attitudes to financial obligations, financial providers need to make the LMI group aware that financial statements are important, and that these will be used as a financial assessment tool when they make a loan application for housing. The responsibility is on the financing agent to provide the account holders with awareness education on how to keep good financial records and consequently good financial reports. Safe storage of a client's private financial reports and records should be encouraged by the financing agents, Thus when such records are needed they are easily available, and time is not wasted trying to get them together for a loan application during the home acquisition transaction process. Mr. K of African Bank explained that such records are used as prequalifying criteria for loan approval.

#### *4.4.1.3 Lending interventions of financing agents*

The interviews with the financing agents revealed that there are assistance that have been offered to the LMI toward accessing finance.

Mr. K explained that small loans of between R1,000.00 and R20,000.00 were made available to the formally employed, who have a salary account with one of the traditional banks. Furthermore it was important that the applicant was employed, and had a personal account to which salary is paid on a monthly basis, as deductions were made by the employer before payment of salary. The employer therefore acted as an agent in assisting to ensure that the repayments were made.

This arrangement was only possible with the help of the employer and traditional banks, where many salary accounts are held. For this reason many of the niche market lenders are in joint ventures with traditional banks (Africa Bank works with Standard Bank). He also stresses that LMI groups are from different back grounds (socially and culturally) which affects their understanding of responsibility when it comes to loan repayments. Consumer education is extremely important in this market so that the LMI group have a better understanding of their responsibilities regarding a loan.

Mr. K said that to reach this target market, they have to go out and not wait for the clientele to come in. He firmly believes that one of the problems that have led to the poor response from the LMI groups towards the traditional banking system, has been that the banks have not gone out to the people but waited for them to come into the bank. Many LMI groups find the environment in the banking halls intimidating. The lower income categories have expressed the belief that the banking halls are for the more important high-income earners and not for the new intakes into the banking systems. For this reason the African Bank set up a mobile sales division. This division trained personnel who went out into the field to meet prospective loan applicants particularly targeting the lower income groups. As a motivation to their staff to sell banking products, Africa bank offered payment on a commission basis.

During the interview with Ms. B of Blue the micro lending institution, it emerged that loans of between R50.00 and R20,000.00 were being offered and as with the African Bank scenario, loans were only accessible by the formally employed, earning between R3,500 – R7,500 with proof of payment, i.e. a salary slip, and a minimum employment period of 2 years with current employer. The criteria excluded the self employed and the informally employed, even if their earnings are in the acceptable income bracket. Clients were also targeted by approaching employers, and offering various finance products specifically designed for the lower income groups. Finance products offered however related to insurance products and short term loans. Ms B however noted that unfortunately with small, short term loans recipients were allowed to use the loan in any way they chose.

While the interventions mentioned above have allowed for LMI households to access credit the objective of the interventions are however not directly linked to enabling LMI housing market.

#### *4.4.1.4 Perceptions of financing agents*

The research also revealed that amongst respondents who hold bank accounts, there is a perception that banks take control of their private bank accounts. Loan applicants are of the opinion that the banks are in control of their account because as one of the respondents put it “they (the banks) allow anyone to debit the account

without the consent of the account holder”. Even though banks arrange debit order instruction before instituting the debit order, no other confirmation is carried out directly by the bank before the instruction is put into effect. The problem with this is that while the debit order is instituted with an account holder’s consent, it is done without adequate account holder education. Research by Kamete (2000) reveals that “existence and awareness of an obligation by the borrower are not enough to guarantee loan repayment”. It implies that a further step which constitutes repayment assistance, guidance and reward is required towards encouraging loan repayment.

As the financing agents have access to the client’s spending pattern it is only fair for them to provide some financial education stressing the implications of debit order instructions on personal accounts, as well as benefits and repercussions of not meeting financial obligations. This should all be done before carrying out the debit order instruction. While the exercise may be involved and demanding for the financing agent, it reduces the risk of non payment for the bank and instils a better financial culture. As a better attitude to loan repayment is in the interest of the financing institutions, finance institutions need to carry some of the responsibility of providing financial education for the LMI group.

