

**TOWARDS INNOVATIVE APPROACHES FOR AFFORDABLE HOUSING IN
THE GAP MARKET**

A Case study of Khayelitsha Township in Cape Town, South Africa

By

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February 2015

A Thesis Presented To

The Graduate School of Business of the

University of Cape Town in partial fulfillment

of the requirements for the degree of

Master of Philosophy in Inclusive Innovation

Supervised by: Dr. Steven Nabieu Rogers

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Dedication

I dedicate this work to my family and friends for their constant emotional support, inspiration and encouragement throughout this Master's program.

Acknowledgements

I have many people to thank for being there with me as I pursued this MPhil program. My parents, who provided me with constant emotional and financial support and inspired me to pursue excellence throughout my studies, Mambo, my fiancé, who backed me up 110%, believed in me and whose positive demeanor was a source of strength whenever I needed that extra push. I thank Cynthia, my thinking ‘buddy’, who was always ready and willing to listen to my ideas and engage with them and Wangechi, who listened and cared. To them all I say thank you. Special recognition goes to the Bertha Centre for Social Innovation and Entrepreneurship for providing me with a scholarship to pursue this master’s program. They believed in me and gave me the necessary support to realize my goals. I will forever be grateful for the opportunity they gave me. Finally, I would wish to thank my supervisor for his continuous support throughout this research journey. My research work is greatly indebted to him. His enthusiasm, insight and feedback enabled me to meet the research deadlines and requirements.

Abstract

Post-apartheid South Africa has been criticized for failing to satisfactorily achieve its election promise of redistribution and poverty alleviation. While success has been noted in the provision of affordable housing and subsequently home ownership for lower income households, housing demand continue to far outstrip delivery capacity. Those excluded from homeownership include key public sector workers and laborers who face common, but divergent constraints. They are either too rich to qualify for housing subsidy, or too poor to afford homes in the prime market. They constitute the ‘*gap market*’. Utilizing qualitative data from in-depth semi-structured interviews conducted with banks, property developers, government and residents in Khayelitsha (a state-subsidized housing settlement in the city of Cape Town), this thesis sought to understand the current challenges faced by the housing market in addressing the needs of the gap market in Cape Town, South Africa. The research identifies the major impediments to meeting the current housing demand in urban South Africa and points to new policy directions that could address the housing gap. Key findings indicate that the major obstacles to home ownership in the gap market include affordability constraints, over-indebtedness, poor credit ratings, and inadequate supply for this income bracket. While these obstacles show little indication of abating, this research’s findings and recommendations suggest new pathways for formulating new housing policies that address the housing backlog in the gap market. This also suggests that government policies are critical in developing a healthy and inclusive housing market.

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Acronyms

ANC	African National Congress
BNG	Breaking New Ground
CBO	Community Based Organizations
FLISP	Finance Linked Individual Subsidy Programme
IMIESA	Institute of Municipal Engineering of Southern Africa
NGO	Non Governmental Organization
R	South African Rand
RDP	Reconstruction and Development Programme
OECD	Organization for Economic Cooperation and Development
ZAR	South African Currency Abbreviation

Glossary of Terms

Adequate Housing	This includes the following; legal security of tenure, affordability, availability of services, habitability, accessibility, location and cultural acceptability(South African Human Rights Commission, n.d.).
Affordable Housing	Housing that costs under R 500, 000.
Backyard shack	Term unique to South Africa. Shelter (illegal according to the government) occupied in the backyard of one household that is rented out to other households.
Gap Market	Term unique to South Africa. Refers to those earning too much to receive government subsidies and yet earning too little to afford a house in the private property market.
RDP Housing	Generally refers to government subsidized low income housing.
Township	Underdeveloped urban areas (typically on the outskirts of towns and cities) that were reserved for non-white communities during the apartheid era

CHAPTER 1: INTRODUCTION

1.1 Research Context

Since the end of Apartheid in South Africa, government policies have increasingly led to the formulation of programs that provide property titles to low-income households. This was done with the intention of providing the poor with assets as a definitive measure of financial success (Lemanski, 2011). The transformation of human settlements and spatial development in order to create conditions for more humane and environmentally sustainable living and working environments was a key component of the country's Reconstruction and Development Programme (RDP). Therefore, massive social housing programs, that would provide previously excluded populations (black South Africans) with newly built homes through a variety of channels were supposed to be the means of financial inclusion. But as with many post-apartheid financial 'inclusion' programs, these models have contributed to inequality and excluded a vast number of people, and as a result not met the intended target. Those excluded include key public sector workers and laborers who face common, but divergent constraints (either considered too rich to qualify for a housing subsidy, and yet too poor to afford newly built houses available in the market). This market is called the *gap market*.

This exploratory qualitative case study of Khayelitsha Township in Cape Town South Africa investigated the challenges faced by the current housing market in tailoring home ownership products for households earning between R 3,500 and R 15, 000 (US \$ 250 - \$1, 100) a month (the so called 'gap market').

1.2 Research Area and Problem Statement

Globally, the debate on the merits of home ownership and whether or not it is beneficial or detrimental to the housing market, individuals and the economy has spanned several decades. Home ownership and the independence that comes with owning one's own place is still considered an essential ingredient to a better quality of life and healthy economy. It remains a preferred mode of tenure and is one of the key focus areas in housing policies in many countries across the world. Its advantages are many and well documented; As literature demonstrates, home ownership serves as a conduit that provides ontological security, psychological stability, control, a sense of self sufficiency and self-esteem, improved health and well-being and price protection among other benefits (Dupuis & Thorns, 1998; Kleinhans & Elsinga, 2010a; W. M. Rohe, Zandt, & McCarthy, 2002).

Despite the celebrated wins of home ownership, this dream remains elusive for the majority of the lower income earners in developing countries (Sandhu, 2013; Opoku & Abdul-Muhmin, 2013). This is certainly the case in urban areas in South Africa.

South Africa is the heart and economic hub of the Southern African region; a country with a population of over 51 million and a housing backlog of 2.1 million units (Lebone, 2013). It is estimated that between 800 000 and 1.3 million households fall within the affordable housing segment, largely representing individuals or households earning less than R16 500 per month. The affordable segment of the population is 88.14% (IMIESA, 2013). Demand for affordable housing far outstrips supply. The housing sector in South

Africa is characterized by inadequate affordable and decent housing, low-level urban home ownership and expansive informal settlements. The number of households living in shacks increased by 26% in the period between 1996 and 2001 (Department of Human Settlements, 2004). Others have been forced to seek less expensive housing in areas far from their places of work. Those who live far from their places of work have longer commute times and also pay higher transport fares to go to and from work. Private sector involvement in the provision of housing has decreased over the years. Residential buildings constructed by the private sector dropped by 60% between 2003 and 2012, implying a mismatch between housing demand and supply since a thriving housing sector needs concerted efforts from both the private sector and government to boost efforts to increase housing and home ownership (Lebone, 2013).

Efforts to meet the significant demand for home ownership have been stymied by several factors including increased urbanization, shortage of affordable housing units, affordability issues, high construction costs, land unavailability and affordability, and high interest rates. There is also the issue of over indebtedness and bad credit ratings that create a very high barrier to entry into home ownership for many South Africans (Institute of Municipal Engineering of Southern Africa (IMIESA), 2013; Lebone, 2013).

In order to increase homeownership rates among low income households, the post-apartheid government in South Africa introduced a policy that linked the provision of housing subsidies to income (Department of Housing, 1995). Residents with monthly incomes of less than R 3,500 were eligible to obtain a freehold title to a newly built small

house. Up until 2004 there were no assistance programs tailored to support individuals that were earning too much to receive government subsidies and yet too little to afford a house in the private property market (IMIESA, 2013). The term “gap market” was coined by President Jacob Zuma in 2012 to refer to these individuals (Centre for Affordable Housing, 2012).

Meanwhile, the mortgage and housing construction market focused on targeting middle class and upper income groups. The theory behind this is called filtration. Filtration posits that as upper income households move to new housing units, they leave their previously occupied units vacant and subsequently available to individuals down the income ladder. This macroeconomic approach was not particularly successful as a majority of the lower income individuals were still unable to own homes. As such, this policy approach changed in 2012 when the government introduced a subsidy program for the gap market enabling them to be eligible for a one off capital contribution of between R8700 – R10 000 for a mortgage linked new house that costs under R 300,000. This acted as an incentive for developers who subsequently proceeded to build housing units for this previously overlooked group. More and more units were constructed for this demographic group especially those costing under R 500, 000 (US \$ 35, 700). These came to be referred to as “*affordable*” housing units.

Several other innovations came up across the country that supposedly facilitated the quest for home ownership among lower income households. One of these policies was the Financial Sector Charter, a five year policy that run from 2003, that aimed to provide

financial inclusion to previously unbanked people. As such, access to financial services increased over the country. More innovative microfinance products were tailored for lower income groups, unsecured lending rose, and so did mortgage finance to the gap market. Even though the time period for the charter lapsed, lenders have continued to lend to what they call the “affordable” market, defining this now to be households who earn less than R 15 000 (US \$1 800) (Centre for Affordable Housing, 2012).

Yet despite this scale delivery and innovations in the housing and financial market, there persists a massive housing backlog in the gap market. Increased demand and the rising rate of urbanization has served to increase the housing backlog (Department of Human Settlements, 2004). It is said that there are over 1.8 million dwellings that can be classified as inadequate (Department of Human Settlements, 2004). The Committee on Economic, Social and Cultural Rights (cited in the South African Human Rights Commission 3rd Economic and Social Rights Report, n.d. p. 249) elaborates the criteria used to define adequate housing to include the following; legal security of tenure, affordability, availability of services, habitability, accessibility, location and cultural acceptability. In addition, there has also been a decline in the production of affordable houses (Department of Human Settlements, 2004). As a result, the number of households living in shacks increased by 26% in the period between 1996 and 2001 (Department of Human Settlements, 2004).

It is reported that over 400, 000 (12%) of people earning between R 3, 500 and R 16, 500 are living in inadequate housing. About 500, 000 (16%) of them are living in

overcrowded spaces and approximately 350, 000 (11%) are living in informal settlements (Centre for Affordable Housing Finance in Africa, 2009). Most government employees are in this income bracket. This situation begs the question of why, despite the innovations in the market, the gap is exponentially increasing in this housing bracket. It is sound to assume that these people would want to participate in the housing market and own affordable homes yet only about 32% of individuals earning between R 3, 500 and R 16, 500 are adequately housed in owner occupancy tenure (Centre for Affordable Housing Finance in Africa, 2009). The others rent, live in informal settlements, inadequate housing or in overcrowded spaces. There is clearly a consistent undersupply of affordable housing for this demographic group.

The state of affairs explained above begs the question why aren't banks and developers building affordable products suitable for this target market? The gap markets commands a significant size of the market – 20% –and is now beginning to be seen as the fastest growing market in terms of volume and value (IMIESA, 2013). Yet, housing delivery is clearly not achieving the levels of scale required to support the population (Centre for Affordable Housing, 2012). Within this context, this exploratory research looks at both the demand and supply of housing within the context of the gap market in Khayelitsha Township in Cape Town, South Africa.

Khayelitsha, the largest township in Cape Town, has long been the recipient of nongovernmental organization and government support but has largely been ignored by the market because of the perception that people living there are “poor”. Sections of the

township population may be very interested in participating in the formal housing market if there are enabling circumstances (Shisaka Development Management Services (SDMS), 2003). Khayelitsha has a population of about 100, 000 individuals, 25% of who earn between R 3,500 – R 15, 000 a month yet half of the population living there stays in shacks (Affordable Land & Housing Data Centre, 2014; Information and Knowledge Management Department, 2005). These individuals aspire to home ownership just like upper income individuals. However, due to certain constraints they are unable to actualize their dreams of home ownership. This situation is a representative case of the housing constraints in South Africa where demand for housing far outstrips supply and people earning what would appear to be a decent income are locked out of home ownership. This study therefore aims to investigate the challenges that selected developers, banks and the government face in tailoring mortgage instruments for households in the gap market. The study confines the definition of the gap market to refer to those people or households that earn an income that exceeds the threshold for government-subsidized housing, but is also beneath the minimum required to qualify for a mortgage loan (households earning between R 3 500 and R 15 000) (Lebone, 2013).

1.3 Purpose of the study

Despite the increased supply of “affordable” housing units, housing subsidies and financial products targeting lower income households, there persists a constant undersupply of housing. The thrust of this paper therefore seeks to understand the mismatch between the growing demand and supply capability for gap market housing in

Cape Town, South Africa. Few academic studies have focused on the constraints that suppliers face in providing mortgaged housing for the gap market in Cape Town, South Africa and yet these constraints continue to inhibit the ability of the market to sufficiently meet the housing needs of their target (gap) market. This study is different in that it focuses on the constraints that households in Khayelitsha (Cape Town's largest informal settlement) face in trying to realize home ownership. A significant number (25%) of households living in Khayelitsha earn a decent income of between R 3,500 – R 15, 000 a month yet half of the population living in that area stays in shacks (Affordable Land & Housing Data Centre, 2014; Information and Knowledge Management Department, 2005). This study explored why this is the case. This study also investigated the gaps in service delivery in meeting the demand for home ownership in the gap market in Cape Town and sought to provide recommendations to fill these gaps. It is unlikely that there is a silver bullet product or solution that will solve the housing crisis in South Africa but rather it is a bespoke package of interventions based on an understanding of the needs of the market in terms of the constraints to their operating efficiently and effectively within a particular context. This study seeks to provide a better understanding of the gap market and subsequently point to new policy directions that could address the housing gap in South Africa.

