TTRI

Training for Township Renewal Initiative

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HOUSING FINANCE & RESIDENTIAL PROPERTY MARKETS

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FINMARK TRUST
MAKING FINANCIAL MARKETS WORK FOR THE POOR

A partnership between the NPDG, URP, SACN and DBSA to provide peer-learning opportunities for township renewal practitioners

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Understanding SA's housing finance system

The new human settlements plan reinforces the vision of the Department of Housing, to promote the achievement of a non-racial, integrated society through the development of sustainable human settlements and quality housing. Within this broader vision, the Department is committed to meeting the following specific objectives:

- *Accelerating the delivery of housing as a key strategy for poverty alleviation*
- *Utilising provision of housing as a major job creation strategy*
- *Ensuring property can be accessed by all as an asset for wealth creation and empowerment*
- *Leveraging growth in the economy*
- *Combating crime, promoting social cohesion and improving quality of life for the poor*
- *Supporting the functioning of the entire single residential property market to reduce duality within the sector by breaking the barriers between the first economy residential property boom and the second economy slump.*
- *Utilizing housing as an instrument for the development of sustainable human settlements, in support of spatial restructuring.*

***A New Housing Vision**, from*
Breaking New Ground: A comprehensive plan for the development of sustainable human settlements.
September 2004

In 1994, the challenges faced by the Department of Housing were many. With an estimated 86% of households earning less than R3500 per month, housing affordability was seriously constrained and in obvious need of subsidy support. However, existing subsidies from the previous regime were designed to support the racially-defined framework of the government's apartheid policy. They were also expensive and unable to support the breadth of the need defined by a post-democratic administration. The availability of end-user finance was also limited. Retail lenders lacked the capacity to extend downmarket, and there was an explicit reluctance on the part of some formal financial institutions to lend in certain areas and to certain groups of people. At the same time, the advent of the country's first democratic order brought with it enormous expectations and a society that was tense with anticipation regarding the promise for development and a 'better life for all'.

1994 policy response

The overall approach taken by government in its housing policy therefore came from two angles.

- On the one hand, government has sought to address the housing crisis directly through the scale delivery of subsidised housing for low income households. For the past twelve years, government policy has provided for the delivery of subsidised housing for ownership (the standard, RDP housing subsidy has delivered upwards of two million units since its launch in 1994) as well as for rental (the social housing subsidy has delivered just under 35 000 units since its launch in 1996).

- On the other hand, government has sought to create an environment in which the subsidised housing market can operate normally as part of the broader, non-subsidised housing market, in the interests of a growing and prosperous economy. This latter angle has become increasingly important as government seeks to emphasise the asset potential of the housing it produces and the role of such housing in poverty alleviation.

Three key strategic thrusts in the 1994 Housing White Paper sought to respond to these intentions.

First, as highlighted above, the **National Housing Subsidy Scheme** provided a subsidised housing unit to eligible households – that is persons with dependents, resident in South Africa, earning less than R3500 per month, and who had never before owned a home. Subsidised units were accessible through a variety of mechanisms: as part of large scale developments in terms of the project-linked subsidy scheme; as flats for rent in terms of the institutional subsidy scheme; households could self-build their units through the Peoples' Housing Process; and so on.

Although the goal of delivering one million units in five years was only realised in seven, South Africa's rate of delivery of subsidised units remains unparalleled internationally. Originally, the subsidy quantum was stratified by income – higher income earners were able to access less subsidy than lower income earners. Today, households earning less than R1500 per month are eligible for just over R36 000. Households earning between R1500 and R3500 are required to contribute R2479, and access approximately R34 000 of subsidy value. The intention originally was that households earning above R1500 would be able to afford an additional amount of credit, which, when added to the subsidy amount, would afford them a better quality or larger size housing unit. However, the credit-linked option was never applied in the housing delivery process and households who could afford credit only ever did so after having received their RDP house and having lived in it for a while.

Second, the policy included a specific strategy to "**stabilise the housing environment**" and thereby encourage greater lending down-market by the existing banks which comprised the country's financial lending sector. This strategy led to a range of initiatives. Early on, various institutions were established to encourage banks to extend their loans down-market.[1]

Third, the policy sought to "**mobilise housing finance**" through the establishment of a wholesale financier which would support the emergence of a cadre of housing-focused, non-bank lenders to offer housing loans to low income earners. This led to the establishment of two institutions, the National Housing Finance Corporation and the Rural Housing Loan Fund, which would encourage increased lending for housing purposes to low income earners through the provision of wholesale finance and market development support to specialist housing lenders, micro financiers, social housing institutions and primary market lenders (or mortgage loan originators).[2]

These policies form the foundation for our housing finance sector today.

Then, In 2003, members of the financial sector signed the Financial Sector Charter in which they collectively committed themselves to providing more than R70 billion of development finance over the next 5 years (by end 2008), including R25 billion of infrastructure finance, R5 billion for small business finance, R1,5 billion for rural development and R42 billion for housing finance to low income earners with a monthly income of between R1500 to R7500. This was followed by, in April 2005, the signing of a memorandum of understanding to cooperate to extend housing finance to low income borrowers" between the CEOs of the four major banks and the Minister of Housing.