#### **4.5 Chapter Conclusion**

The chapter started by examining the limitations of the LMI household in the home acquisition process. This was done by analysis of the data collected during the field survey in which forty respondents participated.

The household is characterised by a household size of between two and four people, with residents living in their dwellings for at least 5 years, and engaging in housing extensions. It was found that one choice LMI households had was to defer their participation in the market and rather opt for rental accommodation instead of owner occupier accommodation. Where households have become involved in the market a preferred choice was to buy existing detached housing stock.

The process of concluding a sale agreement was challenging as interviews revealed that the LMI buyer often failed to honour prearranged appointments causing delay

in the signing of documents. On the other hand there was the issue of respondents anxious to sign documents even though they had poor understanding of the content of such documents. The conceptual framework established that it is the role of the estate agent to explain the content of sale documents. It may be of further benefit if the LMI buyer have access to legal advice in the home acquisition process, although this would have financial implications for the household.

The chapter further outlined financial challenges faced by the LMI households and concludes that households need to be made more aware of the importance a good financial standing. It emerged that the group needs to be taught how to carry out personal financial assessment and how make efforts towards attaining good records.

Financial interventions to the LMI households have been mainly in accessing sizeable short term loans. An innovative way of targeting finance directly to housing, has been to pay material suppliers directly. The practice however does not directly respond to the housing finance challenges as materials may not be available at the particular supplier at the time material is needed, therefore tying down finances. More direct interventions would be required in the payment to suppliers such as the use of credit notes, housing debit cards, etc.

The next chapter examines the housing needs of the LMI household and the housing supply aspects of the survey.

## **CHAPTER 5**

### **SUPPLY SIDE FINDINGS AND ANALYSIS**

#### **5.1 Introduction**

The chapter presents data collected on the supply-side survey taking into consideration the needs of the LMI household. A careful analysis of the housing needs of the target group ensures that the final finished product is responsive and acceptable when supplied.

#### **5.2 Housing Needs Analysis**

The housing needs analysis is outlined as one of the stages in the home acquisition process. It is necessary for the household and the housing supplier alike, to understand the need and how the housing product is expected to respond to the need, for the benefit of the household.

Apart from providing shelter, housing provides an indication of the household's socio-cultural character. A visit to the household gives a better perception of the household in terms of social, economic and cultural reality. For example, what is the choice between a three bedroom flat and a three bedroom detached house within a particular location? While both are three bedroom dwellings and offer shelter, the household living in the detached house may be perceived as being of higher social standing than the other because the house allows a level of freedom for social and cultural practices, such as holding a braai out of doors. The housing needs analysis therefore becomes a critical aspect of planning if the market is to supply a responsive housing product that meets the needs of the LMI household.

##### ***5.2.1 Household size, typology and location requirements***

The previous chapter has established that the household size in the study target group ranges between two and four persons per dwelling. It went further to assume that if each room was large enough to accommodate two persons each, a dwelling of one and two bedrooms would be applicable for the LMI household.

Respondents' choice of housing typology showed a strong preference for detached housing units, with 80% of the respondents indicating their preference for a detached housing unit as shown in Table 5.1.

Within the dwelling and irrespective of typology, the functional use of space is easily divided into private and public areas. The research has also revealed that there is need for storage space for documents such as salary slips and bank statements which would be required for loan application. A dwelling should be able to provide a secure storage area for documents.

The choice of detached housing over the attached flat was because the former allows for future extensions to be made which may become necessary as changes in life cycle occur. The findings show that LMI households are able to access small loans sufficient for this purpose.

**Table 5.1 Respondents choice of Housing Typology**

Housing typology	No. of respondents	%	Cumulative %
Large detached	9	36	36
Medium detached	4	16	52
Small detached	7	28	80
Duplex	2	8	88
Flat	1	4	92
Semi detached	2	8	100
Total	25	100	

Source: Field Survey 2005

The plot size on which the detached house is situated needs then to be large enough to allow for extensions to be carried out. The findings showed that large detached housing on single plots, appropriately priced within the LMI housing market, were more prevalent in the PDIs' townships than in the PAIs' townships as shown in Table 5.2.