1.4 Significance of the study

One intention of this research was to build upon academic knowledge on challenges faced by service providers in facilitating home ownership for households in the gap market in Cape Town. This research focuses on the extent to which markets enable the provision of housing and the gaps therein. Based on the theoretical constructs developed and findings from the research study, the researcher provides recommendations that the government and other stakeholders can adopt to enhance the effective development of the gap housing market in South Africa. The stakeholders in the housing industry need a better understanding of the so called ‘gap market’ if they are to adequately meet the housing needs of this particular income group. It is acknowledged that there are many aspects to the housing market, but we also do recognize that any gaps in service delivery must be addressed if the market is to provide adequate housing. The focus on home ownership is based on the fact that ownership not only brings with it improved welfare and social cohesion, but also serves as an important facilitator of opportunities for wealth creation and asset accumulation (Viruly, 2013). Gap market housing, which usually range in size from 40m² - 80m² constitute the highest price appreciation in the housing market at an annual nominal growth of 17.5% and therefore provide ample opportunities for wealth creation (Jacques du Toit, 2013). This thesis will therefore be useful to academicians and practitioners in serving as a basis for them to begin to understand the constraints the gap market face in trying to actualize home ownership. It will also enable practitioners to tailor financial products that take the needs of the gap market in

consideration. Essentially, this research will facilitate the human centered design of products facilitating home ownership for the gap market in South Africa.

The findings from the research will also be relevant to research institutions as it extends their argument that service providers still need to move downstream to serve lower middle-income households and provide housing where demand is highest and supply least.

The findings from this study shall also be relevant to government and policy makers as it will help them identify gaps in service delivery in the housing market that they can address in order to adequately and effectively close the housing gap and meet the housing needs of the gap market.

This study is grounded on the work by Prahalad. While Prahalad refers to the very bottom of the pyramid in his research, this paper draws from his pontification that lower income groups have addressable and serviceable needs and represent a viable market opportunity that private organizations can tap into to make significant profits and eradicate poverty (Prahalad, 2005). The gap market in this case presents itself as a viable and distinct market that mortgage providers and developers can target to grow their businesses. To tap into the needs of households in the gap market, service providers would first need to understand the challenges this target group face while trying to own homes in order to create innovations that are viable, desirable and feasible. This study is therefore relevant to the stakeholders involved in the home ownership market in South Africa i.e. mortgage providers, architects, city planners, developers, government, developers etc. for the

practical development of more inclusive, affordable, sustainable and innovative home ownership business models.

1.5 Objective of the Study

The objective of this study is to understand the current challenges faced by the housing market (developers, banks, and the government) in addressing the needs of the gap market in Cape Town, South Africa. In order to achieve this objective, it is necessary to achieve the following critical success factors;

- i. Evaluate whether a market for the originally conceptualized “gap market” income bracket exists;
- ii. Identify what partnerships are in place to facilitate housing for the gap market in Cape Town;
- iii. Identify the existing gap between the supply and the demand for home ownership products suitable to the gap market;
- iv. Determine how the existing gap between the supply and demand for home ownership products for the gap market can be filled;
- v. Assess the challenges faced by banks, developers and the government in designing mortgage instruments for the gap market;

1.6 Research Question and sub-questions

The overarching research questions addressed in this paper are, ‘What are the bottlenecks in the gap market housing industry in Cape Town and how can they be filled? In answering these overarching research questions the researcher looked at several sub-questions;

- i. What is considered as the “gap market” in Cape Town?
- ii. What are the challenges faced by banks, developers and the government in designing mortgage instruments for the gap market in Cape Town?
- iii. What partnerships are in place to facilitate housing for the gap market in Cape Town?
- iv. What are the gaps in service delivery in meeting the demand for home ownership products suitable to the gap market in Cape Town?
- v. How can the current gap between supply and demand for mortgage instruments in Cape Town be filled?

1.7 Assumptions of the study

This study is laced with several assumptions. The first is that there is a gap in terms of what banks, government and developers provide and what the gap market needs to facilitate home ownership. This assumption is based on the current 2.1 million housing backlog that exists in the country and the significant number of households in the gap market who live in inadequate housing conditions (Centre for Affordable Housing Finance in Africa, 2009).

A second assumption to this is that banks, developers and the government would be interested in filling whatever gaps may exist. Finally, other assumptions made are that the researcher will have enough respondents willing to participate in the study and that their responses will be truthful, accurate and significant to the broader gap market in South Africa (Leedy & Ormrod, 2012).

CHAPTER 2: LITERATURE REVIEW

2.1 Housing Context in South Africa

2.1.1 The Historical and Political Context of Housing in South Africa

Historically, housing in South Africa has been highly politicized with a long history of state interventionism, as is evidenced in the recent attempt by the post-apartheid state to emphasize liberalization and private-sector enablement (Huchzermeyer, 2001; Khan & Thurman, 2001). South Africa gained independence in 1994 with the African National Congress (ANC) party garnering a majority of the national votes. This electoral victory was however buttressed in a stream of contradictions (Pottie, 2003). Firstly, the ANC party had to form a government of national unity and consequently share power with its former colonialists. Secondly, as a result of the coalition government, the party did not have full control of the economy of the country (Pottie, 2003). Thirdly, the party had the difficult task of both establishing itself as a ruling party and also forming policies and building institutions (Pottie, 2003). Finally, the policies for economic growth and development that the government formed relied heavily on partnerships between civic societies, the coalition government, existing structures handed over from their colonialists, and the ANC's partners in its tripartite alliance – that is Congress of South African Trade Unions and the South African Communist Party (Huchzermeyer, 2001 ; Pottie, 2003). Each of these partners had a different view of what political freedom meant for South Africa (Pottie, 2003). Despite loud cries to have development agendas that

serve the needs of the majority, there have been inadequate formal frameworks put in place at the institutional level to realize these needs. In 1996 the country adopted the Growth, Employment and Redistribution Strategy (GEAR) but because of the political obligations in place, what was initially intended to be a participatory and community based approach to restructuring and reform turned out to restrict the involvement of civic societies in the process (Huchzermeyer, 2001; Lemanski, 2011; Pottie, 2003). The government's initial focus was on the provision of basic needs. Policies were formed to facilitate the realization of these development goals. A criticism of the approach the government used was that the policies formed were vague and open to various interpretations (Huchzermeyer, 2001 ; Pottie, 2003).

The newly elected government in 1994 prioritized the provision of housing in its Reconstruction and Development Programme (RDP). Significant efforts were made to facilitate housing by bridging the affordability gaps in the country. The government recognized every citizen's right to adequate housing and made a commitment that the state would assist citizens to realize this right on a progressive basis (Shisaka Development Management Services, 2011). Consequently, the government adopted a site and services approach whose aim was to provide shelter to the poor. Government agencies were tasked with supporting these schemes.

The RDP program described a minimum housing standard— not simply a serviced site — and proposed that the cost of such a housing option be borne through a government subsidy, blended with a loan from private sector resources (Tomlinson, 1998). As such,

the National Housing Subsidy Programme was launched in March 1994 and a target of one million houses in the first five years was set (Shisaka Development Management Services (SDMS), 2011). To meet this target, an annual delivery of 200, 000 units was needed, each at a cost of R 30, 000 (Tomlinson, 1998). The government agreed to provide a once-off capital subsidy to all households with a household income of not more than R 3, 500 per month (nearly 86% of South Africa's households) (Tomlinson, 1998) for a starter home (also known as an RDP house). The expectation was that beneficiaries would improve the starter homes incrementally over the years. The subsidy amounts ranged from R 5, 000 to R 15, 000 (US \$ 360 - \$1100) depending on the monthly income as depicted below.

Table1: Subsidy scheme levels according to monthly household income

Joint monthly income	Spouse income	% of population	Number of households	Subsidy
R 0 - 800		39.7%	3.30 million	15,000
R 801 - 1,500		29.0%	2.41 million	12,500
R 1,501 - 2,500		11.8%	0.98 million	9,500
R 2,501 - 3,500		5.6%	0.46 million	5,000
R >3,5001		13.9%	1.15 million	None

Source: Department of Human Settlements

A (negative) consequence of this state delivery approach to housing was that it created a culture of entitlement for a house amongst lower income households; something that was unrealistic and unsustainable. The government also faced incredible pressure to meet the housing needs of the rising urban populations as indicated by the data below;

South Africa's population was projected to be almost forty three million in 1995 and with an average growth rate of 2.27% per annum (Department of Housing, 1995). There was an estimated eight million households in 1995 with the average household size being five people (Department of Housing, 1995). It was estimated that over 28 million people

(66%) of South Africa's population was urbanized. This implied that approximately 15 million people (34% of the total population) resided in rural areas, many of whom spent part of their working lives in the urban areas (Department of Housing, 1995).

The urban housing backlog in 1995 was approximately 1.5 million units and resulted in the sprawling of informal settlements, overcrowding and insecurity in South Africa (Department of Housing, 1995). It was estimated that approximately 338, 000 housing units would need to be built annually to address the backlog (Department of Housing, 1995). Many people were unable to afford adequate housing on their own.

The 1994 housing policy also introduced other initiatives to enhance housing affordability for the masses. These include establishing the National Housing Finance Corporation (NHFC) and the Rural Housing Loan Fund (RHLF), wholesale financiers that continue to provide capital to non-bank housing lenders targeting low-income earners. As a result, South Africa has a small but growing housing microfinance industry (Centre for Affordable Housing, 2012). Several frameworks were also put in place to encourage formal financial institutions to lend credit for housing. An agreement was brokered between the government and the banks to provide 50,000 micro loans annually to lower income households. In addition, nine provincial housing boards were also created to advise provincial government on housing needs and policy. They also approved national (as agents of the National Housing Board) as well as provincial housing programmes (Department of Housing, 1995).

Accessibility to adequate housing was enshrined in the South Africa Constitution in 1996. The constitution mandated the government (within its available resources) to achieve the progressive realization of this right. The Committee on Economic, Social and Cultural Rights (cited in the South African Human Rights Commission 3rd Economic and Social Rights Report, n.d. p. 249) elaborates the criteria used to define adequate housing to include the following; legal security of tenure, affordability, availability of services, habitability, accessibility, location and cultural acceptability.

The Reconstruction and Development Programme has delivered an estimated 3 million housing units. Despite this achievement, there is still a persisting housing backlog that is estimated at 2.1 million units (Centre for Affordable Housing, 2012). There have also been concerns about the sustainability of the subsidy approach. The Housing White Paper of 1995 warned that constraints on the national fiscus would thwart delivery of housing to the poor. To eliminate the housing backlog at a cost of R 140, 000 per housing unit would cost over R 300 billion – a sum beyond the fiscal capacity of the country.

The Housing Act in 1997 (s 9) mandated that local municipalities ensure the accessibility of adequate housing and service delivery in each of their jurisdictions. They also became responsible for determining the housing needs in their municipalities and allocated plots of land to meet those housing needs.

In 2004, the Cabinet adopted the Breaking New Ground (BNG) strategy that aimed to promote an integrated society by developing sustainable human settlements and quality housing rather than simply providing subsidized units (Department of Human

Settlements, 2004). The BNG plan contains a subsidy system for different income groups for people earning below R7,500 per month and has several elements including rental housing, eradication of informal settlements and the provision of Reconstruction and Development Plan (RDP) houses (Department of Human Settlements, 2004).

These efforts notwithstanding, the widening affordability issue has presented a mammoth problem to policy makers in South Africa. The cheapest newly built house costs about R 250 000 (US\$ 30 000) and can be afforded by households with an income of about R 10 000 (Centre for Affordable Housing, 2012).

In 2012, a new Finance Linked Individual Subsidy Programme (FLISP) was introduced for the twenty per cent or so households earning between R3 501 and R15 000 (US\$500 – US\$1 810) per month (the gap market). This group earns too much to qualify for free RDP housing and is too poor to afford the mortgage loan in the open market. The subsidy is accessible only when linked with mortgage finance and offers beneficiaries a once off capital contribution of between R10 000 - R87 000 (US\$ 1 207 - US\$ 10 503), depending on household income (Lebone, 2013). Implementation has been very slow, however, and so the FLISP is not having the impact expected (Centre for Affordable Housing, 2012).

2.1.2 Financial Sector in South Africa

Despite South Africa having the second largest economy in Africa and being ranked by the World Bank as an “upper middle income economy”, there is still a persistent housing deficit and only about 15% of the population can afford a mortgage to buy the cheapest

newly built house in the market (Centre for Affordable Housing, 2012). Poverty levels and inequality levels continue to bear a racial undertone (Leibbrandt, Woolard, Finn, & Argent, 2010). This affects the economic indicators of the country.