Progress has been significant. By end-March 2007, SA's major banks had already granted mortgages worth R20,57 billion (unaudited figures) to families earning between R1600 – R8600 per month. Together with their other products, this makes the banks slightly ahead of target in terms of their promise to extend R42 billion in housing finance by the end of 2008.

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[1] The Mortgage Indemnity Fund was established to provide banks with indemnity against non-commercial risk when they lent to the target market (households earning less than R3500 per month) in pre-approved areas. Servcon Housing Solutions was established to take over the banks' non-performing books in the low income market. The Masakhane Campaign was launched to encourage people to pay their rates and service charges to the local authority and to meet their bond repayment responsibilities. The National Home Builders Registration Council was established to regulate quality in the building industry and to provide consumers with a warranty against bad building. The National Urban Reconstruction and Housing Agency (Nurcha) was established as a guarantor of end user loans and building loans. And finally, a subsidy was introduced to support borrower's affordability for housing loans. Of these various initiatives, only Nurcha, the NHBRC, Servcon, and the National Housing Subsidy operate today. The MIF had a limited mandate and ceased operations as per the original agreement, in 1998 (without approving a claim). The Masakhane Campaign was never a great success and was discontinued within a few years of being introduced. The credit-linked housing subsidy mechanism was never really a success, with only a fraction of subsidy approvals being linked to credit. In terms of the new housing policy, "Breaking New Ground", this has been replaced effective April 2005 by a new "deposit" subsidy for households earning between R3500 – R7500. However, this deposit subsidy does not appear to have been implemented as yet.

[2] The National Housing Finance Corporation (NHFC) was established with government funding to support, broadly, the emergence of such institutions in urban areas. The Rural Housing Loan Fund (RHLF) was established with a donation from the German Development Bank KfW to support the emergence of housing lenders who operate in non-metropolitan and peri-urban areas. Originally, the National Housing Finance Corporation (NHFC) and the Rural Housing Loan Fund (RHLF) operated within one stable – RHLF was managed under contract by the NHFC, although funded with German government funding. Since 1 April 2002, however, the RHLF has operated as an independent social venture capital financier.

Unaudited Banking Association figures of FSC bank lending for housing				
Product	Number originated (Jan 04-Mar 07)	%	Value (R million)	%
Mortgage	156 900	29%	20 574	69%
Fully Guaranteed	171 500	32%	3 491	12%
Unsecured	179 200	33%	1 410	5%
Wholesale	35 000	6%	2 839	9%
Development loans			1 676	5%
Total	**542 600**	**100**	**29 990**	**100**

Understanding SA's property markets[3]

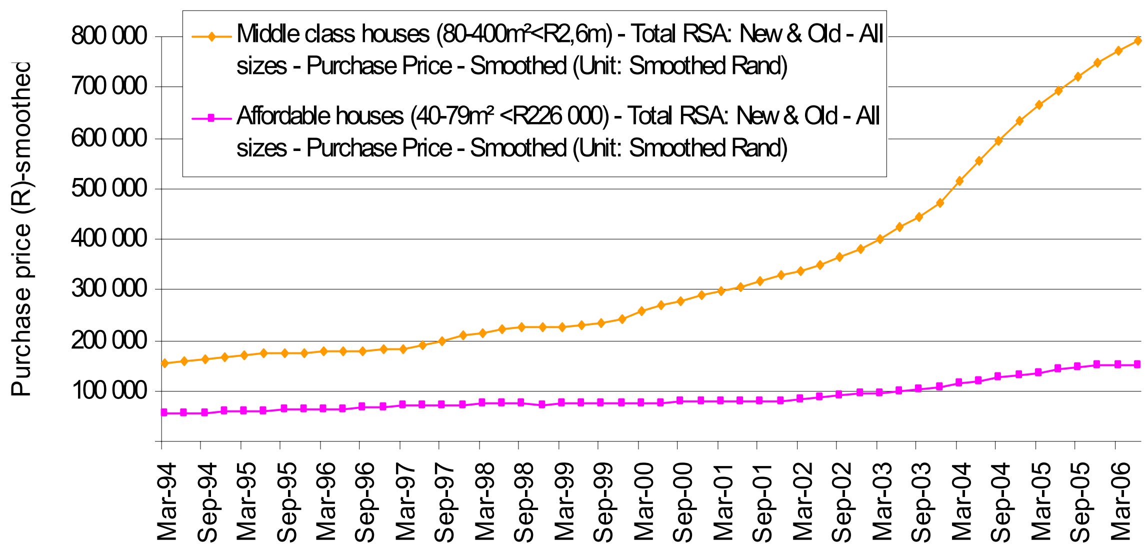
By now, South Africa's property boom is old news. *"Over the past 10 years SA ha been the top performer in the global housing market with The Economist's house price indicator showing a rise of 351% between 1997 and end 2006"*, reports the 25 May edition of the Financial Mail. The article goes on to explore whether the boom will last, or rather follow what they call the "global housing price meltdown". The conclusion: "house price rises still have a way to go".

While existing home owners may rub their hands with glee, the majority of South Africans are watching their dreams of home ownership fade into the distance. Ironically, this is also difficult news for the Financial Sector Charter participants as house prices are rising beyond the affordability of their target market.