**Table 5.2: Housing Typology and Location of Owned Property**

Suburb	Detached large	Detached medium	Detached small	Total detached		Duple x	Flat	Semi detached
PA township	2	1	1	4	20%	1	1	2
PDA township	7	3	6	16	80%	1	0	0
Total	9	4	7	20	100%	2	1	2
%	36%	16%	28%			8%	4%	8%
Cum %	36%	52%	80%			88%	92%	100%

Source: Field Survey 2005

The PDI townships would therefore tend to be financially feasible to the LMI households. However access to this housing stock in the PDI townships is more easily accessible to PDI households than the PAI household due to the prevailing racial character of the area. This restricts accessibility to LMI housing stock prevalent in the PDI township to particular racial groups, making the LMI housing market racially biased in some areas. The implications are that other minority racial groups in these areas are sidelined and forced to rather buy other housing typology, such as the duplex, flat and semi detached, in the PAIs' townships, which are more easily accessible to them. These typologies do not meet all the household's needs but are appropriately priced.

#### *5.2.1.1 Choice Of Residential Location*

Contrary to the assumption from the needs analysis, respondents did not indicate opportunity to extend their dwellings as an important factor in choice of residential location. Instead respondents indicated proximity to facilities, followed by closeness to work place and affordability, as the most important factors. Only 8% indicated that the opportunity to extend would affect their choice of a residential area. This could be interpreted as respondents thinking of the present challenges and not future challenges of space constraints as changes in life cycle occurs.

It therefore becomes the role of the estate agent to carefully consider and analyse the household's needs, indicating to the household all options available on the market and assisting them to make informed decisions for their present and future

housing needs. Where this is not done, and households make decisions considering only present needs, problems of physical deterioration of the dwelling may easily arise due households outgrowing their dwellings but not able to extend or move to a more suitable dwelling. This situation causes the stretching of both infrastructural and social facilities in area, and consequently to the deterioration of the environment.

As noted earlier closeness to facilities emerged as a major determining factor in the choice of residential location. Table 5.3 shows that 28% of respondents indicated closeness to facilities as a key factor in the choice of residential location. Facilities included a good transport network, schools, shops, medical facility, and parks.

**Table 5.3 Reasons for choice of freehold housing location**

Reason given	No	%
Close to facilities	7	28
Close to work	4	16
Affordable area	4	16
Safe and quiet environment	3	12
Close to family/place of birth	2	8
Allows cultural practice	2	8
Opportunity to expand	2	8
No response	1	4
Total	25	100

Source: Field Survey 2005

The conceptual framework established that the LMI group rely on a public transport to move around, and this is confirmed by the field survey. However, while it is in the culture of previously disadvantaged individuals (PDI) to commute, and that there is a thriving public transport system for the PDIs, it is different with the previously advantaged group, who have to adjust to commuting on a public transport system established in the apartheid years, mainly for use by the PDI communities.



As of the minority PAI group, one of the respondents expressed concerns of not feeling safe travelling on 'black' taxis. As centrally located residences are usually highly priced he explained that his choices are to either travel on the taxi to a less expensive residence in the black township, or rent a place centrally located. He chose to rent and therefore is not participating in the LMI home ownership market, even though he is eligible to do so. His choice of rental housing typology was a small one bedroom unit, in a PAI township, despite availability of larger housing typologies in the accessible PDI townships, due to safety concerns with both transport and housing environment. Thus the history of segregation and mistrust influences a potential buyer's response to location, even in the post apartheid period.

The findings with regards to the supply of primary and secondary housing stock are now discussed.

### **5.3 Supply of Primary Housing Stock**

The responses from the questionnaires indicated that the LMI respondents made no mention of expecting the state or developers to supply housing stock, but looked to themselves and had, in many cases taken initiatives to address their housing needs.

Mr E, the private developer interviewed, confirmed that suppliers of housing are generally not responding to the needs of the LMI group for appropriate housing stock, as housing supplied is targeted at those who can access mortgage bonds. The research shows that only 76% of respondents approach banks for a mortgage loan, out of which only 58% were successful in accessing a loan.