Table 2: Selected Lagging Economic Indicators

	2009	2010	2011	2012	2013
Annual GDP growth	-2%	3%	4%	2%	2%
Unemployment Rate	23.9%	24.9%	24.9%	25.1%	24.3%
GNI per capita (\$)	10, 850	11, 200	11, 640	11, 970	12, 240
Consumer Price Index	23.9	24.9	24.9	25.1	24.3
Household Saving ratio	-0.7	-0.3	-0.1	0.0	0.1

Source: Statistics South Africa, World Bank Indicators and Organization for Economic Cooperation and Development (OECD) Estimates

South Africa has a strong stock exchange market, the biggest in Africa. The strongest contributors to the economy are the manufacturing and services industry. Despite this, unemployment has been unequivocally high throughout the years. Inequality remains high as was evidenced by the Gini co-efficient of 0.631 in 2010 (OECD, 2013). The country has been in the lime light in the recent past with some mining workers striking over the meager earnings that they receive. This highlights the economic disparities in the country.

South Africa has a strong banking industry that is regulated by the South Africa Reserve Bank. The dominant banks in the market are Absa, Standard Bank, First National Bank, and Nedbank. The rate of financial inclusion (both formal and informal) is significantly high at 81% and 67% of the adult population is banked (Finmark Trust, 2012). The

introduction of the new South African Social Security Agency social welfare system has increased the rate of financial inclusion since social grants are paid into an individual's bank account. Women have moved into the banking system faster than men as a result of the grant system (Finmark Trust, 2012). The levels of financial inclusion are however lower among historically disadvantaged individuals with 56% of them being formally served and forty nine per cent of them banked (Finmark Trust, 2012). Income is the largest obstacle prohibiting historically disadvantaged individuals from using financial products and services.

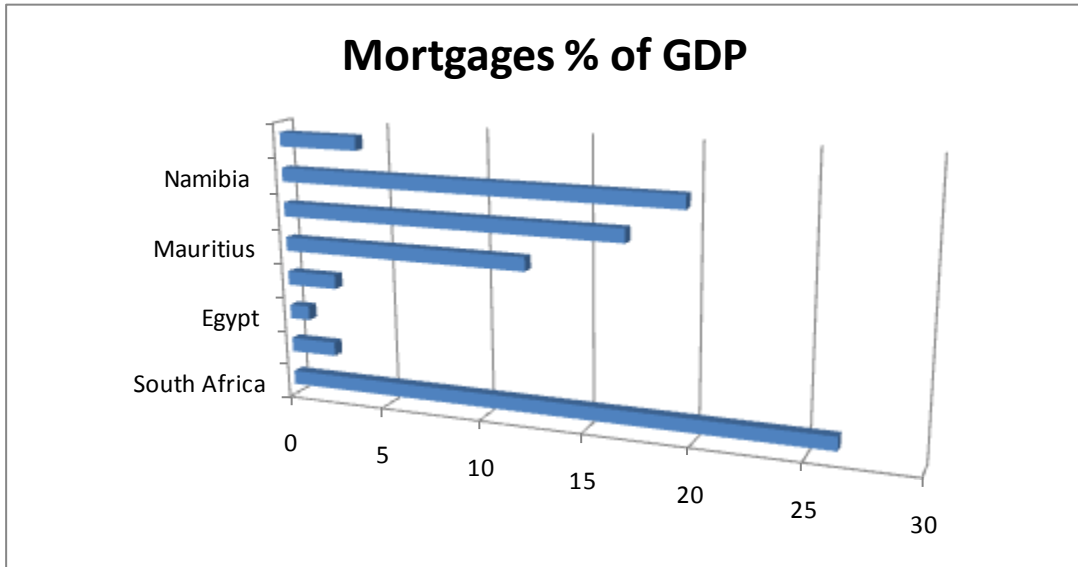
A surprisingly large proportion of the adult South African population does not save – 67% (22.4 million people) but this could be attributable to the large number of people with lower incomes since only a quarter of adults in South Africa claim they have enough money to save after covering all spending needs (Finmark Trust, 2012).

Financial inclusion in South Africa was catalyzed by the government's decision to introduce the Financial Sector Charter in 2003. The aim of this five year policy was to promote the growth of the finance sector by increasing equality and access to financial services across the country. Lending to low income earners increased and so did the mortgage portfolio of banks over this period. The domestic banking industry advanced R 3.7 billion in low-income housing loans during the first five years of implementation, in excess of the R 42 billion target that was set (Financial Sector Charter Council, 2008). Unsecured lending to households has been on the rise since that time although this is not at an alarming level when compared to the banks total assets (OECD, 2013). Even though

the time period for the charter has lapsed, lenders have continued to lend to what they call the “affordable” market, defining this now to be households who earn less than about R 15 000 (US \$1 800) (Centre for Affordable Housing, 2012).

All these mechanisms have increased financial sector deepening and established the South African mortgage market as the market leader in Sub-Saharan Africa in terms of the total residential mortgage portfolio as a percentage of GDP (Centre for Affordable Housing Finance in Africa, 2013). The percentage of the mortgage value to the GDP was 29% in 2011 and approximately 26% in 2012. The chart below shows how South Africa fares relative to selected other African countries in the size of its mortgage market. By comparison, the average mortgage debt to GDP level in European countries is about 50%, whilst in the US it reaches 72% (Simon, 2011).

Figure 1: Mortgage Debt to GDP – Selected African Countries



Source: World Bank Data (2011)

2.1.3 Housing market in South Africa

South Africa has had a strong property market. The country experienced a boom in the construction industry leading up to the 2010 FIFA World Cup. The sector expanded by 7.8% largely due to infrastructure for the World Cup (OECD Development Centre, 2012). Since then, the industry has been on a decline. This was exacerbated by the global financial crisis. It is interesting to note that in South Africa, the affordable market, targeted at lower-middle income earners, showed more stability and growth through the financial crisis than any other property submarket (Centre for Affordable Housing, 2012).

In 2011, demand for residential and non-residential buildings declined and the construction sector increased by a mere 0.8% in 2011, a continuation of the sluggish growth of only 0.9% in 2010 (OECD Development Centre, 2012). Profit margins in the industry have also been on a decline since 2010. As a result, private sector involvement in the provision of housing has decreased over the years. Residential buildings constructed by the private sector dropped by 60% between 2003 and 2012 (Lebone, 2013).

There has also been a decline in the production of affordable houses (Department of Human Settlements, 2004). Bedeviled by high rental prices, lower wage earners struggle to afford rent. Housing supply in the country is dominated by government subsidized delivery (Centre for Affordable Housing, 2012). It has however been insufficient. The mismatch between supply and demand has served to increase the housing backlog which currently stands at 2.1 million units (Department of Human Settlements, 2004). This has

resulted in the growth of informal settlements. It is estimated that over 1.8 million dwellings can be classified as inadequate (Department of Human Settlements, 2004).

The housing regulatory systems in South Africa are strong compared to other countries. The country ranked twenty six out of a hundred and eighty nine economies in the World Bank Ease of Doing Business report in terms of dealing with construction permits. It takes 16 procedures and a 78 day waiting period to obtain a permit (World Bank, 2014). The World Bank report also indicates that it takes 23 days to go through the seven procedures needed to register a property. This process costs about 6% of the property value. There is still room for improvement though. South Africa ranks poorly against its neighbor Botswana, where individuals pay 5% of the property value and take 15 days to undergo the four steps needed to register a property (World Bank, 2014).

Home ownership rates in South Africa stood at 54.5% in 2012 only slightly up from 52.9% in 2002 (Statistics South Africa, 2012). The cost of the cheapest newly built house is roughly R 250 000 (US\$ 30 000), affordable to households (15% of South Africa's population) with a monthly income of R 8 000 – R 10 000 (US\$ 960 – \$1200) a month, assuming they have no other debt (Centre for Affordable Housing, 2012).

2.1.4 The Gap Market in South Africa

The term “gap market” is almost exclusive to South Africa. It was coined by President Jacob Zuma in 2012 when he initiated a series of interventions designed to assist the 20% (2.3 million) of individuals in the market in South Africa who earn too much to qualify

for government subsidized housing and too little to receive mortgage bonds from formal finance institutions (Centre for Affordable Housing, 2012). This target market was grouped into the R 3,500 – R 15, 000 income bands.

Historically, a monthly income of R 3,500 and below enabled one to be eligible for subsidized housing. This income ceiling has never been raised. In addition, the population of individuals eligible for a subsidy has increased over the years; from 8 million households in 1994 to 14.5 million in 2012 (Centre for Affordable Housing, 2012). It can therefore be inferred that the gap market is bigger than currently envisaged.

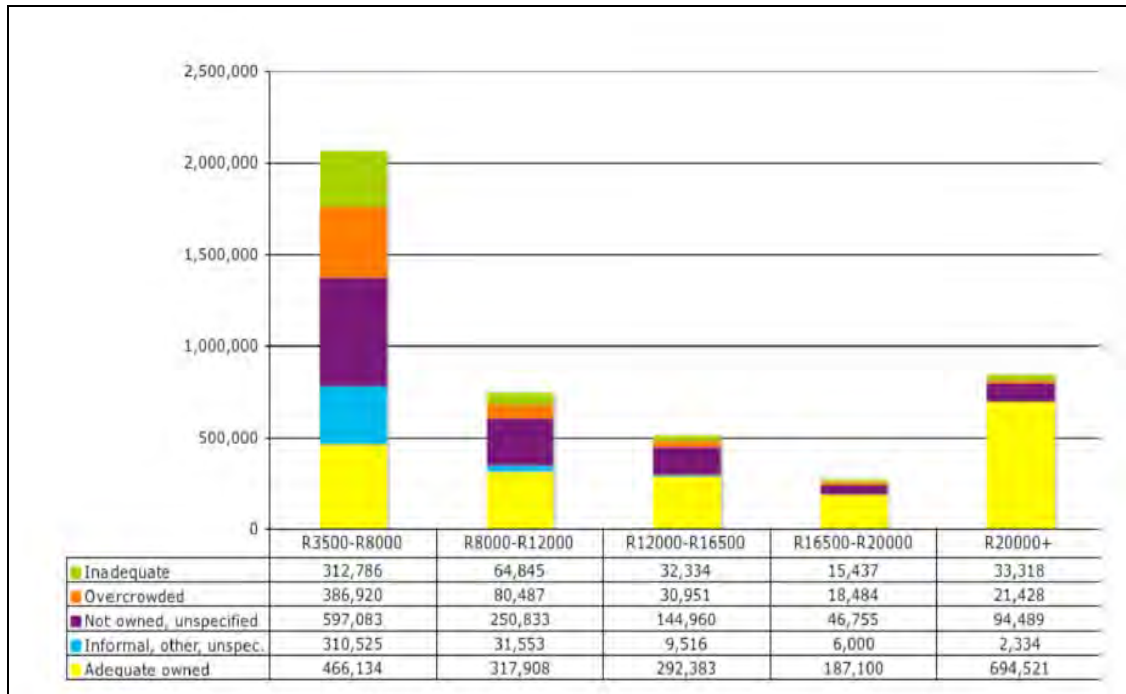
About 65% of South Africa's population is eligible for government housing subsidy. The cheapest newly built house (R 250 000) is affordable to households with a monthly income of about R 10 000 a month. In essence, those earning between R 3, 500 and R 10, 000 are the gap market and comprise about 20% of the population. This market consists of first time home owners and working individuals-mostly government employees (nurses, teachers, policemen etc.).

The definition of the gap market extends beyond those who earn R 10, 000 since affordable houses at the R 250,000 range are hardly enough to meet demand. According to Absa Bank's house price index, in August 2012, the average value of small houses (80 m²– 140m²) was about R 688,400 (about US\$ 82 740). At current rates, this would be affordable to someone earning about R 18,000 (US\$ 2 173), or eight per cent of the population (Centre for Affordable Housing, 2012).

The gap or affordable market is now defined to be households that earn less than R 15 000 (US \$1 800) (Centre for Affordable Housing, 2012). The gap market is an important, emerging sector in South Africa's property market (Rust, 2010). Surprisingly, it is the largest market in South Africa with the most people and the most properties (Rust, 2010). It is estimated that over 50% of the 6 million residential properties on the Deeds Registry are valued at less than R 500 000 and are therefore in the affordable market (Rust, 2010). In fact, 34, 000 of the houses in the townships are valued at more than R 500, 000 (Rust, 2010). This attests to the sheer size of the gap market yet despite the potential of this market, delivery has been far below the expressed demand.

As the table below illustrates, housing needs within the gap market varies. There are significant numbers of individuals earning between R 3, 500 and R 12, 000 that live in inadequate housing and informal settlements. In fact, informal housing supply is the dominant delivery mechanism in the gap housing market (Rust, n.d.). Fifteen per cent of individuals earning R 3500 – R 8000 and 4% of those earning between R 8000 – R12 000 live in informal housing while others stay in overcrowded conditions, inadequate structures, or rentals (Centre for Affordable Housing Finance in Africa, 2009). This attests to the gaps (and opportunities) in affordable housing. The figure below provides a nuanced perspective of housing needs across the various income groups in South Africa.

Figure 2: Housing Conditions across different income groups



Source: (Centre for Affordable Housing Finance in Africa, 2009, p. 3)

Insofar as the gap market may be a viable market for home ownership, studies show that South Africa’s “consumer culture” and indebtedness levels are higher amongst lower income earners than in upper income bands (Mashigo, 2006). Between the period of 1994 and 2008 it is reported that household consumption expenditure in the country increased by a staggering 375% (South African Reserve Bank, 2009). The level of indebtedness increased by 44% in the same time period (Hurwitz & Luiz, 2007). This inhibits the ability of individuals in the gap market to afford adequate housing let alone home ownership.