The widening gap

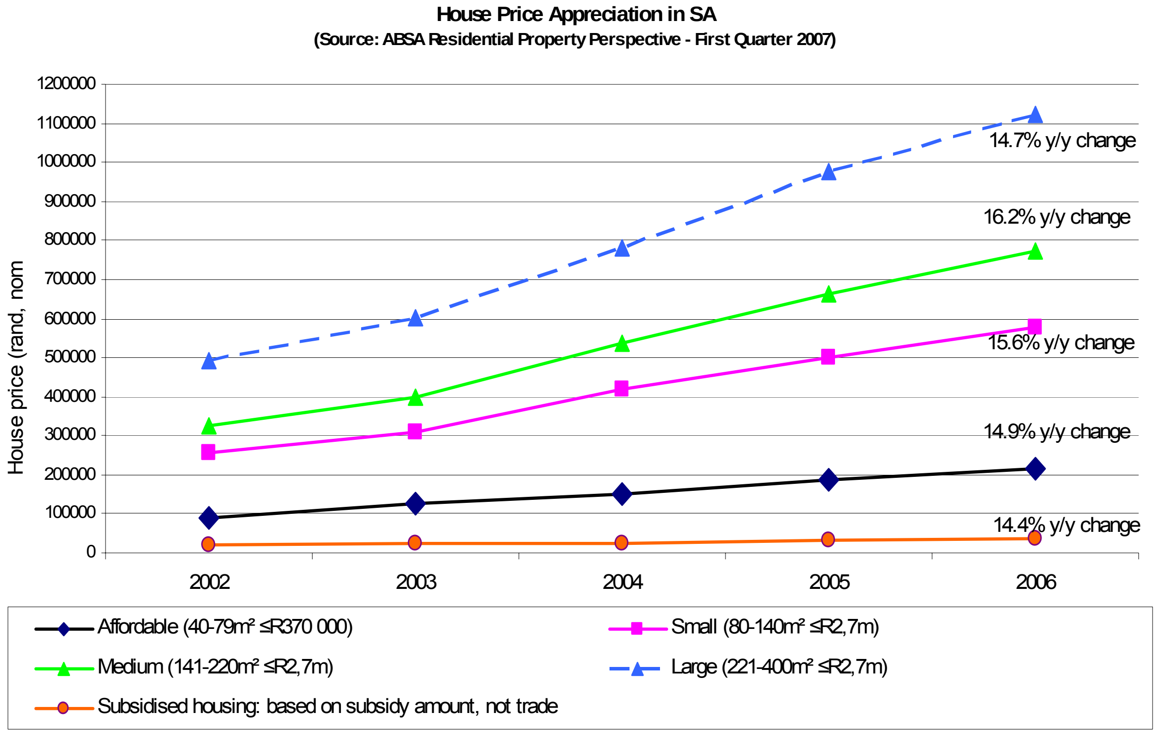
ABSA House Price Index figures between 1994 and 2006 show rapid increases from about 1999 both at the top end (houses between 80m²-400m²) and in the "affordable market" (houses between 40m² and 79m²). However, the split between the two (the missing middle) continues to grow more pronounced.

Average house price growth from 1999-March 2006 (Source: ABSA House Price Index)



Using more recent data and disaggregating what ABSA calls "middle class houses", the following picture emerges. At the bottom of the property asset pyramid are the government's housing subsidy beneficiaries. While there is little research on the tradable value of subsidized housing it is widely understood that there has been substantial depreciation in formal sales. So, as the upper end of the market creeps away from the 'affordable' market, so too does the 'affordable' market creep away from the subsidized housing market. As a result of current property market dynamics and constrained affordability, South Africa's housing markets continue to be segregated.

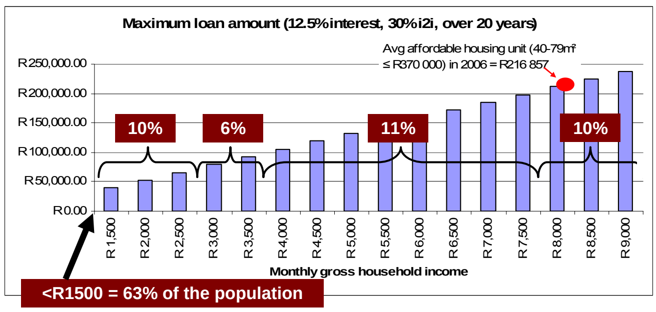
[3] The section was drafted in July 2007 and includes figures from the first quarter of 2007. The presentation, however, has more up to date figures.