Mr. E also explained that the supply of housing is dependent on the timely access to finance both by the end user and the developer. In cases where the LMI application has been turned down by the traditional banks and the applicant needs to seek alternative finance, much time is lost at the expense of the progress of the project, as construction costs escalate with time.

Unlike the loan from traditional lenders which is tied to a particular property and used as collateral for the loan, the loans from the micro lender are not attached to

any immovable development and may not be accessible to the developer for the purpose intended. For these reasons Mr. E explains that developers prefer to deal with those in higher income groups where loans from the banks are bonded to a particular property and cannot be used for anything else.

The findings therefore indicate a necessity for secure finance that is an assurance to the housing developer that financial assistance will be spent on the housing project it is intended for. As funds from micro lenders are not secured and project specific, project funding sources remains unattended to.

While access to end user finance emerged from the interviews as one of the factors deterring developers from supplying housing at the lower income levels, other factors that also emerged were the skills required at planning level for the programming of the development process and challenges in accessing serviced land. These two factors are discussed below.

### ***5.3.1 Skills Required for the Programming of Development***

The project team comprises of various professional team players. The project team requires a project leader with leadership skills for the coordination of the multi disciplinary professional team in the housing process. An analysis of the risk, the project requirements and delegation of the tasks must be made by the team leader. The developer explained that with a multi disciplinary team, it was essential for the project leader to be knowledgeable about all aspects of each profession.

Mr E, the developer, said the project leader is expected to be able to coordinate a number of processes, ranging from the project inception to project completion and handover, each process requiring careful coordination and timing. During the interview with the developers, the issue of developers' time value for money emerged. Mr. E indicated that for the development to be viable to the developer timing is critical for the successful completion of the housing project. Ms Bv of Ithala pointed out that the time value for money requires prompt responses from all involved in the development process particularly the facilitators and the beneficiary. Any delay in the process implies a financial loss to the developer. Delays could be caused by the LMI household or any of the facilitators not attending to requirements of the transaction such as initial funds transfers. For

funds to be successfully transferred an agreement needs to be signed, and trust account opened in the correct names of the beneficiaries. The process requires all participants to play their role promptly.

The supply of primary housing stock thus requires a good team spirit for the development to progress smoothly. Communication between all participants needs to be effective, with a common purpose and good leadership skills to take the process from inception to occupation by the end user.

The involvement of the each team player takes on varying importance during the process. For instance, the estate agent's role is vital at the beginning of the process to advertise and market a new scheme and also at the end when the allocation process kicks in. It is therefore important that the project leader has good communication and coordination skills to keep both the end user and all facilitators informed of roles expected and time frames for such roles to be completed.

### ***5.3.2 Project Feasibility Study***

The final step, as outlined by the developer, is to carry out a final feasibility based on the estimated sales, development route, and the overall project schedule and cash flow. Where response to the project by the beneficiaries, has only been at the initiation stage, and not supported by other transactional documentations the project feasibility fails. Implying that the envisaged project is in fact not implemented due to non commitment on the part of the beneficiaries. This limits the supply of primary housing stock.

A detailed feasibility study involves a SWOT analysis as explained by Mr. E , taking into consideration the effective demand for the proposed housing product, the site location, and project cash flow are all taken into consideration. This analysis looks critically at the strength, weaknesses, opportunities and the treats of the proposed project.

#### ***5.3.2.1 Housing demand***

Findings indicate that LMI households demand a product of a two bedroom dwelling on a sizeable piece of land that allows for further extensions and is

located close to a good transport network system and other neighbourhood facilities. However, on the supply side presented in Table 5.2 below, it shows that only 17% of dwelling units listed on the market were 2 bedroom detached houses, indicating a shortage of this type of housing stock.

Housing products supplied by the state are targeted at the lower end of the spectrum, for those who earn less than R3,500 per month. The gap in the supply of appropriate housing products is noted by the developers.