2.1.5 A Case Study of Khayelitsha

About half of the affordable market is found in former-black townships (Rust, 2010). As such, this research is informed by in-depth research in Khayelitsha, the largest informal settlement in Cape Town. Officially established in 1983, Khayelitsha was created in order to resettle black African residents from the Western Cape during the apartheid era (Affordable Land & Housing Data Centre, 2014). The township has historically been served by the government (through subsidies) but has seen little market penetration because of the perception that people living there are poor. Within the context of the definition of affordable housing, this perception is not exactly accurate. As of 2010, nearly 34,000 properties in the townships cost roughly more than the maximum threshold definition of affordable housing (Rust, 2010). There are clearly opportunities in the gap market that service providers can profitably tap into.

According to the 2011 census, Khayelitsha had an estimated population of 392,000 individuals and 119, 000 households (City of Cape Town, 2013). It is the second largest black township in South Africa after Soweto in Johannesburg and about half its inhabitants are between the age of fifteen and thirty four (Information and Knowledge Management Department, 2005).

Some of the developmental challenges faced in Khayelitsha are high population densities, poor living conditions as well as extensive housing backlogs. The housing backlog in the area currently stands at 245, 000 (Affordable Land & Housing Data Centre, 2014). More than half of the population (57.4%) lives in shacks while a further 7.3% live in informal

housing in backyard shacks (Affordable Land & Housing Data Centre, 2014; Information and Knowledge Management Department, 2005). This reduces their overall quality of life.

The successes of several low cost housing developments across the world indicate that it is possible to serve lower middle income markets in a way that allows them to realize home ownership. If about 25% of the population living in Khayelitsha earns between R 3,500 – R 15, 000 a month (gap market) then this begs the question of why there is a big gap between demand and supply of adequate affordable housing. Filling this gap between the demand and supply of home ownership products is complicated and service providers need to delicately balance their product offering in order to achieve this goal. Using a case study of Khayelitsha, this study sought to investigate and understand this gap from both the supply and demand side. An informal settlement made for a good starting point to try and understand this gap because these areas are often the ones with the most demand and least supply of affordable housing (Rust, 2010).

2.2 Home Ownership and Ontological Security

Housing is an important facet of our lives, one that directly affects our quality of life, health, well-being, transport needs and often our choice of work (Barker, 2003). Better housing facilities lead to community growth and stability and increased safety and education among citizens which in turn leads to the development of a country (Assaf, Bubshaitr, & Al-Muwasheer, 2010). The debate on housing tenure and specifically home ownership has spanned several years and seems set to continue as an influence in

accounts of social change in urban and housing studies (Gurney, 1999; Ronald, 2004; Dupuis & Thorns, 1998). The meaning ascribed to home tenures has been the subject of widely discussed debates (Gurney, 1999) and varies depending on the socio-cultural milieu.

Many authors have acknowledged the psychological and social benefits of home ownership (Bright & Hopkins, 2011; Fox, 2006; Herbert & Belsky, 2006). Even in Khayelitsha Township, individuals there aspire to home ownership just like upper income individuals. However, due to certain constraints they are unable to actualize their dreams of home ownership. There is a general consensus that home ownership provides a sense of ontological security (Dupuis & Thorns, 1998). Giddens (1991) defines ontological security as “the confidence that most human beings have in the continuity of their self-identity and in the surrounding social and material environments of action” (p.91). He further argues that ontological security is a deep psychosocial need for individuals in all societies and that ontological security is maintained and restored in the private realm, away from the constant surveillance in other settings of life. Saunders (1990) points out that this ontological security is found in a home, “... where people feel in control of their environment, free from surveillance, free to be themselves and at ease, in the deepest psychological sense, in a world that might at times be experienced as threatening and uncontrollable” (p. 361). Therefore, unlike other forms of tenure, home ownership provides greater ontological security (Saunders, 1990).

Similarly, Dupuis and Thorns (1998) argued that ontological security is maintained when the home meets four conditions. Firstly, the home should be a site of constancy in the social and material environment, secondly a spatial context in which the day to day routines of human existence are performed, thirdly a site where people feel free from the surveillance of the modern world and finally, a secure base around which to construct identities (See p.29)

There have been several criticisms against this postulation in favor of homeownership, particularly among advocates for a less financially cumbersome commitment such as rental housing. Nettleton and Burrows (1998) for instance contend that home ownership as compared to renting does not provide greater ontological security because in trying to keep up with mortgage payments; individuals feel great anxiety, insecurity and fear of losing one's home which consequently affects their overall health and wellbeing. Other contradicting views to this views (Hiscock, Kearns, MacIntyre, & Ellaway, 2001) question whether ontological security is derived from home ownership itself or from a wide range of factors such as wealth, location, housing type, and being in a settled relationship and work. They contend that it is indeed difficult to verify that an individual's sense of greater ontological security is directly attributable to home ownership and not to other factors.

Proponents of these views have particularly pushed for alternative forms of shelter that focus more on the use value consideration of housing rather than its exchange value. For poor and low-income citizens whose main priority has been on shelter provision, this is

particularly important and has spurred series of programs designed to benefit this population. But what this approach does is that it excludes low income people from exchange value considerations that are mostly reserved for higher income populations particularly in emerging and developing economies. But many developed countries have linked homeownership to the macroeconomic growth of their economies and therefore created policies that encourage homeownership for their citizens.

2.3 Home Ownership, Control and Self Esteem

It has shown that homeownership provides owners with a higher sense of control compared to renters (Dupuis & Thorns, 1998). Perceived control refers to an individual's belief that he or she is largely in command of important life events rather than being subject to fate or to the will of others (W. Rohe, Zandt, & McCarthy, 2002). In owner occupancy, this sense of control may be because the individual is no longer subject to rent increases at the whims of the landlord.

The wealth created through homeownership may contribute to this greater sense of control by providing a financial cushion that can be tapped into to meet emergency needs (Herbert & Belsky, 2006). This control is also the result of the transfer of ownership from the landlord to the tenant thus allowing the tenant freedom to make changes to their house according to their own preferences. The owner is free 'to do as he/she wants whenever he/she wants.' The freedom to make adjustments and personalize the dwelling is a form of self-actualization and also increases one's self esteem and self-sufficiency (Kleinhans & Elsinga, 2010a). Increased self-esteem and self-sufficiency further leads to

greater physical and psychological health and ultimately to one's overall satisfaction with life especially in cultures where home ownership is a dominant ideology and a sign of having 'made it'. Dupuis & Thorns (1998) argue that home ownership is viewed as a rite of passage, an achievement and a source of pride thereby making it "part of accomplishing an adult identity" (p. 37). Home ownership therefore seems to be good for individuals.

2.4 Financial Benefits of Home Ownership

Several studies show that the main financial benefit of home ownership is asset accumulation through house price appreciation (Herbert & Belsky, 2006; Rohe, Zandt, & McCarthy, 2002; Ronald & Doling, 2012). This is enhanced especially by tax law provisions that shield most appreciation in home values from capital gains taxes (Herbert & Belsky, 2006). It is certainly because housing is usually a good investment that long-term financing for it is possible in the first place (W. M. Rohe et al., 2002). There are also financial benefits through forced savings that occur when paying the mortgage principal and deposit (Herbert & Belsky, 2006). Because the house as an asset augments in value, it can be sold, exchanged or used as collateral to obtain loans (Ronald & Doling, 2012). Barker (2003) argues that housing price appreciation does not always come with positive effects. It causes affordability problems as an increasing number of people are priced out of the market and also has the potential to restrict house building, which constrains economic growth and reduces the standard of living for everyone. As regards the benefit accruing to individual homeowners, the flip side also applies; house prices can also fall

during a recession or due to a housing boom but as long as one can manage to make the monthly mortgage payments, they can recoup these losses in the long run if the housing market recovers over time and one is not forced to move out before then (Herbert & Belsky, 2006).

2.5 Conclusion on reasons for Home Ownership

More academic research needs to be done on the specific reasons for home ownership in the gap market in South Africa. This was identified to be a knowledge gap by the researcher.

Much as there have been valid arguments in favor of other forms of tenure and the value derived from or lack thereof in homeownership, it is important to know that, owner occupancy is the single most desirable form of tenure in providing security and satisfaction. It is simply a part of the normative culture. Perhaps in this way, the quest for home ownership will indeed continue to be an essential ingredient in the pursuit of a secure and successful life.

2.6 Factors Affecting Home Ownership

2.6.1 House Prices

Population growth, changes in interest rates, credit availability, inflation, income, taxation and employment all influence the macro demand for residential real estate (Franken, Bloom, & Erasmus, 2011). Other factors such as the expected future costs, mortgage interest rates and benefits associated with owning a property also influence demand to purchase a house (Watson, 2013). These factors all interact to influence and determine the macro and micro environment of the housing industry.

In South Africa, house price changes were preceded and supported by a number of economic variables, such as changes in disposable income, affordability, inflation and interest rates (Franken et al., 2011). It is the interaction of all these factors that cause high housing prices rather than just one single driver.

Macroeconomic stability has a bearing on house prices and consequently home ownership in South Africa. Annual changes in nominal house prices ranged from -0.13% to 27.92% between 1994 (when the country achieved independence) and 2011. This pattern bears a relatively close resemblance to consumer spending with a strong growth experienced in 2005 (5.75%), followed by a sharp decrease in 2009 (-0.02%) (Apergis, Simo-Kengne, & Gupta, 2014). South Africa, like many other countries, was affected by

the global 2008-2009 financial crisis that put a strain on the lending practices of financial institutions (Lebone, 2013).

Urbanization and demographics have influenced housing prices and consequently homeownership rates in South Africa. Rapid urbanization has put pressure on the delivery of formal dwellings and pushed up the number of informal households. Between 1996 and 2011 there was a 76.8% increase in the number of informal dwellings or shacks in backyards in South Africa (Lebone, 2013). The bulk of housing demand comes as a result of natural population growth and changes in household size. If population density is on the rise, rises in population will likely generate a demand for housing and consequently a rising trajectory of real house prices (Miles, 2012). This is because of the mismatch between demand and supply. As population density rises, it also becomes more likely that house prices will ultimately rise faster than incomes thereby making owner occupancy more and more elusive especially for lower income households.

2.6.2 Income

In thriving economies, economic growth will result in an increase in national income. This will have a bearing on the housing industry in a country. An increase in income catalyzes an increase in demand for housing. Chen, Tsai, & Chang (2007) add that the permanent income hypothesis suggests that consumption for housing in any particular period is a stable function of the average income over the current cycle. Consequently, increases in income trigger demand for housing.

When an individual applies for a mortgage loan, the banks calculate a monthly repayment amount that is usually a fixed fraction of the individual's after tax income. The popularly agreed on maximum fraction is thirty per cent (Gibb, Maclennan, & Stephens, 2013; KPMG, 2010). Based on the household's income, fixed expenses, mortgage expenses and other information, the bank estimates the maximum obtainable loan and, therefore, the household's highest affordable price (Madsen, 2012). Income is an indication of ones purchasing power and is therefore a crucial variable in determining if one can afford home ownership.

Ferguson (1999) offers a hypothesis of why most households remain unserved by traditional housing finance institutions; the first is that low income households usually cannot afford the debt service required to finance a minimum cost unit; secondly, traditional mortgage finance systems require stability of income to guarantee repayment, something which low income households are unable to aspire to since they are often self-employed and have varying incomes; thirdly, the small loans required by these households are much less profitable to commercial financial institutions than larger loans. As a result, households use their own savings, barter arrangements; sweat equity and other sources to build their houses incrementally over the years (Ferguson, 1999).

The microfinance sector serving incremental housing needs has grown steadily in South Africa over the years. There are however conflicting arguments on incremental housing. On the one hand its supporters unequivocally argue that the development of appropriate and fully accessible housing finance systems across Africa has been challenged by a

narrow focus on the mortgage instrument and a failure of housing policy and delivery systems to acknowledge and support the potential of incremental housing (Centre for Affordable Housing, 2012). On the other hand, its detractors argue that the micro-financing of incremental housing is higher than that of conventional banks, and thus still burdensome to the underprivileged (Arvantis, 2013; Ferguson, 1999).

South Africa is paradoxical in that it is a country of extremes; great wealth and poverty coexist (Hurwitz & Luiz, 2007). With a gross national income per capita of approximately US \$8 000, an entry-level house at US \$24 804 is affordable to only about 15% of the population (Centre for Affordable Housing Finance in Africa, 2013). Even though the post-apartheid government has advocated for redistribution of power and wealth from the whites to the Africans, the country still faces distinctions of inequality in income and wealth distribution. Few developments have taken place to bridge the income inequality. Indeed, inequality has actually worsened over the years and the Gini coefficient of 0.635 in South Africa points to one of the highest levels of inequality in the world (Hurwitz & Luiz, 2007). The benefits of the Black Economic Empowerment policy have trickled to the elite and rising African middle class but have not by and large reached the masses of the African poor. Inequality within races is significantly high and has increased over the years. The Gini coefficient for Africans has increased from 0.55 to 0.62 between 1993 and 2008, and from 0.42 to 0.50 for whites (OECD, 2013).