Declining affordability

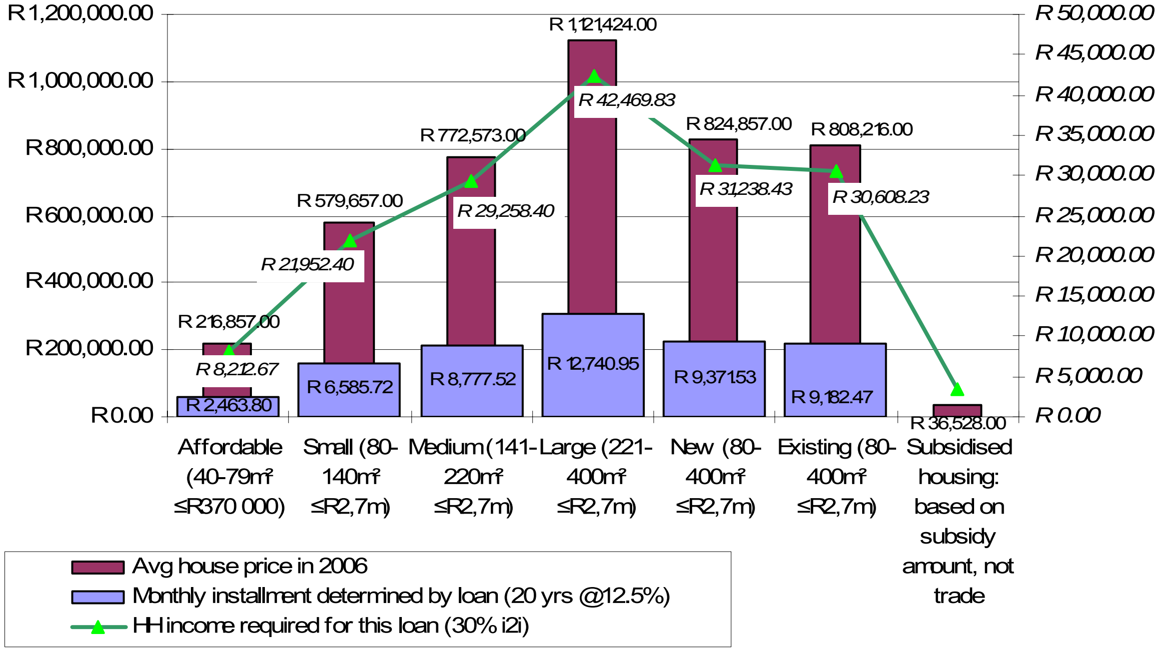
The consequences of this are vast. Families living in RDP houses are unlikely to ever climb the housing ladder into better housing because they won't be able to afford to make the jump. In fact, at current interest rates, only the very highest income households within the FSC target market (in 2006, a household income of R1700 – R8600, adjusted annually by CPIX) will be able to afford the average "affordable" house as defined by the ABSA Residential Property Perspective. Less than 10% of all South African households can afford the average "affordable" house today.

This means quite simply that households will stay where they are – in their RDP (now BNG), Protea North, Mamelodi, Langa, etc. homes – unable to sell their property and move up the ladder to the next affordable house. When they don't sell their home, they decrease the supply of homes available for sale and the market becomes locked. In this context, the financial value of the housing 'asset' is nothing but a fictional aspiration.



This situation has consequences irrespective of whether a household owns their accommodation. As the Township Property Market research[4] found, the investment potential of housing that is being realised at the top end of the property market is not being realised at the bottom end. So, when low-moderate income people invest in their housing, improving fittings, extending, and so on, they cannot rely on realizing a return on this investment at some later point of sale. Consequently, the incentive to invest in quality improvements in that market is diminished. This undermines the potential for neighbourhood gentrification and further reinforces the split between rich and poor. The constraints to selling and buying within this segment of the market also undermine household mobility and access to higher priced markets – more broadly undermining South Africa's expectations for integrated communities and the intention for broad-based black economic empowerment.

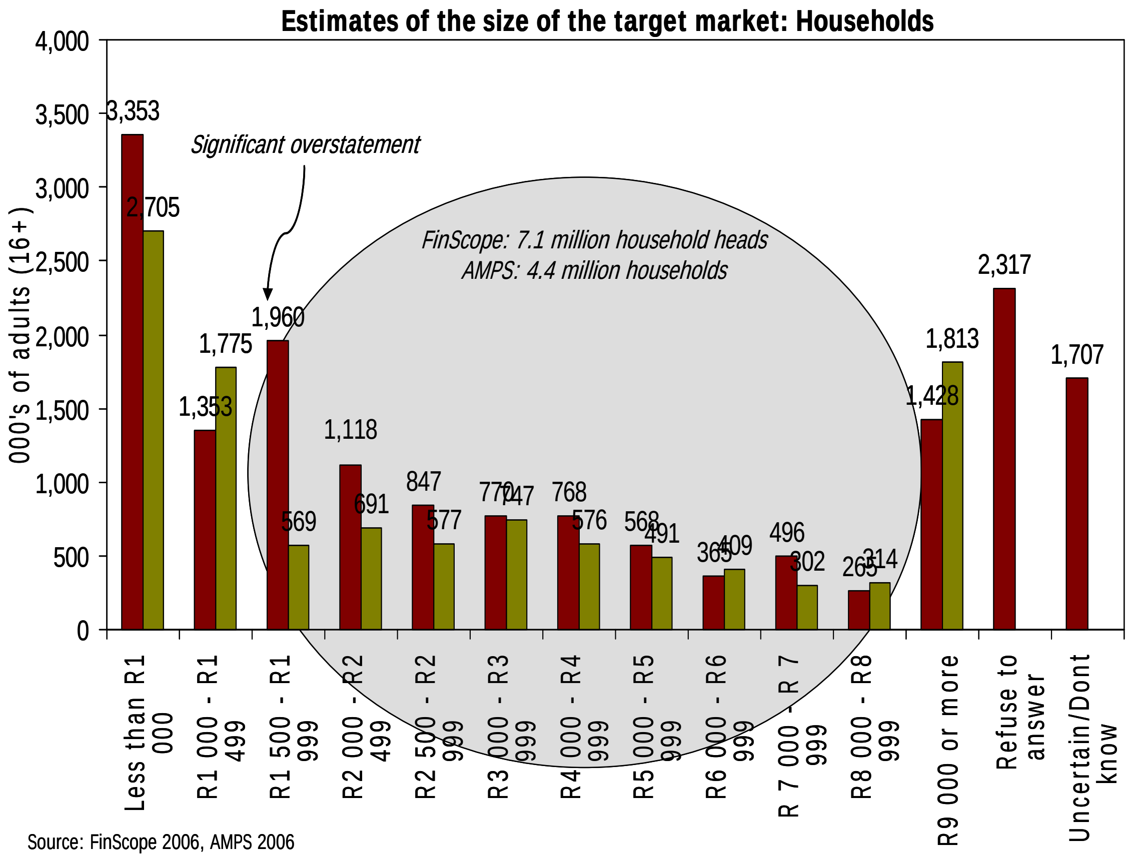
[4] Go to FinMark Trust's website for all the reports of this 2004 study into the workings of township residential property markets. http://www.finmarktrust.org.za/themes/trpm/trpm.asp