**Table 5.4 Property Listing**

<b>Typology / size</b>	<b>1 bedroom</b>	<b>2 bedroom</b>	<b>3 bedroom</b>	<b>total</b>
Detached	0	<b>6 (17%)</b>	5	11
Semi detached	1	<b>18 (52%)</b>	3	22
Flats	12	<b>11 (31%)</b>	1	24
Total	13	<b>35 (100%)</b>	9	57

Source: SA Home Guide magazine 2005

LMI households show the ability to build even though they had limited access to finance. The type of assistance required from the state emerged as being the supply of subsidised building materials. So while there is a high demand for appropriate housing for the LMI group, the need may not necessarily be completed housing products but could also be assistance towards developing their housing. The need in terms of primary housing stock supply is assistance with regards to analysis and planning of the building process.

#### *5.3.2.2 Site location and availability of land*

The process of accessing land close to required infrastructure is a challenge. Mr Z of Ithala expressed concerns over the processes that are involved in accessing land for the development of housing. This point was echoed by the private developer who stated that availability of affordable land for LMI housing developments was usually in the peri-urban areas. The process of acquiring the land involves a community participation process as land is often held in trust by the tribal

authorities. This process of community participation is reported to often delay the housing development processes.

The private developer explained that due to land availability in peri-urban areas (which include the PDI areas and green fields), there are material supply challenges due to transport network systems, particularly roads, banking systems which would aid the transfer of money to site locality for payment of workers or from site to the suppliers. In some areas an inadequate electricity grid also adds to the challenges faced by developers, each of which need to be programmed for the success of the housing project. As a way of avoiding these obstacles, Ithala opted to provide finance for qualifying loan applicants in the LMI group, instead of providing the service delivery expertise, thus creating an environment for self help. The LMI household is required to start the building process and payment is then made to material suppliers as and when due.

#### *5.3.2.3 Project Cash Flow Projections*

The project selection criteria also takes into consideration the available cash flow projections as well as timing of the project. Mr. E, the developer, described how the involvement of a financial partner to provide bridging finance is essential to be able to carry out the project development. However the financial partner would require a detailed risk analysis before embarking on the project which require a level of skilful know-how to generate. The other option is for households to embark on housing development and extensions without the involvement of the developer, through what is called 'the self help approach'.

The self help system has the advantage of empowering the household to get involved in housing delivery themselves and finances are successfully targeted to housing. End users are involved and can progress with the development at the household's pace. With regards to the LMI group the self help system would offer the flexibility of time and work pace which is determined by the household.

## **5.4 Supply of Secondary Stock**

The supply of secondary stock is reliant on housing products coming onto the market when households decide to sell their houses. The decision to sell, as has

been discussed in the conceptual framework, is determined by both intrinsic and extrinsic factors affecting the household. As social anthropologists put it, the decision is made as a result of households having the capability to weigh implications in the mind prior to acting (Fischer et al 1977).

Intrinsic factors such as the stage in life cycle may trigger the need for a larger house, or smaller as the case may be, thus adding to the supply of the secondary housing market. Assuming the LMI household is living in an appropriately priced dwelling (priced at about R170,000), and the need arises for a larger house, and that the household sells existing property for R170,000, a larger house in the same residential area would cost more. To get a house for the sale price realised, it would be necessary for the LMI to somewhat downgrade in residential area. By so doing, the LMI household will be able to buy a housing product larger than that sold, thus responding to the housing need changes brought about by life cycle changes. The decision to sell then requires the household to weigh the choices of moving to a bigger house in a new neighbourhood or remain in the present house and extend the dwelling.

When asked what determines a household's desired residential area, 40% of respondents indicated that they would chose to stay in areas closer to facilities and not necessarily stay in a place because of family ties, or closeness to work or home. Over time, and with changes in household size, a need to move may arise, causing the household to choose either to move or stay in the present accommodation. The study shows that LMI households would move if the new area offered neighbourhood facilities.