About forty nine per cent of the population in South Africa lives in poverty below the minimum living level (Hurwitz & Luiz, 2007). Furthermore, purchasing power has been

constrained by the high level of unemployment in the country. Stunted economic growth especially after the global recession has meant that the economy is unable to absorb all the labor that is available. As a result, thirty per cent of the economically active population is unemployed (Department of Human Settlements, 2004). There are discrepancies in the unemployment rate along racial lines; 28.5% of Africans are unemployed compared to 5.5% of Whites (OECD, 2013). Long term unemployment extending over a year is also disproportionately high at 68% (OECD, 2013). The high levels of unemployment contribute to the income equality present in South Africa. Inequality also among households participating in the labor market is high, as real earnings in the bottom quintiles have not risen over the years and have fallen relative to earnings in the top quintiles (OECD, 2013).

This has obvious repercussions on home ownership. Lower income households easily become ineligible for home loans from formal finance institutions. Ebrahim (2009) argues that formal housing finance systems subject underprivileged subprime borrowers to a high cost of funding as they are perceived to be more risky. Furthermore, volatility in interest rates and house prices exacerbate the affordability issue for lower income households making them ineligible for mortgage loans. Studies in the United States home ownership market indicate that borrowing constraints significantly lower home ownership rates (Duca & Rosenthal, 1994). Lower income groups get locked out of home ownership. This seems to be the case in South Africa. By the end of 2008, only 2.7% of all mortgage credit by Rand value was granted to borrowers earning less than R 10 000

per month (Centre for Affordable Housing, 2012). This is not the case throughout the world. There are studies demonstrating that the lower income market is now becoming a viable and untapped segment for established businesses (Centre for Affordable Housing, 2012; Hurwitz & Luiz, 2007; Prahalad, 2005).

The table below shows how home ownership affordability varies across different monthly income bands based on a base lending rate of eleven per cent (the current prime lending rate is at 9.25%), an added interest rate of two per cent and a twenty year loan repayment period.

Table 3: Loan Affordability based on Income

Monthly Joint/Household Income	Monthly Premiums	Mortgage Loan Affordability
R15,000	4500	R384,098
R14,000	4200	R358,492
R13,000	3900	R332,885
R12,000	3600	R307,278
R11,000	3300	R281,672
R10,000	3000	R256,065
R9,000	2700	R230,459
R8,000	2400	R204,852
R7,000	2100	R179,246
R6,000	1800	R153,639
R5,000	1500	R128,033
R4,000	1200	R102,426
R3,000	900	R76,820

Source: Own conceptualization

South Africa's housing and finance policies have tried to ease credit constraints for the majority of lower income households. About 86% of the population is eligible for some form of housing subsidy: Sixty percent for a full housing subsidy and 26% for affordability support (Centre for Affordable Housing Finance in Africa, 2013). The gap

market, which makes up about 20% of the population, is eligible for affordability support but demand far outstrips delivery. There is still a persisting housing backlog that is estimated at 2.1 million units (Centre for Affordable Housing, 2012). There is need for an efficient delivery system that provides adequate and affordable housing and attainable home ownership.

2.6.3 Credit Quality

The motivation for studying the link between consumer indebtedness and home ownership stems from the unambiguous increase in access to credit in South Africa. Credit levels particularly in the R 5,000 – 15 000 income bracket (the gap market) are more dominated primarily by retail and furniture credit (Collins, 2008). From the information gathered, one can argue that the credit obtained by individuals in the gap market is a cause of concern since it is being used to purchase non-essential commodities. There are however insufficient studies demonstrating whether this debt is temporary or persistent. It is also not clear the level of indebtedness of individuals in the gap market and the effect this has had on their prospects for home ownership. Naturally, their credit quality influences their eligibility for home mortgages since it would give the bank an indication of the consumer's bill paying history, outstanding debt and discipline in paying debts on time.

Growth in credit consumption in South Africa has exceeded growth in incomes, leading to increasing levels of household debt (Hurwitz & Luiz, 2007; Reza, 2001). In essence, people have become poorer. The African urban working class has emerged as a distinct

market segment as a result of the post-apartheid government's black economic empowerment policy but it is the demographic most affected by increased levels of household debt (Collins, 2008; Hurwitz & Luiz, 2007).

The rising level of credit consumption in South Africa is receiving increased attention and is a cause of concern to regulators, policy makers and financial institutions alike. The National Credit Act was introduced in 2007 to promote responsible credit granting and allow the government flexibility to regulate the market as well as prohibit unfair credit and credit-marketing practices. It mandated that credit granting institutions carry out assessments of an individual's ability to afford credit. Credit granting institutions have however not been thorough in conducting checks to ensure that their clients are able to afford repayments. Many have been criticized for their dispensation to market unsecured loans and easy credit to vulnerable consumers. This has resulted in a lot of reckless credit behavior in South Africa with people being trapped in debt. But because credit lending is big business in South Africa, exposure to credit in the private sector increased from R 230 billion to R 2.1 trillion between 1994 and 2010.

The diagrams below demonstrate the level of unsecured credit in the South African market.

Table 4: Credit granted – credit type

Agreements	2010-Q3 R000	2010-Q4 R000	2011-Q1 R000	2011-Q2 R000	2011-Q3 R000	2011-Q3 % Distribution	% Change (Q3/Q2)	% Change (Y/Y)
Mortgages	26,340,185	26,867,971	24,759,915	25,448,516	30,278,386	30.62%	18.98%	14.95%
Secured credit	25,198,591	28,120,840	27,447,578	26,961,813	30,779,506	31.12%	14.16%	22.15%
Credit facilities	8,813,263	10,245,638	10,431,232	12,064,178	14,882,323	15.05%	23.36%	68.86%
Unsecured credit	13,384,913	16,834,873	16,694,204	18,954,134	21,213,694	21.45%	11.92%	58.49%
Short-term credit	1,398,409	1,462,223	1,420,539	1,650,746	1,745,095	1.76%	5.72%	24.79%
Total	75,135,362	83,531,545	80,753,469	85,079,389	98,899,004	100.00%	16.24%	31.63%

Source: (Rust, n.d., p. 14)

Table 5: Gross debtors’ book – credit type

Agreements	2010-Q3 R000	2010-Q4 R000	2011-Q1 R000	2011-Q2 R000	2011-Q3 R000	2011-Q3 % Distribution	% Change (Q3/Q2)	% Change (Y/Y)
Mortgages	755,385,615	760,679,133	769,891,414	773,371,066	786,002,454	62.06%	1.63%	4.05%
Secured credit	215,339,271	221,715,121	226,348,046	228,974,115	240,613,866	19.00%	5.08%	11.74%
Credit facilities	129,687,691	131,855,932	133,031,600	135,751,871	138,020,910	10.90%	1.67%	6.43%
Unsecured credit	66,173,578	73,797,286	80,864,530	87,977,920	101,102,222	7.98%	14.92%	52.78%
Short-term credit	668,029	728,570	697,482	747,099	816,713	0.06%	9.32%	22.26%
Total	1,167,254,185	1,188,776,042	1,210,833,072	1,226,822,071	1,266,556,164	100.00%	3.24%	8.51%

Source: (Rust, n.d., p. 14)

Unsecured lending dominates the market. This is potentially dangerous as it could lead people to get into debt. In 2003 it was reported that five times more South Africans were affected by debt judgments than were contracting HIV/AIDS daily (Engelbrecht, 2003). That was approximately three thousand consumers getting into trouble daily because of debt. As at the end of March 2014, there were twenty two million credit-active consumers

out of which those with impaired records stood at 9.60 million (Credit Bureau Monitor, 2014). About half of the credit active consumers have three or more payments in arrears, or have an “adverse listing”. This suggests that the country is greatly indebted and may be at the brink of a credit tsunami.

Despite the alarm that these figures raise, the micro-lending market continues to grow, as does the size and term of loans (Hurwitz & Luiz, 2007). More and more lucrative marketing strategies are used to lure unsuspecting consumers. In a bid to increase sales, retailers require consumers to pay less over longer periods of time while banks struggle to find the balance between improved take-up rates and increased bad debts through more relaxed risk-scoring mechanisms (Hurwitz & Luiz, 2007). Concomitantly, in order to cover the increased risk of lending, financiers have to charge higher interest rates. Hurwitz & Luiz (2007) argue that in South Africa there are disparate differences between the credit interest rates charged between upper and lower income groups. They add that the market’s appetite for credit, even at extremely high rates, remains robust with retail credit usage and micro loans steadily continuing to grow. This suggests an element of short-sightedness on the consumers side; “living in the here and now” with little regard for the future. It also points to the dire need for a mass rollout of financial literacy and credit management education across the country.

The most significant studies on indebtedness in South Africa differ in their assessment of whether indebtedness levels in lower income categories are a cause for concern (Collins, 2008). Reza (2001) argues that lower income groups have lower credit levels than do

upper income categories. He makes the observation that as income rises so does indebtedness (Reza, 2001). This is contrary to the intuition that lower income groups would have higher debt since they are charged higher interest rates even for small loan amounts. Instead, lower income groups have lower debt. This could be as a result of several factors. Firstly, lower income earners have little or no collateral against which they may borrow. Secondly, lack of stability in employment or income may be a hindrance for them. Thirdly, it may well be that lower income groups simply are marginalized in that they are not the target of formal financial services. This could be as a result of the perception that they are a high risk group with little potential for businesses to make significant returns for their efforts. Finally, it could be that lower income households are more rational and consciously manage their finances in order to avoid unnecessary exposure to debt.

There is a strong counterargument to the premise mentioned above. Collins (2008, p. 470) cites that indeed debt levels are rising faster in the lower income categories than in the wealthier ones. Mashigo (2006) confirms that key findings show that poor income households in South Africa witnessed the greatest increase in the number of loans and percentages of indebtedness.

Lending experts and realtors agree that the biggest obstacle facing most first time home owners is that they lack a good grasp of their finances. The National Credit Act requires anyone buying a home for the first time to go through financial literacy training. This

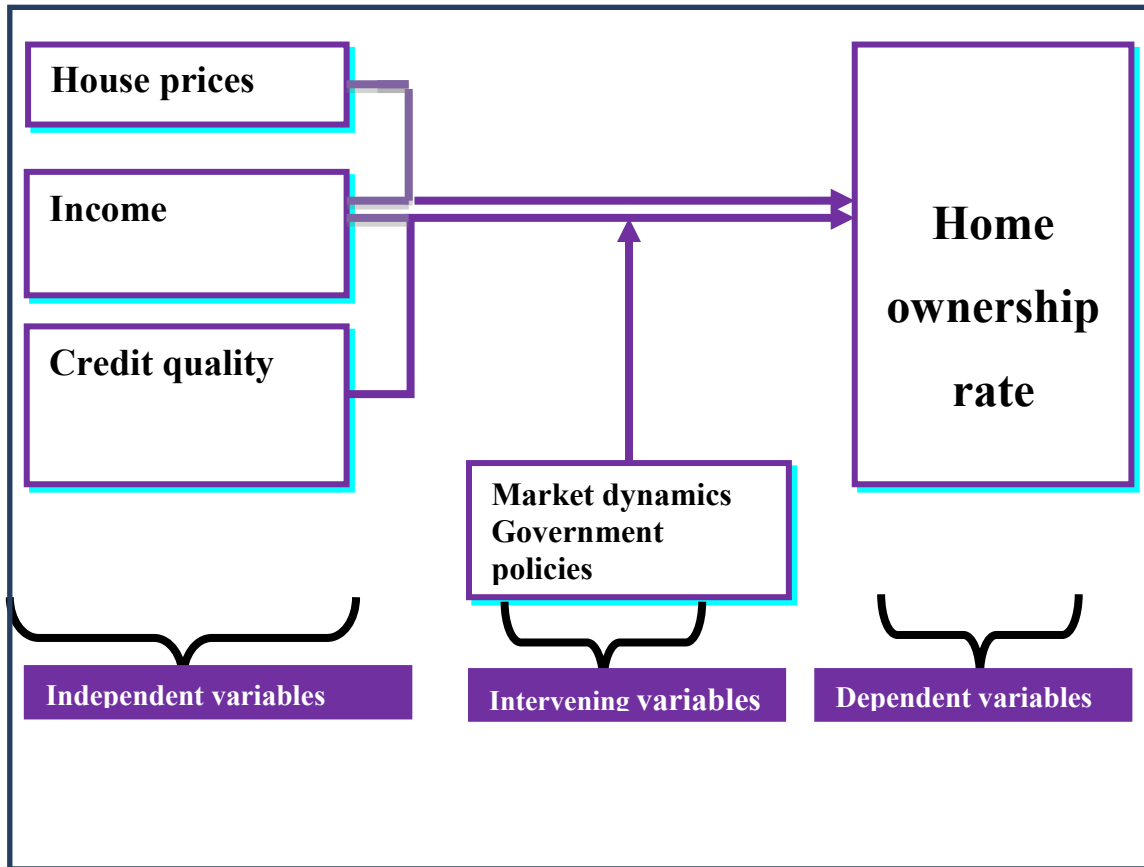
would include managing a budget and understanding the ancillary costs of home ownership (IMIESA, 2013).