For households who are not yet housed, the situation is even worse. If the household earns less than R3500, they are likely to qualify for a subsidy. However, it is also likely that they will wait many years to realise this benefit. Subsidy-eligible households *can* afford finance – whether unsecured or mortgage, they can afford to repay loans up to a value of about R100 000 for the highest earners in the subsidy-eligible income range. The subsidy promise on the one hand, and the lack of stock available at the price they can afford to finance on the other, however, diminishes their incentive to invest in housing, keeping them longer on the housing waiting list, living in informal settlements, backyard shacks and overcrowded rooms, as they shift their investment priorities elsewhere. Households earning within the FSC target market also struggle with housing affordability: as already noted, the average cost of an 'affordable' house by ABSA's definition is only an option for those earning over R8000 per month. The Financial Dairies study[5] published in 2004, found even households earning upwards of R7 000 (who should be able to afford a mortgage loan of about R175 000) living in informal settlements.

The FSC target market accounts for a sizeable proportion of the population – within this, however, only about 300 000 households earn between R8000-R8900, thereby able to afford the average 'affordable' house. The remaining households in the FSC target market cannot afford an entire, commercially built house at current prices. This means that **within South Africa's population of about 12.7 million households, only about two million[6] can afford to participate freely and comfortably to the extent of their needs in the housing market.**[7]

[5] See the Financial Diaries website: www.financialdiaries.com
[6] Those earning more than R8000 per month.
[7] Of course the story is more complicated: many of these households may have equity in existing housing which they could mobilise in the purchase of new housing, thereby enhancing their affordability. And yet, an analysis of housing quality also shows that at least 1,5m homes owned by 4 million households in the FSC target market are inadequate in one way or another, thereby limiting their equity potential.



Source: FinScope 2006, AMPS 2006
Note: Category for AMPS is R1 000 – R1 599 and R1 600 – R1 999
Estimate for FinScope based on household heads

Contributing factors: land and building materials

The Banking Association suggests that this has to do with a number of factors, not least of which is the rising cost of land and building materials. Between December 2003 and June 2006, the cost of a stand doubled; the cost of the top structure increased by about 20%. In both cases, these increases have been greater than inflation, bringing the cost of a new house now just outside the affordability of the FSC target market. While the costs of second hand affordable homes still sit within the FSC target market's affordability, the lack of supply of other affordable housing into which existing homeowners might move has reduced the supply of resale stock quite considerably.

Prices of affordable (40-79m²) houses – ABSA House price index, Rode Report 2004 & 2005, Building Cost Report 2006

Product	Dec 2003	Dec 2004	Dec 2005	June 2006
Stand	R46,000	R57,000	R80,000	R93,000
Top structure	R86,500	R93,000	R99,000	R102,600
New house (total)	R132,500	R150,000	R179,000	R195,600
2nd hand house	R102,500	R122,600	R140,900	R151,500
Prime interest rate	11.5%	11.0%	10.5%	11.0

One response to these challenges has been a gradual acceptance of incremental housing processes in which households finance their housing step by step. Unaudited figures from the Banking Association for FSC target market housing loans origination to March 2007 (see FSC update) illustrate that unsecured housing micro loans are more popular than mortgages by number.

However, because the housing subsidy is the primary way to access affordable land for housing, few households earning more than the R3500 monthly income can follow this route.

The problems that South Africa is facing in terms of housing affordability are not unique. In a paper released this year by the Fannie Mae Foundation in the United States, Caplin et al (2007) argue that in the United States *"…rising house prices have left many new entrants to the housing market with sharp, and steadily worsening affordability problems. If house prices continue to rise even at a* *moderate rate, the affordability equation will work ever more powerfully against renters, who will be unable to participate in this appreciation."* They conclude *"it is hard to see what will propel further increases in homeownership absent some thoroughgoing change in the structure of housing finance."*

Limited residential opportunities: gaps in the housing ladder

The data both in terms of housing supply and housing affordability suggests increasingly limited residential opportunities across South Africa, and that the housing backlog is not only limited to the subsidised market. Large segments of the housing ladder remain un-supplied, while increasingly many of the more affluent markets are reaching the limits of household affordability as households are forced to compete for limited supply. In addition, the so-called 'credit gap' seems to be widening, even in the face of apparently better access to credit, due to the inability to convert financial affordability into effective demand due to the lack of affordable accommodation options to purchase. Notably, the benefits of house price appreciation (as much of the press coverage has noted) are significantly uneven across suburbs – largely demarcated in terms of race and income.