However if there are no neighbourhood facilities in the new area, despite a larger house, the LMI respondents indicated that they would stay in their current place of residence, close to facilities. The decision to stay reduces secondary housing stock and may also lead to a drop in the property value of the area due to eventual overcrowding. Overcrowding has a negative effect on the house and on the general environment, in that infrastructure facilities such as sewerage and waste management systems become overused and deteriorate faster if not maintained

regularly. The findings show that over 70% of respondents had stayed in their present housing for over 5 years, and 20 % over 10 years.

## **5.5 Chapter Conclusions**

The findings presented in this chapter confirm that the home acquisition transaction process is complex, involving various participants, requiring coordination and a common purpose between the buyer, seller and the facilitating agents. The findings indicate that LMI households are also in need of assistance in areas other than finance.

The housing needs analysis suggests that the LMI households require housing products that offer one or two bedroom options, on a sizeable plot that allows for extensions, and appropriately located close to a public transport system and other communal facilities.

On the part of supply of housing by the private developers, little or no assistance is available, the process of delivery is easily hindered by project cash flow problems where finances from enduser is relied upon for the project. The findings indicate that LMI housing developments requires secure loans targeted at housing developments, as well as bridging finance. In addition project leadership skills are required for the coordination of the entire project from inception to occupation.

The chapter further establishes that supply of secondary stock is left to incidental decisions of households to sell their properties. State interventions are absent whereby primary stock is developed for ultimate resale to the LMI households.

The last chapter draws conclusions and put forward recommendations.

## **CHAPTER 6: RESEARCH CONCLUSIONS AND RECOMMENDATIONS**

### **6.1 Introduction**

The research took an exploratory approach into the LMI housing market from the buyers' perspective and examined the needs, choices and limitations of the LMI household as the buyer. It also looked at steps involved in the home acquisition process and factors affecting supply.

The research argument developed along the line that the LMI households were failing in the housing market, due to limited knowledge of the home acquisition process and scarcity of appropriate housing products. The research was divided into three parts. The first part looked at the demand side participants, the second at the facilitators and their role in the transaction process, and the third part considered the supply of LMI housing products.

### **6.2 Demand side Conclusions**

On the demand side, the study showed that LMI households have the ability to participate in the housing market but are faced with various challenges. These challenges are not only financial but also relates to transportation, time constraints, and the ability to understand the expectations of the housing transaction process.

#### ***6.2.1 Time and transport challenges***

LMI individuals, being in the working class, have limited time to spend on the home acquisition process during office hours, however after hours, when they are in control of their time, the availability of the facilitating agents becomes a problem. Their participation in the home acquisition process is further hampered by transportation which tends to stop early.

Bearing this in mind, it is concluded that for the LMI housing market to thrive a reliable transport system (either public or private), which operates after hours, is necessary. One step to overcome transport problems may be to provide transport nodes within residential areas particularly targeted at the LMI group. These nodes need to be adequately lit to reduce security risks and also fitted with phone boxes,



thus allowing communication with facilitators on arrival in the area. By so doing, meetings after hours with facilitators should become less of a problem.

Long term interventions are also recommended whereby a conscious effort is made to release land for a new dispensation of LMI residential areas which is accessible to mass transit networks.

### ***6.2.2 Interaction with facilitators***

Regarding interaction with facilitators, the research concludes that LMI households are not well informed nor advised of services to expect from the facilitators, nor are they advised what is expected of them in the transaction process. The research showed that the home acquisition process is long and involves a number of facilitators responsible for various aspects of the transaction process. At the outset, the estate agent needs to make the LMI group aware of the various roles and responsibilities of those involved in the home acquisition process. It is noted that even though codes of conduct are in place for the private sector facilitators, the LMI households are not fully aware of these codes nor what they stipulate and entail. It is also noted that the home acquisition facilitation is predominantly operated by the private sector, with no assistance from the state especially in the areas of legal advice.

It is therefore recommended that public services organs such as the Legal Aid Board extend their services to include that of advice with the home acquisition process, with particular attention being paid to concluding sale agreements.

The state conveyancing service would take on an advisory role and advisory services offered should include:

- 1 Sessions in which the role of each facilitator is explained to the LMI applicant.
- 2 Responsibilities of each facilitator should be explained.
- 3 Requirements of the agreement and consequences for non compliance.
- 4 Coordination and monitoring of facilitators.