Promoting financial education and planning is one way to address the existence of credit quality based constraints (Barakova, Bostic, Calem, & Wachter, 2003). The National Credit Act recommends debt counseling as a remedy to this problem but this solution cannot cut across to all credit constrained consumers. Debt counseling is only applicable to consumers that have enough income that can be adequately managed to leave funds that can be used to pay their debt. For consumers with no income and no assets, debt counseling is not applicable. There has also been criticism that the Act has not allowed the regulator freedom to prosecute institutions for reckless lending. Measures to address the private debt crisis and enforce responsible lending have not been sufficient. The credit act is therefore not doing nearly enough to arrest the already disastrous situation. More empirical studies are needed to determine the debt levels in the gap market.

2.7 Summary of literature review

The literature review in this section built on and extended prior literature on housing. It shows an overview of the political and economic context in South Africa and a description of its housing market. We see the benefits of home ownership over other forms of tenure and the literature elucidates the various factors that affect home ownership. The following diagram further illustrates how these factors are interrelated. The independent variables (as indicated in the diagram below) are income, house prices and credit quality. These factors influence the rate of home ownership (the dependent variable). Intervening variables explain the relationship between the dependent and independent variables and are typically difficult to control. In this study, these include market dynamics, government policies, regulatory requirements and the political environment. All these factors interact to influence the macro and micro economic environment of the housing sector in South Africa.

Figure 3: Summary of Literature review



CHAPTER 3: THEORETICAL FRAMEWORK

3.1 Introduction

A theoretical framework is a conceptual model that helps to explain a phenomenon. It connects the researcher to the existing knowledge in a particular topic. The theories informing this research study and are the Filtration Theory, De Soto's Land Titling Theory and the Distributive Justice Theory. These three theories underpin the knowledge base of the housing context in South Africa. They put into perspective our understanding of the housing market and the various theories that have guided housing delivery and housing policy in the country. They are the basis on which the housing market operates.

3.2 Filtration Theory

As in many developed countries, South Africa's housing has been based on trickle-down economics - the idea that somehow the low-income population is better served by providing better opportunities to the upper middle class, which should eventually filter down to the base of the pyramid. In housing, this is called filtration. The filtration concept is important in helping to understand the housing market (Margulis, 1998). It certainly influences policy makers on how they invest in and distribute funds into the housing market. Skaburskis (2006) defines filtering as the "process by which a dwelling changes its place in the hierarchy of all the dwellings that are available in the market" (p. 535). Newer units go on the top of the hierarchy while lower ones are escalated down "hierarchically arranged quality strata" and made available to other people (Skaburskis, 2006, p. 535).

Filtration is a theory that describes how old houses facing obsolescence move downwards to the next lower income groups while the previous occupants filter upwards based on rising incomes (Margulis, 1998). This trait of filtration just described is referred to as upward mobility and illustrates how as households filter up to better and bigger houses their previous houses are filtered down. Houses could be filtered down due to house quality deterioration, lowering house prices or due to attainment of higher incomes. Margulis (1998) argues that filtration occurs not only because of a unit's age, but also because of the unit's comparative loss of suitability for continued occupancy by middle and higher income owners.

Several things have to be in place for filtering to occur. First, there needs to be a constant supply of new housing units to replace old ones that are dilapidating (Margulis, 1998). Secondly, a turnover of occupancy is also needed. Occupancy succession is an effect of filtration (Margulis, 1998). A recognized contributor to the filtration concept, Ratcliff (1949) in describing the theory stated that "this process...is described simply as the changing of occupancy as the housing that is occupied by one income group becomes available to the next lower income group as a result of decline in market price..." (p. 321-322). This broad definition gives an indication of three conditions necessary for filtration to occur: There has to be a change in occupancy (succession), the occupancy has to be available to the next lower income group (mobility) and there needs to be a decline in value of housing units (value). Notice that he makes no mention of rising incomes but rather views that filtration occurs when house prices decline to a price range

affordable to an income group's level. Myers (1983) argues against the implied passivity of lower income groups who are supposedly "waiting for hand me down homes to fall within their reach" (p. 110) and makes the assertion that households of all income classes vigorously move upwards in search of better housing.

This "trickle-down" model has been criticized for being a long-run process (Myers, 1983; Skaburskis, 2006). Margulis (1998) adds that a weakness with this theory is that "even if the market does produce a housing surplus, there is no guarantee that the lowest-quality housing will be available at a price low enough to benefit low and very low income households" (p. 1234). Skaburskis (2006) argues that the filtration concept does not have large effects to warrant being part of a government's strategy for reducing the housing burdens of low-income people. He makes the bold assertion that "filtering is not helping lower-income households" (Skaburskis, 2006, p. 533).

The filtration concept explains the dynamics in the South Africa housing market. This has been a key strategy employed by the government to provide housing for lower income groups as well as increase the quality of housing stock available to all income groups. A lot of new construction and mortgage products that facilitate home ownership have been targeted at upper income households in the hope that as these individuals climb up the ladder to better quality housing their previous houses will be available to lower income households. As more and more individuals have moved up the quality ladder this has increased the housing stock at a particular quality range. In this way housing quality has improved across the country. It is arguable however whether this strategy has been

successful in facilitating the provision of housing to lower income groups where demand is highest and supply least. Part of the challenge for this is that there has not been a corresponding increase in income for the rising middle class. In fact, unemployment in South Africa has been on the decline for the past decade and more college graduates find it difficult to earn livable wages. What this implies is that many have had to wait to buy their first house even with joint household income.

3.3 De-Soto's Land Titling Theory

Hernando de Soto offers a simplistic solution to poverty by arguing that capitalism can work for poor people in developing countries by formalizing their property rights. As a result, many government leaders have jumped onto the property rights bandwagon believing that formal land titling can play a big role in enabling previously marginalized lower income groups to participate in the formal financial sector. Gilbert (2002) argues that there is nothing particularly new about de Soto's policy of giving poor people titles and that governments and development finance institutions have been advocating for the legalization and regularization of informal property even before de Soto's "new" wisdom about land titling came about.

De Soto (2000) argues that the poor have property but lack the means to derive additional value from these possessions because these possessions are often owned informally and therefore cannot be traded in the open market but can only be sold to those who will recognize informal property rights. He calculated that the resulting undercapitalization of real estate held but not legally owned by the poor of the developing world is at least \$9.3

trillion (de Soto, 2000). This lack of formal property rights is why citizens in developing countries cannot make profitable contracts or get credit, insurance or service utilities; By comparison, those who own their properties are able to use the collateral they embody to obtain formal credit, build businesses and lift themselves out of poverty. The recognition of property rights and consequently home ownership is therefore the pillar of capitalism and the reason why capitalism has triumphed in the West.

Even though South Africa has primarily favored the provision of new housing to the poor rather than the titling of informal property, de Soto's philosophies have still influenced the country's housing policies (Lemanski, 2011; Shisaka Development Management Services (SDMS), 2003). Critics of the forced housing removals in Alexandra township in Gauteng South Africa in 2001 drew attention to De Soto's call for formal property rights to liberate the "dead capital" (real estate held but not legally owned) by the poor (Shisaka Development Management Services (SDMS), 2003).

In a similar manner, government policies in South Africa have had a discernible influence from de Soto's policies as is evidenced by the Breaking New Ground Policy that favors the giving of a freehold title to a small newly built house to poor residents with a monthly household (joint spouse) income of below R 3,500 (Davies, Narsoo, & Tomlinson, 2007). This was done to address historical race and class based injustices in the country. By 2014, the government had delivered 3.7 million housing opportunities to its residents, a feat accomplished by no other country (Department of Human Settlements, 2014). The government's belief is that poverty is linked to home ownership and that giving poor

people access to home ownership gives them access to the formal financial market system and subsequently, a way out of poverty. The then Minister of Housing Lindiwe Sisulu aptly put it by stating that “You have to give people title deeds to give them complete ownership of the house. Then they can re-bond a house and have access to more money . . . or they can improve the house and sell it a few years down the line and make a profit” (Delivery Magazine, 2005, 47). In South Africa, this policy approach has resulted in the provision of serviced townships often in the peripheries of urban centers, something that has been a cause of great political debate considering the environmental and social concerns that this approach raises.

While de Soto’s philosophies have mesmerized global leaders and policy makers, critics question the oversimplification of the notion that property rights will enable poor people to obtain credit and subsequently escape poverty (Rosalie Kingwill et al., 2006). It is doubtful that banks are interested in providing mortgage products to poor people to unlock the dead capital that is found in the townships (Shisaka Development Management Services (SDMS), 2003). De Soto’s critics argue that little formal finance accrues to poor people after the legalization and tilting of informal property (Gilbert, 2002; Rosalie Kingwill et al., 2006). In addition, it is argued that titling does not necessarily increase tenure security and that in many cases it increases the rate of homelessness (Rosalie Kingwill et al., 2006). This may be because this theory inadequately deals with the dynamics of poverty as some of these individuals would be better served by rental accommodation rather than homeownership. Besides, it is unclear

how de Soto's policy could be applied to rural common property resources (which are often governed not by informal rules but by highly formalized practices), since his focus is on individual land parcels (Rosalie Kingwill et al., 2006).

Despite the cynicism of de Soto's critics, legalization and regularization of informal settlements would do some good in certain instances in South Africa. For instance, formalizing informal settlements by physically upgrading them and providing them with essential services, infrastructure and some form of legal recognition could have positive spin offs on the housing backlog that currently exists in the country (Shisaka Development Management Services (SDMS), 2003).

3.4 Distributive Justice Theory

John Rawls in "A Theory of Justice" makes the claim that individuals are all free, equal and have absolute rights founded on the principles of justice and fairness (Rawls, 1971). In summary, Rawls advocates for the privileged in society to distribute their gains to the unprivileged (Rawls, 1971). He emphasizes the role of the state in the distribution of primary societal goods. Rawls describes primary social goods to include rights and liberties, powers and opportunities as well as income and wealth (Rawls, 1971).

South Africa has been accused of being one of the most unequal countries in the world with a large gap between the poor and rich (Knight, 2014; OECD, 2013). The inequality is largely along racial lines and is a carryover from the apartheid era that oppressed wealth creation among black communities (Knight, 2014). The result is an economy that

today still excludes the vast majority of South Africans (Department of Trade and Industry, 2003). To address this, the Black Economic Empowerment Policy was adopted to allow meaningful participation of majority of South Africans in the economy (Department of Trade and Industry, 2003).

Rawls's theory of distributive justice has heavily influenced South Africa's housing policies. The country's Reconstruction Development Program was adopted to correct the evils of the apartheid government that had denied black people the opportunity of property ownership. The government's focus from 1994 was to restore land rights to those who had forcibly been displaced from their land (Davies et al., 2007). This involved providing historically disadvantaged individuals with formal free hold title deeds to small newly built houses that were fully subsidized by government. As a result, in the twenty years since independence, the South African government has sheltered more than 2.8 million households (Ndinda, Uzodike, & Winaar, 2011). In this context free government housing is intended to confer a sense of physical and emotional wellbeing as well as a sense of entitlement and financial inclusion through home ownership (Gunter, 2013). This has been of significance in creating a more socially just society in South Africa.

3.5 Conceptual Framework

Table 6: Housing delivery approaches used in South Africa

THEORY	PREMISE	POLICIES	PLAYERS	OUTCOMES
<p>Filtration theory</p>	<p>As upper income households move to new housing units, they leave their previously occupied units vacant and subsequently available to individuals down the income ladder.</p>	<p>Mortgage finance</p>	<p>Traditional banks Developers Individuals earning more than 16, 000 ZAR a month.</p>	<p>High market focus on building new, modern, bigger and better quality housing units targeting upper income individuals. More home ownership levels for individuals with higher incomes. Hope that houses move downwards to the next lower income groups as the previous occupants filter upwards to better houses based on rising incomes. Well-developed mortgage market with a focus on upper income groups.</p>

<p>Rawls's Distributive Justice Theory</p>	<p>Founded on the principles of justice and fairness. Historically disadvantaged individuals are given free newly built houses.</p>	<p>Pro poor redistributive approach to undo the evils of apartheid</p>	<p>Individuals earning below 3, 500 ZAR a month Federal Government Developers</p>	<p>Provision of newly built houses for the poor. Limited impact however due to poor location of houses & “dead capital” because of lack of fully tradable property rights on RDP houses. Distortion of market. Banks & developers hesitate to build houses costing 200, 000 and less. Creation of active informal market for housing.</p>
<p>De Soto's Titling theory</p>	<p>Focus on the house being used as an asset that residents can refinance in order to have more money or improve and sell after a few years.</p>	<p>FLISP subsidy</p>	<p>Government Banks Middle income individuals</p>	<p>Homeownership for poor people by enhancing financial inclusion. Giving title deeds to individuals in informal settlements that they may leverage them to get loans. “Making millionaires of poor people” Only limited to home ownership and not rental.</p>

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Research Approach

The empirical aim of this research was to understand the current challenges faced by the housing market (developers, banks, and the government) in addressing the needs of the gap market. The researcher employed the use of the inductive research approach. In such an approach, theory is the outcome of research (Bryman, 2012). This is the best approach when drawing generalizable inferences out of observations (Bryman, 2012). In the same breadth, this research sought to develop a theory based on the observations made from answering the research question; “*What challenges do banks, government and developers face in tailoring home ownership products for individuals in the gap market in Cape Town?*” The antithesis of the inductive approach is the deductive approach in which a researcher first deduces a hypothesis from an existing theory and subjects it to empirical scrutiny or operational terms (Bryman, 2012). The sections detailed below elaborate the different methodologies employed in the study to answer the research questions.