The current supply of housing opportunities by both the public and private sectors across the entire housing market is nowhere near adequate to meet current demand and annual household growth. More critically, the housing that is currently available does not, and is unlikely to in the near future, support the affordability thresholds of many of the identified sub-markets.

Fitting it all together: why the housing asset is important

In his seminal work, The Mystery of Capital, Peruvian economist Hernando de Soto sought to shed light on the nature of poverty:

"Poor people save… but they hold these resources in defective forms: houses built on land whose ownership rights are not adequately recorded and unincorporated businesses with undefined liability… Because the rights to these possessions are not adequately documented, these assets cannot readily be turned into capital, cannot be traded outside of narrow, local circles where people know and trust each other, cannot be used as collateral for a loan, and cannot be used as a share against an investment." (Mystery of Capital, 2000:6)

This statement is based on an acceptance of the reality of a housing 'ladder' for households. The housing ladder assumes that a house grows in value over time through the normal appreciation of the property market. As the owner continues to pay their loan, their equity (the value of the house less the loan amount outstanding) in the asset increases. This means that when they sell their house, they will realise a profit from the sale that they can then use to fund a more expensive house that better suits their needs. This process can continue for the entire life of the homeowner, so that by the time they retire, seeking finally a smaller or simpler home, they can use the equity realised from the sale of their last home to fund their retirement.

In the case of South Africa's subsidised housing programme, the ladder is envisioned as follows: the title deed given on receipt of the subsidised unit gives them a housing asset that can be improved upon and sold. This will lead to access to mortgage finance for their next house, which will give them access to progressively better houses as they climb the housing ladder, thereby maximizing the value of their housing asset. The collateral value of the housing asset will also make it possible for the subsidy beneficiary to access business finance, and this (through a longer process of course) will lead to wealth.

One of the key factors undermining South Africa's affordable housing programme has been a failure to acknowledge the fundamental linkage of low income housing with upper income housing, in the 'housing ladder'. Simply put: among the realm of financial pressures they find themselves under, subsidy beneficiaries have little incentive to invest in their housing, and thereby improve it, if that housing is worth little more than the shelter it provides. And if subsidy beneficiaries don't invest in their housing, neighbourhoods of subsidized properties deteriorate while their residents rather prioritise investments in schooling, food, medical care, even white goods such as refrigerators, hi-fi systems, and so on. And finally, if neighbourhoods deteriorate, the government's investment of R25 000 or R30 000 or R32 000[8] in the housing of each beneficiary becomes stagnant – and housing becomes a consumptive good rather than a productive good.

In 2003 and 2004, the FinMark Trust, together with the Ford Foundation, SA National Treasury, National Housing Finance Corporation and the then Micro Finance Regulatory Council (now the National Credit Regulator), and USAID, undertook a study into the workings of township residential property markets (TRPM).[9] The focus of the research was to investigate performance of township residential property, with a view to interrogate the de Soto thesis: do title deeds necessarily create wealth? The short answer provided by the study (which is extensively documented in a series of reports available on the FinMark Trust's website) was "no". Notwithstanding having title deeds in hand, residents in South Africa's former black townships were finding that their properties were not the financial asset that policy hoped they would be, that the market was significantly depressed compared with other non-township areas, and that values being realised were significantly less than would be for the same house elsewhere.

Critically, the de Soto thesis depends on (at least) four factors additional to title deeds which are not uniformly evident in the South African housing market, and which are largely absent in the low income housing market:

- A functioning secondary property market: The TRPM study found a dysfunctional property market in South African townships with limited churn and depressed property values. Home owners are unable to realise the asset value of their housing because there isn't an effective market in which to trade.
- Sufficient, affordable housing stock for the target market. The shortage in the 'affordable' housing market of housing units costing less than R200 000 has been well documented. The Housing Supply and Functioning Markets research commissioned by the Banking Association estimates a shortage of over 600 000 affordable housing units. Only 17 339 units costing less than R200 000 were delivered in 2005.
- Housing affordability for mortgage finance. About 86% of South African households cannot afford the mortgage repayments that a R200 000 loan would require.
- Mortgage lenders willing to go down market: Notwithstanding the Financial Sector Charter, through which lenders have committed to provide housing finance to low income earners, a review of lending by the FinMark Trust determined that 53% of households in the FSC target market are ineligible for mortgage finance and a further 20% are too poor. Currently, only 5% of FSC target market households have a mortgage, and only a further 20% would be eligible if they were to apply.

Hernando de Soto's views have limited application if the market isn't working. This is simply because the financial value of housing is only relevant if it is realisable. And yet, the notion of a housing "asset" is compelling. Clearly it requires a broader interpretation.