### ***6.2.3 Expectations of the facilitators***

Facilitating agents need to consider how meeting times and locations could be made more suitable to the LMI group. While the estate code of conduct requires that the estate agent operates from an office where fidelity certificates are

displayed, meeting points for signing of documents could also be at the convenience of the client instead of always at the convenience of the agent.

It is thus suggested that, where possible, meetings are held at the most convenient facilitator's office, one that is easily accessible by the LMI client especially at the stage where the sale agreement is to be concluded. This will put the LMI more at ease and help him to understand the implications of the documentation being presented for attention and signature.

#### **6.2.4 Facilitation recommendations**

From a financial facilitation point of view the research concludes that the LMI households are not financially prepared to interact with the housing market and require financial education. While they qualify financially in terms of income level, their understanding of the financial commitments limits their successful participation. To overcome this it is recommended that education in the operating of personal accounts is initiated, the aim being to enable account holders to keep good financial records. To achieve this it is proposed that the content of such training should include

- 1 *'What do I do with my bank statement?'*
- 2 *'How do I keep acceptable finance records?'*
- 3 *'What are debit orders and what obligations do I have to fulfil?'*
- 4 *'What are the consequences of not fulfilling these obligations?'*

It is recommended that this information is recorded and visually displayed in waiting areas of financial facilitators, for loan applicant to see.

Furthermore, it is concluded that the motivation of financing agents has not been conducive towards the successful operation of the housing market. Housing finance from financing institutions targeting this income group, has focused on how the institutions sell financial products and not on making the market function successfully. This is the case with short term loans. Small short term loans are easily accessible to LMI households. However these loans are not appropriately targeted at housing solutions and can be used for whatever the borrow wants.

While the finance institution has a record of extending credit to the LMI household, it has no record of the impact made on the housing market.

It is therefore recommended that a portion of funds targeted at the LMI group be specifically for housing, and should be targeted in such a way that these funds are only used for housing purposes. To achieve this a housing card system can be introduced whereby funds extended to the LMI individual are credited to a housing card (similar to a petrol card) and which can only be used to purchase building materials and/or other housing market related services, such as payment for services from facilitation agents.

### **6.3 Supply Side Conclusions**

With regards to what is appropriate housing stock for the LMI group, the study concludes that the LMI group are unable to define what is their appropriate housing. It emerged from the study that appropriate housing for the LMI group must be a housing typology that allows for building extensions and must also have easy access to a transport system.

#### **6.3.1 Introduction of new housing products**

It is therefore recommended that a housing product called EPTASHome (Extension Possible, Transport Accessible Starter Home) is packaged for this market. The EPTASHome product should be launched by the Department of Housing and carried through by all facilitators in the home acquisition process. An understanding of the name would give the LMI households and estate agents an indication of the required housing response as the product refers to a starter house, allowing for extensions and also accessible to transport. The marketing of this housing product would help the LMI group to consider sustainable long term solutions to their housing needs, as opposed to the short term approach of living close to work places and community facilities, currently being adopted.

#### **6.3.2 New Housing Developments**

It is recommended that with new housing developments for the LMI market, plot sizes also need to allow adequate space for additions to the building. Even though plot sizes were not identified as an important determinant in the choice of housing

location, it has emerged as an important factor necessary to meet LMI households needs.

Within such areas, development guidelines should not be restrictive but flexible in terms of housing typology and density, taking into consideration the compact city debate. Furthermore, interventions by the state to provide the minimal housing requirement of one bedroom on a serviced plot are to be directed at the LMI group. Such interventions would assist in creating enabling environments for incremental building.

#### **6.4 Conclusion**

On a final note it is concluded that LMI households are not adequately prepared to participate in the complex transaction of the home acquisition process.

Furthermore, their choices of housing typology are limited. They also have to make compromises when making typology decisions due to the limited availability of appropriate housing stock available to meet their needs.