4.2 Research Design

This research study used a qualitative research methodology. A qualitative methodology is used to “understand, explain, explore, discover and clarify situations or feelings, perceptions, attitudes of a group of people” (Kumar, 2011, p. 104). It involves looking at characteristics that cannot be entirely reduced to numerical values and is suitable for examining the many nuances and complexities of a particular phenomenon (Leedy & Ormrod, 2012). As this research sought to explore and describe the challenges the

government, banks and developers face in developing home ownership products for the gap market in Cape Town, a qualitative methodology was most appropriate. Had the researcher wanted to measure and classify the information gathered, then a quantitative research design would have been more suitable. A quantitative research usually tries to measure variables in some numerical way (Leedy & Ormrod, 2012). This study however sought to have a flexible, emergent and inductive approach that would allow several variables to emerge through interaction with the respondents.

The study used a case study qualitative research design. A case study is a research design in which in-depth data is gathered about a particular individual or program (or a very small number), for the purpose of learning more about a poorly known situation (Leedy & Ormrod, 2012). A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-world context (Yin, 2014). In this case the researcher sought to understand the phenomenon – challenges the government, banks and developers face in developing products for the gap market – in the real-world context of Khayelitsha Township. A weakness of the case study method, especially a single case study method as is the case in this research, is that one cannot be sure that the findings are generalizable to other situations (Leedy & Ormrod, 2012). This design was however found to be most appropriate to this study since the research questions chosen require an in-depth description of the current housing situation in Cape Town. The more that research questions seek to explain some present circumstance or social phenomenon, the more that a case study research will be relevant (Yin, 2014).

The research questions employed in this study were “what” questions seeking to identify what challenges are faced by government, banks and developers in designing home ownership products for the gap market in Cape Town, what partnerships are in place to facilitate housing for the gap market in Cape Town, what the gap is between the supply and the demand of home ownership products in this demographic group and how the gap may be filled. This was therefore a justifiable rationale for conducting an exploratory study-in this case-an exploratory case study research method.

4.3 Data Sources

This research gathered information from primary and secondary sources. Primary data was obtained through the use of in-depth semi-structured interviews conducted with twenty households in the gap market, three bankers, four property developers and three government officials. Secondary data was obtained from articles, journals, magazines, books and periodicals in order to obtain background information on the study area. These publications contained a wealth of information on the various aspects of the housing and home ownership market across the world and in South Africa.

4.4 Data Collection Techniques

Primary data was collected through the use of shorter in depth case study interviews. Shorter case study interviews are more focused and took about an hour as opposed to prolonged case study interviews which occur over an extended period of time or over several sittings (Yin, 2014).

The interview technique was chosen as the primary data collection method since it provided a platform through which the researcher could obtain a clear understanding of the respondents' meanings and experiences. By probing, the interviewer got deep insight into the interviewees' experiences. Seidman (1998, p.2) supports the interviewing technique by arguing that "recounting narratives of experience has been the major way throughout recorded history that humans have made sense of their experience". In addition, he adds that at the heart of in depth interviews is an interest in understanding other peoples experiences and the meaning they make of those experiences (Seidman, 1998). Interviews therefore allowed for the collection of in depth information.

Interviews also had the added benefit of allowing the interviewer the flexibility to clarify any questions the interviewee may not have understood. It is also the most appropriate approach for studying complex and sensitive areas as the interviewer may prep the interviewee before asking sensitive questions (Kumar, 2011).

It is worthwhile to contrast the interviewing method with participant observation as these two methods are the most prominent research methods used in qualitative research (Bryman, 2012). Firstly, interviewing was advantageous over participant observation as it enabled the researcher to study issues that were not amenable to observation (Bryman, 2012). In this study the researcher was not able to make an accurate deduction of the challenges government, banks and developers face in tailoring products for the gap market simply by observing them. Secondly, the interviewing technique is superior to observation in that it allows for the reconstruction of events in relation to a current

situation-something which cannot be accomplished by participant observation alone (Bryman, 2012). This quality was vital in this study as the researcher was keen to ask the interviewees questions on the challenges they faced either in tailoring products to the gap market or in buying homes if they were in the gap market. These questions required that the respondents think back on previous events that occurred that influenced their current situation.

The researcher interviewed three sets of respondents. Key informant interviews (KIIs) were conducted with selected respondents from banks, property developers and government officials in Cape Town (the interview schedules are attached in Appendix I-III). Key informant interviews were used since these respondents had first-hand knowledge of the home ownership market in South Africa and had a wealth of understanding on the challenges they face in tailoring products for the gap market in Cape Town. In addition, they were in a position to give insightful perspectives on how to overcome these challenges in order to increase home ownership in the gap market. The researcher also interviewed selected individuals in the gap market in Khayelitsha Township.

The researcher used semi structured interviews and not structured interviews. In a structured interview the researcher only asks a standard set of questions and does not deviate from the structure put in place (Leedy & Ormrod, 2012). A semi structured interview follows a set of questions and also allows for a flexible and fluid structure that permits some space for divergence based on respondent's responses, with the interviewer

returning to the structured questions afterwards (Leedy & Ormrod, 2012). These interviews were structured around a standard interview guide (see Appendix I). Another benefit of semi structured interviews was that they addressed the need for comparable responses – all interviewees were asked the same questions – and allowed the interview to be developed by the conversation between interviewer and interviewee (Wisker, 2001). Each of the interviews took approximately forty minutes.

The interviews were recorded and later transcribed for analysis (Bryman, 2012). Permission was sought from the interviewee before recording the interviews. The researcher also did some note taking subject to how comfortable the respondents were with it. Any informal conversations with the interviewees that were relevant to the study were also noted as soon as they occurred.

4.5 Research Ethics

Critical care was taken to observe ethical requirements while conducting this research. Firstly, clearance was obtained from the University of Cape Town Ethical Clearance committee in order to proceed with the research topic and proposed research methods. Secondly, informed consent was sought from all respondents participating in the study (consent form is attached in Appendix V). Respondents participated in the research study voluntarily. They were neither coerced nor bribed to participate in the study.

Thirdly, the interviewer avoided bringing harm to the participants. Sensitive or difficult questions were asked with a conscious level of respect and mindfulness. Fourthly, information from the respondents was kept anonymous. No information about the

respondents was shared with others other than for purposes of the research. Recordings obtained from interviews were kept under custody of the researcher alone. Confidentiality of the respondents was maintained.

Last but not least, the researcher was also diligent in transcribing the interviews and shared the transcripts of the interviews with the respondents in order for them to verify their accuracy before data analysis commenced. The findings reported in the data analysis are an accurate representation of information obtained from the respondents.

4.6 Frameworks for Credibility

Within the research world credibility is demonstrated by indicators such as reliability, validity, authenticity, neutrality and auditability (O’leary, 2004).

The relevance of *internal and external validity* to qualitative designs has been questioned by some qualitative researchers (Leedy & Ormrod, 2012). Bryman (2012) argues that the choice to add *validity* in the research design depends on how far the researcher feels they are appropriate for the evaluation of the research. Internal validity is mainly a concern for explanatory case studies and is inapplicable to descriptive or exploratory studies (Yin, 2009). As this was an exploratory case study internal validity was not of major concern.

Reliability is concerned with demonstrating that the operations of the study can be repeated with the same results (Leedy & Ormrod, 2012; O’leary, 2004; Yin, 2014). “A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real world context, especially when the boundaries between phenomenon

and context may not be clearly evident” (Yin, 2014, p. 16). In this case the research sought to understand the phenomenon – challenges government, banks and developers face in developing products for the gap market – in the real context of Khayelitsha Township. Yin (2014) suggests that one way of enhancing reliability in a case study research is to document the procedures followed in conducting the research. As such, this research documented all the steps followed in the research process so that if need be other researchers would be able to repeat the procedures and hopefully come to the same conclusions. The researcher also followed an interview schedule that “guided the conversation” and enhanced comparisons by ensuring all interviewees were asked the same questions.

Authenticity is concerned with describing the deep structure of an experience in a manner that is “true” to the experience (O’leary, 2004, p. 58). The researcher tried to capture the “true essence” of the information received from the respondents while transcribing the data. The researcher also presented the transcribed data to the respondents in order for them to confirm that the data was a true reflection of their responses.

Neutrality in research requires that subjectivities are recognized and negotiated in order to avoid bias in results (O’leary, 2004). While it is arguable if complete objectivity can be achieved, the researcher was determined to remain true to the research process by making conclusions based on the actual experiences and responses of the informants rather than on the researchers own emotions or personal prejudices. The researcher also explicitly

acknowledged reasons for favoring one research method over another and mentioned the weaknesses inherent in the research methods used.

Triangulation was used to help reduce the effects of researcher bias (Shenton, 2004). Qualitative researchers often use triangulation-comparing multiple data sources in search of common themes-to support the validity of their findings (Leedy & Ormrod, 2012, p. 104). This is done by seeking at least three ways of verifying a particular description or fact reported by a study (Yin, 2011). While different sources of evidence such as archival records, documentation, or observations were not available or feasible in every instance to corroborate all the verbal responses given by the respondents, the researcher maintained validity by obtaining information from different people (Yin, 2011). Here, individual views and experiences were verified against others and, ultimately, a rich picture of the attitudes, needs or behavior of those under scrutiny was constructed based on feedback from several people (Shenton, 2004). To help with triangulation, respondents were interviewed separately in order to ensure independent reporting and corroboration of responses received.

To further enhance confirmability, the investigator drew informants from both users of a service and the professionals who deliver it (Shenton, 2004). This research interviewed both service providers and consumers in the gap market on the challenges they face in trying to provide and or own affordable homes.

Auditability seeks full explication of the research methods in order to allow others to see why and how they arrived at their conclusions (O’leary, 2004). This research was open

and transparent and all aspects of the research process were clearly laid out. The research report has sections detailing the research design and methodology used in the study. All processes involved in data collection and analysis have also been elucidated. Such in-depth coverage will allow the reader to assess the extent to which proper research practices have been followed (Shenton, 2004).

4.7 Sampling techniques

The research questions posed in this study were investigated using data from a sample of banks, the government, property developers and individuals in the gap market in Cape Town. Twenty households in the gap market, three bankers, four property developers and three government officials were interviewed. The total anticipated respondents were thirty. The sample size was selected based on accessibility of the desired target group and time available for the research. A range of twenty-five to fifty interviewees is a suitable size for a qualitative study (Yin, 2011).

The research target area was narrowed to townships as these areas were likely to have households that are in the gap market with monthly incomes between R 3,500 – R 15,000 (Lebone, 2013). Khayelitsha Township was chosen as the area of study because it is the largest township in Cape Town and had a good number of households within the gap market (City of Cape Town, 2013). About twenty five per cent of the population living there earns between R 3,500 – R 15,000 a month while fifty five per cent of the population there lives in shacks (Affordable Land & Housing Data Centre, 2014;

Information and Knowledge Management Department, 2005). This shows the gap (and opportunity) for adequate housing in this area.

A non-probability sampling design was used where, each household of the population had an equal and independent chance of being selected (see Kumar, 2011; Leedy & Ormrod, 2012). This is the best technique to use when the number of elements in a population is either unknown or cannot be individually identified (Kumar, 2011). In this research, not all the individuals in the township selected for the study had an equal and independent chance of selection. Other considerations were also put in place, ensuring that adults eighteen years and above were interviewed, households with monthly incomes ranging between R 3,500 and R 15,000, those who want to own homes, and those who want to own homes through mortgages. As such, a random or probability sampling design was not appropriate.

Furthermore, two non-probability sampling designs were used; the snowballing technique and purposive sampling technique. The snowball sampling technique was used to collect information from respondents in the gap market in Khayelitsha Township. This method involved selecting the desired sample using references from networks (Kumar, 2011). It is best applicable when little is known about the target group, as was the case in this research. The researcher made initial contact with a few individuals in Khayelitsha who were within the gap market. These respondents were either known to the researcher or were based on references given by a contact person there. The respondents in turn identified other individuals in the desired income bracket who then became the basis of

further data collection (Kumar, 2011). This process continued until the researcher interviewed twenty respondents in the gap market for participation in the study.

Purposive sampling technique was also used to target other respondents for the study. In this technique the researcher used her judgment in determining who was best placed to provide information that would help achieve the objectives of the study (Kumar, 2011). In this case government, banks and developers were best placed to describe the challenges they faced in tailoring products for households in the gap market. The researcher selected the three bankers and four property developers that dominated the market and approached them for interviews.

4.8 Data analysis and interpretation

The interviews were recorded and transcribed for analysis. Lofland and Lofland (See Bryman, 2012) suggest that the analysis of qualitative data wait until all interviews are completed and transcribed. The researcher begun the analysis by identifying the main themes or patterns that emerged from the data, otherwise known as thematic analysis (Yin, 2014). Data was analyzed for the words used, linguistic devices, concepts discussed and the non-verbal cues noted by the researcher (O'leary, 2004). Words were explored for their repetition, usage and context and put together to form themes that then enabled a more meaningful understanding of the data obtained from the field.