The notion of the housing asset

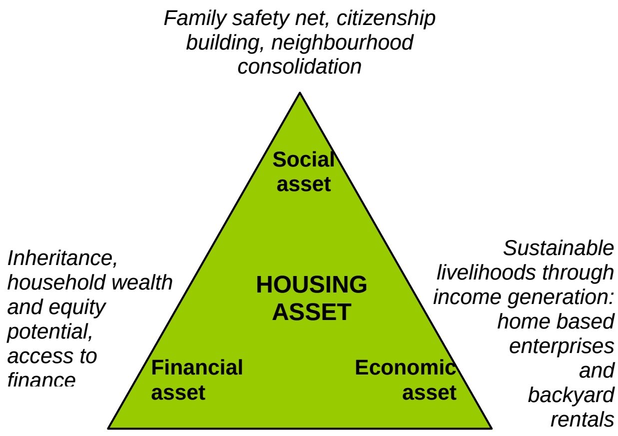
The government's housing strategy, "Breaking New Ground" introduces the notion of housing as an asset and includes it as part of the new housing vision: "*Ensuring property can be accessed by all as an asset for wealth creation and empowerment*." The BNG strategy notes that "*In Towards a 10 year Review, poverty is understood to involve three critical dimensions: income, human capital (services and opportunity) and assets. A composite analysis of indicators in these three categories assists in compiling a broad picture of the experience of poverty in terms of deprivation of basic needs and the vulnerability, powerlessness and experience of exclusion which accompanies lived*

[8] The total investment in housing by the state is in fact much higher. In addition to the R32 000 basic subsidy, 15% is added to cover land costs, and further investment is made in terms of the Municipal Infrastructure Grant (MIP). In addition, new settlements are also often subsidized in terms of their ongoing operating costs, the professional fees involved, electricity connection, the social package which includes water and electricity, and so on. If all of this is situated w here it cannot be maximized, where the household cannot use it to improve their housing, it's wider purpose is undermined.

[9] The Workings of Township Residential Property Markets. Reports available on www.finmark.org.za

poverty[10]. Housing primarily contributes towards the alleviation of asset poverty. This contribution is to be strengthened in the new human settlements plan through supporting the development of sustainable human settlements and the development of housing assets."

The nature of this housing asset is not mono-dimensional, however. There are three components to the housing asset: the social asset, the financial asset, and the economic or productive asset.



The *social asset* has been the focus of government since the introduction of the housing subsidy programme in 1994. As a social asset, a dwelling provides the household with a family safety net and a sense of citizenship or belonging in the city. In the provision of subsidised housing, the City is providing a valuable social asset that will enhance households in their efforts to sustain themselves and to grow, thereby reducing their vulnerability.

The *financial asset* becomes important when the household wishes to improve their housing conditions and climb the housing ladder, selling their current home and then buying a better home, more suited to their needs. This is the emphasis of the Breaking New Ground reference to "asset". The more the household can sell their original home for (and this is a factor of current property market conditions, the quality of their home and the neighbourhood, and the existence of a buyer with affordability), the more they can afford to buy the next home for. Households wishing to downsize their housing can buy a less expensive house and treat the balance equity as income. Housing can also be leveraged to access finance for other purposes, such as the establishment of a business or to pay university fees. In this, the financial asset offers households an opportunity to move out of their current situation into one of greater wealth and growth. However, as noted earlier, the performance of the house as a financial asset depends upon a functioning secondary (resale) property market, and solid linkages between the primary and secondary property markets. It also depends on municipal management (services, utilities and so on) that make an area "investment grade" and contribute to property price appreciation. In the absence of a functioning market, de Soto suggests that property becomes "dead capital". It is estimated that there is at least R68,3 billion of "dead capital" in South Africa's former black townships.

But is the housing asset really dead? This is where the third corner of the triangle comes in. The *economic asset* is about the income earning potential of the house and the extent to which it can contribute towards sustainable livelihoods. In the context of high unemployment, income that can be earned from housing, either through the establishment of home based enterprises or the offering of accommodation for rent, becomes extremely important. However, in many instances the quality of the structure supporting the income earning opportunity is poor. This suggests an opportunity for investment in the improvement of the structures concerned (and therefore an opportunity for incremental, non-mortgage housing finance).

To explore these issues further, the FinMark Trust, together with Nedbank, the Social Housing Foundation and the national Department of Housing, initiated a study in 2005 into the activities of small scale landlords and home based enterprises in the inner cities and townships in Gauteng.[11]

[10] Asset poverty arises out of inadequate access to assets by individuals, households and communities, including inadequate shelter (which finds expression in badly located, low quality and overcrowded dwellings), the inadequate provision of appropriate infrastructure and the inadequate provision of basic services such as health, safety, emergency services, educational and day-care facilities.
[11] The study was carried out in Gauteng in 2005 and 2006, by Shisaka Development Management Services. The research team conducted interviews and focus groups with small scale landlords and their tenants in two inner city areas (Hillbrow and Berea in Johannesburg, and Sunnyside and Pretoria Central in Tshwane) and two townships (Katlehong and Orlando East) in Gauteng. For more information, visit www.finmark.org.za

The study found that housing provides a critical platform for residents to become entrepreneurs, either as small scale landlords or home based enterprises, earning an income and building their asset wealth while also supplying and managing much needed affordable rental accommodation for other low income households.