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## APPENDIX 1

### Monthly Installment Calculations (ABSA 2007)

#### Calculations for monthly installment

Assuming

Income (lower end) = R3500.00

Monthly installment = 30% of R35000 = R1050.00

Assuming

Time = 20years

Interest rate = 25%

Index (from tables) = 11.75

Property value =  $1050 \times 1000 / 11.75 = R50,000.00$

Similarly the property value was calculated for the higher ceiling as R180,000.00

## Appendix 2

### Questionnaire sample

The survey examines the limitations and constraints that you may have experienced in dealing with your housing finance issues. While the exercise remains an academic one, findings would be used in further understanding constraints and frustrations in accessing housing finance. Please spend the next few minutes filling in the questionnaire.

#### Section 1: Type of tenure

	Yes	No
Do you own your present accommodation? Free hold		
Sharing \Private arrangements?		
Do you rent your present accommodation? Rent		
Are you living with family or friends?		
Other		

#### Section 2: Background of respondent

6)	Contact tel number:			
7)	Residential Address:			
8)	Place of work:			
9)	Occupation/post:			
10)	How long have you held this post:			

#### Section 3: Household structure

	Name Optional	Gender M/F	Age	Relationship to head of house hold	Income				Source of income E.g.: Salary, pension
					A	B	C	D	
1									
2									
3									
4									
5									
6									

A: nil      B: less than R3,500      C: R3,500-R6,500      D: over R6,500

#### Section 4 current housing

12) What kind of accommodation do you live in

Detached house Small medium large	Semi detached	Duplex	Flat	Other (please specify)

13) How long have you lived in your present accommodation

Over 10 years	Over 5 years	Less than 5 years	Less than 2 years	Less than a year

14) Approximate travelling time to work (*Prompts what time do you live home: what time do you arrive at work*)

Over an hour	40 – 60 mins	20 – 40 mins	10 – 20 mins	Less than 10 mins

### Section 5: Housing finance

15) If you own your own house did you

Inherit	Buy	Build from scratch	Other Please specify

16) How did you finance your house?

Mortgage loan (bond) bank or loan organization	Personal savings	Group savings (stokvel)	Family support	Other

### Section 6: Experiences

17) How did you acquire your house

Did you go through an agent	Was it a private sale

18) Is there any particular experience in your search for a house you want to share?

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### Banking experience

	Y	N
Did you approach the bank or loan organisation for a loan for a loan		
Have you ever been turned down by the bank for a loan application		
If you were turned down what were the reasons for lack of success		

21) What was your alternative options towards financing your house

22) Were you aware that there would be a credit check carried out in connection with your bond application?

23) Were you aware that your bond might be turned down if your name was with the credit bureau?

24) Do you have any particular banking experience you would like to share?

**Government assistance**

	Have you personally applied for government housing subsidy in the past	<input type="checkbox"/>	<input type="checkbox"/>
	How long ago was this	<input type="checkbox"/>	<input type="checkbox"/>
	Did you get it	<input type="checkbox"/>	<input type="checkbox"/>
	Do you currently benefit from any housing subsidy/allowance through your spouse or otherwise y (please specify)		
	If the government were to build a housing complex in the greater   Pinetown would you be interested		
	Yes	No	
	If yes Why?		
	Why did you chose the area you live in		
	Did you consider other areas		
	Where?		
	Why?		

**Section 7: Income**

	Kindly specify how you are paid	Cash	Bank deposit
	Monthly	<input type="checkbox"/>	<input type="checkbox"/>
	Weekly	<input type="checkbox"/>	<input type="checkbox"/>
	Fourth nightly	<input type="checkbox"/>	<input type="checkbox"/>
	Other	<input type="checkbox"/>	<input type="checkbox"/>
	Do you get a pay slip	Yes	No
		<input type="checkbox"/>	<input type="checkbox"/>
	Do you get a housing allowance/ subsidy from your employer	Yes	No
		<input type="checkbox"/>	<input type="checkbox"/>

**Section: 8 Income Categories**

Monthly	>R3500	R3,500-R5,500	R5500-R6500	Dver R6,500

**Any other comments**

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*Thank you for your time*



## **Appendix 3**

### **Sale Agreement**