Specifically the research found:

Small scale landlords	Home based enterprises
▪ **Small scale landlords are delivering at scale.** Across South Africa, they offer between at least as much accommodation than what has been delivered by the national housing subsidy scheme since 1994. An estimated 1.85 million households (or 15% of South African households) rent accommodation provided by small scale landlords. Sixty percent of this (1.1 million households) is provided on the property of the landlord, in either formal or informal backyard dwellings.[12] ▪ **Small scale landlords are offering well located, affordable rental housing for low income people.** The average income of their tenants is only R1800 per month. This is much lower than the income levels targeted by the government's state subsidised social housing programme (generally R2500 - R7500 per month), which as of December 2005 had only delivered 34 208 social (rental) housing units.	▪ **Home based enterprises are significant contributors to local economies.** An estimated 355 000 HBEs are active in townships and inner cities across South Africa, comprising about 13% of the total population of these areas, and generating approximately R476 million per month. By definition, they operate in residential areas, enhancing access to services and products by low income households throughout South Africa and contributing to the development of sustainable human settlements. While most of these businesses can be classified as micro or small, for many of the entrepreneurs who own them, they represent their sole income. ▪ **The home is an important asset for entrepreneurs.** Most of the entrepreneurs identified in the survey (70%) operate from the home. This is higher in township areas (83- 89%) than in inner city areas (39 -63%). The house has an important impact on reducing the costs of entrepreneurial activity and is therefore a useful incubator in the initial phases of the business. Few entrepreneurs (6-7%) however, use their home as collateral for a business loan.
▪ **Small scale landlords are small scale enterprises and are earning an income.** It is estimated that the sector is currently generating a rental income of approximately R421 million per month, or just over R5 billion annually. The majority of landlords are otherwise unemployed. In the townships, many are elderly women with little or no other income. ▪ **There is potential for growth.** Demand for stock is high and over 62% landlords in both inner cities and townships said that it was easy to find tenants. Township landlords report that vacancy is effectively zero. However, this potential for growth is not being realised. The overall rental sector decreased from 31% of the total housing sector in 1999 to 27% in 2005.	▪ **Many HBEs are entrepreneurial.** Over one third (33%) of HBEs in Inner Cities and just under half (42%) in Townships show entrepreneurial characteristics, having been the first to undertake the business in their area. Only one third (32-33%) of HBEs surveyed in both Inner Cities and Townships said they would take permanent employment if it was offered to them. ▪ **There is potential for growth**: The majority of HBEs in the Townships (90%) and Inner Cities (95%) want to expand. Many (about 55%) feel that their businesses are growing. Given the low prevalence levels (only 13-22% of the population in the neighbourhoods surveyed were found to operate as entrepreneurs – lower than most other countries), but significant income generated, this suggests that HBEs represent an untapped opportunity for unemployed South Africans.

Housing entrepreneurs operate at the nexus of housing and local economic development strategies. Whether as small scale landlords, incubators for growing SMMEs, or as survivalist

[12] Just under one third of all South Africans (3.5 million) households live in rental accommodation. Of this, 57% rent their accommodation from small scale landlords – about 60% of this (comprising 1.1 million households) is formal accommodation, while 40% (about 740 000 households) is informal.

ventures for the unemployed, that are making an important contribution to our economy. Housing entrepreneurs are clearly developing sustainable livelihoods by using their house as an economically productive asset. The research found that this grassroots effort at poverty alleviation should be adopted and supported by national, provincial and local policy.[13]

A broader application of the housing asset

If housing policy wishes to promote the notion of the housing asset, and if the housing asset that is being delivered neither realises the financial wealth expectations of policy makers nor subsidy beneficiaries, some other approach must be found. The answer lies in understanding housing as an economic asset – something that can assist households realise sustainable livelihoods by offering opportunities for income generation. As households seek to enhance the performance of their home so that its income earning potential is maximized (building additional rooms, improving fittings, etc.) they are also improving its overall value. When the secondary property market does begin to churn, the financial asset value of their property will also be enhanced.

De Soto's thesis, his so-called mystery of capital, implies that housing becomes mortgageable and that home owners seek to collateralize their homes in order to access finance. This is premature for a number of reasons. First, it requires a level of affordability that is limited to at most, 14% of the population. Second, it expects that home owners will want to take the risk of losing their home by offering it as collateral: an unreasonable expectation given the relative volatility of the economy and labour market in South Africa. And third, it requires a thick property sector with ample buyers and sellers to enhance choice and opportunity. Numerous studies regarding the housing sector in South Africa have proven that this currently does not exist.

Rather, a more appropriate approach would be to support incremental forms of finance – housing micro loans – which can be structured to meet the affordability of particular clients and which better suit the home improvements process of home owners. Critically, micro lending should seek to support the development of income-earning activities within the home, both to improve the borrower's loan repayment capacity as well as to enhance their potential to realise a sustainable livelihood.

[13] The research has identified a range of policy interventions which could stimulate the growth of home based enterprises in South Africa, contributing to the development of sustainable human settlements and thriving local economies. Areas for further research have been identified and discussions are underway with various organizations to carry the work forward. For access to the full reports from each of the phases, go to http://www.finmark.org.za, click on "Themes" and then on "Housing Finance", or contact kecia@iafrica.com for more information.

If the entirely of the housing asset is realised and supported in policy terms – if the housing unit's performance as a social, economic, and then financial asset are equally promoted – housing can indeed alleviate poverty. This requires recognition and support of the home-based SME sector, settlement planning to accommodate small scale business activity in residential neighbourhoods, and the promotion of backyard rental, as illustrated above. South Africa's real housing challenge is this: allowing low income households to use the homes flexibly to provide shelter, income generation opportunities, and wealth over time. While this is more than de Soto proposed with his Mystery of Capital exposition, it is the very least we should expect from our housing policy.

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