The themes were also identified through the use of inductive analysis. This involved making specific observations and then drawing inferences about larger more general phenomena (Leedy & Ormrod, 2012). Deductive reasoning which involves starting with

the hypotheses made and drawing logical conclusions from them could have also been appropriate for a study of this type. But this research was not concerned with testing a particular theory or hypothesis and as such deductive reasoning was not the best method for logical reasoning of the research data. Therefore, after identifying patterns, the data was integrated and summarized and propositions offered on how the data was interrelated. Data analysis in a qualitative research is more subjective in nature in that researchers scrutinize the data in search of patterns that are subjectively identified (Leedy & Ormrod, 2012). To overcome this subjectivity the researcher looked for triangulation of data-where different pieces of information point to the same conclusion (Leedy & Ormrod, 2012).

4.9 Data Instrument Pre-Testing

The interview schedule was pre-tested using two respondents in the housing industry – one developer and one mortgage provider. It was also pre-tested on one respondent in the gap market in the study in order to modify the interview questions and correct for any ambiguity and redundancy. Corrections on the interview guide were made based on the results of the pre-testing exercise.

4.10 Limitations of the study

The limitations in this study are outlined below.

Subjectivity is argued to be an integral part of our being (Kumar, 2011). The researcher therefore acknowledged that her background, experiences, philosophies and mental filters could not be avoided during the research process. Furthermore, as this was a qualitative

case study research design, a potential limitation in the sampling strategy employed is that the sample population may not have been entirely representative of the wider gap market population in South Africa. This is an inherent weakness of the case study approach (Leedy & Ormrod, 2012).

The data collection instrument employed – in depth interviews – relies on interviewee responses which are subject to bias, exaggerations, poor recall and poor articulation (Yin, 2009). The researcher however corroborated interview data from several sources to mitigate this bias. The researcher used triangulation techniques. Individuals in the gap market and service providers were interviewed in order to develop a solid understanding of challenges faced in facilitating home ownership in the gap market in Cape Town. Where possible, information was corroborated by research articles and publications that helped the researcher gain a clear understanding of the background to and an explanation of the responses received from the respondents.

CHAPTER 5: RESEARCH FINDINGS AND ANALYSIS

5.0: Introduction

This chapter presents the primary data research findings drawn from the in-depth interviews conducted with twenty households in the gap market, three bankers, four property developers and three government officials. This chapter is divided into five sub-topics as guided by the research questions. The sub-topics explore what is considered as the gap market in Cape Town, the challenges faced by banks, developers and the government in facilitating home ownership for the gap market in Cape Town, what partnerships are in place to facilitate housing for the gap market in Cape Town, the gap in service delivery and finally how the gap between supply and demand for mortgage instruments in Cape Town can be filled.

5.1 Summary of Findings

The main findings from the research are depicted below according to the aforementioned sub-topics.

Table 7: Main Research Findings

Core Themes	Major Findings
Definition of the gap market	There is no clear cut definition of the gap market from the stakeholders. The gap market varies according to income levels and value of property prices.
Major challenges faced by stakeholders in tailoring mortgage products for the gap market in Cape Town	Affordability constraints in the gap market
	Over indebtedness & poor credit ratings of the gap market
	High house prices that limit affordability
Partnerships in place to facilitate housing	Poor supply of housing that exacerbates the housing backlog
	Partnerships between developers and government to obtain land cheaply
	Partnerships between developers and banks for end user financing and to help with developer liquidity.
	Using cross subsidies through the use of mixed income housing developments to subsidize housing for lower income households.

Gaps in Service Delivery	Lack of adequate information on government subsidies (FLISP program) by the gap market
	An overemphasis on home ownership rather than on adequate tenure options (rentals) for those in the gap market that cannot afford home ownership.
	Time-consuming and bureaucratic logjams at the municipal level that result in inefficient approval process for developments.

5.2 Definition of the Gap Market

This research sought to understand the definition of the gap market as perceived by the various stakeholders in the housing industry in Cape Town. The gap market constitutes a sizeable portion (about 20%) of the housing market (See IMIESA, 2013) and as such it was important to establish the meaning of this target market as perceived by the stakeholders. It is imperative to note that no policy document by the government has a clear cut definition of what exactly the gap market is. The term was coined by President Zuma in 2012 to refer to individuals in the market in South Africa who earn too much to qualify for government subsidized housing and too little to receive mortgage bonds from

formal finance institutions (Centre for Affordable Housing, 2012) but it is not clear what the cutoff for this market is. In a recent study (See Centre for Affordable Housing Finance in Africa, 2009) the range is said to be for households earning between R 3 500 – R 18000. Other studies use the term gap market and affordable market interchangeably implying that both terms refer to the same target market (See Rust, n.d.). The obvious implication of this is that there might be fragmentation in addressing the needs of the perceived ‘gap market’.

There has been some ambiguity about what exactly the gap market is. According to one government official,

‘There’s always been this uncertainty about what exactly the gap market is. Currently the FLISP market covers those earning 3501 to 15, 000 rand a month but the gap market definition in current policy is not covered.’

Another government official who was interviewed corroborated this, ‘my understanding of the gap market is those earning above R 3, 500 to those earning about 20, 000 to 25, 000 rand a month.’ As such, there have been various (sometimes conflicting) interpretations of what the gap market is. This makes it harder to meet the housing needs of this market if it is not even clear who exactly constitutes the gap market. The gap market has been defined either according to income range or property value. One of the bankers mentioned the following,

‘The definition of the gap market varies with income and has moved upwards over the years. We are looking at the salary range of between 3, 500 and 16, 000 rand a month. That’s our low end market. Currently it has increased with inflation and gone up from R 16, 000 to R 23, 000 a month but the cap on property value for the gap market stands at 500, 000 rand.’

Another response from one of the interviewed bankers supports this claim. ‘The gap market for us refers to individuals earning between 3500 and 15, 000 rand a month and also refers to properties where current value is at or less than R 500 000.’ According to yet another banker, ‘We term the gap market as those earning between 3, 500 and 10, 000. After the gap market we have the affordable market which includes those earning between 10, 000 and 18, 000 rand a month.’

It is apparent that income ranges for the gap market varies from bank to bank and from stakeholder to stakeholder. If we are to go by the definition of the gap market as those that cannot *easily* access affordable housing, then arguably the gap market could extend from those earning between R 3, 500 – R 18, 000 (affording a house of approximately R 450, 000). While some of the stakeholders interviewed define the gap market according to income levels, others define it according to property values. Some developers extend their definition of the gap market to include houses costing as much as R 750, 000 (See Centre for Affordable Housing Finance in Africa, 2009), affordable to households earning about R 26, 000 a month. One developer confirmed this, ‘We define the gap

market according to two criteria. Property values and income range. Property costing about 300, 000 to 500, 000 rand is gap housing.’

The common definition of the gap market from the various respondents was that the gap market refers to properties not exceeding 500, 000 rand in value. This is also common in literature (See Rust, n.d., Rust 2010). The various definitions given by the different players in the housing industry appear in line with the definition of the gap market according to various literature that the gap market is actually all those who cannot *easily* access affordable housing - that is, where supply doesn’t match demand (Rust, 2010). In South Africa, these individuals typically fall within the R 3, 500 and R 15, 000 monthly income brackets (Lebone, 2013). Lack of clarity on the exact definition of the gap market makes it more difficult to meet their housing needs. To illustrate, it is reported that about seven hundred and fifty thousand households earning between R 3500 – R 16 000 live in inadequate and informal housing, their income notwithstanding. An additional five hundred thousand households in the gap market live in overcrowded conditions (Centre for Affordable Housing Finance in Africa, 2009). These statistics point to the problem of undersupply of housing for the gap market, which could possibly be explained by a lack of clear definition of what exactly constitutes the gap market. This is a real problem (and opportunity) that needs to be addressed. Individuals in the gap market feel the pinch of being in an ambiguous market.

Consider this response from one respondent,

‘I am in what my friends and I call the “stupid class” because we are in between. We don’t qualify for market loans and we don’t qualify for the subsidized houses. We are not middle class and we are not lower class, we’re floating.’

Another response from the respondents perfectly captures this conundrum, ‘There are no appropriate houses for people in between. I’m an “in-betweenener.” I’m not low income neither am I upper income. It’s a challenge because I can’t get what I want.’

Marketing efforts such as measuring the size, value and growth potential of the gap market as well as designing a strategy to meet the needs and preferences of these customers depends on having a concise understanding of who constitutes the gap market. Once this is done, proper market segmentation may take place so that organizations may choose who within the market they will serve. Unless this is done, as in this case, organizations will fail to address the needs of their customers.

5.3 Challenges faced by stakeholders in tailoring home ownership products for the gap market in Cape Town

The gap for homeownership for the gap market in Cape Town is real and persistent. Despite financial sector deepening initiatives, why does this gap still persist? The discussion that follows enlightens us on some of the biggest challenges banks, developers and the government face in closing the homeownership gap in Cape Town.

5.3.1 Affordability constraints

One finding from the research was that income constrains the ability of households in the gap market to realize homeownership.

According to one banker,

‘There is a huge demand for bonds in the gap market but few people can actually afford a mortgage...It is the biggest hindrance preventing people from qualifying for bonds.’

Income is an indication of one’s purchasing power and is therefore a crucial variable in determining if one can afford home ownership. An increase in income catalyzes an increase in demand for housing since with higher incomes more individuals seek to make the transition from renting to owning and/or move to bigger homes (Chen et al., 2007). It therefore follows that lower incomes act as a barrier to homeownership. South Africa is a country of extremes in that great wealth and great poverty coexist (Hurwitz & Luiz, 2007). Inequalities in income mean that the majority of the black South African population remains unable to realize their dreams of home ownership. With a gross national income per capita of approximately US \$8 000, an entry-level house at US \$24 804 is affordable to only about 15% of the population (Centre for Affordable Housing Finance in Africa, 2013). With rising property prices, inflation, escalating prices of building materials and low (and sometimes declining) incomes, effective demand for home ownership (that is willingness coupled with ability to buy a home) becomes low

and limited only to a fraction of the population (Rust, 2006). Bankers, developers and potential homeowners in the gap market all agree that this is a major challenge.

One developer expressed the same concern.

‘For someone earning 15, 000 rand a month, their net income is about 8,000 rand which is needed to take care of food, schooling, clothing and travel for a family of three to four. It really boils down to affordability. Are they able to afford to buy a house?’

These findings lend credit to the hypothesis by Ferguson on why most households remain sidelined by traditional housing finance institutions; the first is that low income households usually cannot afford the debt service required to finance a minimum cost unit; secondly, the small loans required by these households are much less profitable to commercial financial institutions than larger loans (Ferguson, 1999). It is theorized that commercial financial institutions usually have no interest in lending to low income households since small loans required by these households are less profitable as also the fact that the risk associated with such nature of lending is considered higher (Sandhu, 2013).

This explains why lending to the gap market in South Africa has been low. Data from the National Credit Regulator (NCR) shows the country’s entire mortgage book deteriorated between 2004 and 2010 (Lebone, 2013). This is regrettable considering that the Human Settlements Department and the Banking Association committed themselves in 2005 into a partnership aimed at creating a properly functioning housing market in previously

underserved areas, and to making home loans accessible to moderate income households (Tomlinson, 2006). By the end of 2008, only 2.7% of all mortgage credit by Rand value was granted to borrowers earning less than R 10 000 per month (Centre for Affordable Housing, 2012). This has largely been because of affordability constraints on the consumer side (Lebone, 2013).

Theorists argue that affordability constraints on the part of lower income groups subjects them to a high cost of funding as they are perceived to be more risky (Ebrahim, 2009). In essence, banks tend to increase the interest rate for perceived high risk lenders which eventually leads to higher default rates– thus reinforcing the argument that low income people have higher default rate. In essence, it is possible that this perception itself acts as a barrier for lower income households to obtain bonds from financial institutions. This proves to be the case in South Africa. The following is a quote from one financier’s perspective,

‘Because of affordability issues, the credit risk for this group increases. You price for that risk. Their interest rates become higher. This then talks back to the affordability issue. If interest rates are high the required monthly payments are high.’

Credit risk appears to be a real risk for financiers when it comes to funding mortgages for the gap market. It is also possible that banks may not have a complete understanding of how to allocate risk to these individuals, which contributes to banks reduced appetite for lending to the gap market.

Despite banks claiming to limit their credit exposure by preferring to lend to high quality individuals, their exposure to risk remains high. This is because loan to value ratios typically tend to be lower for affordable and social housing assets (because of perceived risk) when compared to traditional residential mortgages and yet this appears not to be the case in South Africa. One banker had this to say,

‘We are offering 100% bonds. Before, we were offering 90% bonds but people couldn’t pay the 10% deposit. That was a big problem people in the gap market were facing that was hindering them from taking up bonds.’

Another banker also mentioned that, ‘We created mortgage products with loan-to-values of up to 110% to finance lower-income homebuyers.’ This statement is a testament to the affordability challenge and banks willingness to enable lower income individuals to qualify for mortgages. Several of the individuals in the gap market also confirmed that indeed affordability was a challenge for them. One respondent echoed the sentiments of several of the respondents I interviewed. He said that, ‘You find that the place you like that is available, secure and with a good transport system then becomes unaffordable. So affordability becomes a challenge.’

Two sobering responses on the same matter went as follows,

‘The other challenge I’m facing is that the kind of money I’m earning is for fixing things now. It’s like hand to mouth. I always thought if ever I got a bond I would afford it but realistically speaking I would not afford a bond at the moment.’

‘I realized even though I wanted to buy a house I couldn’t afford it. I’d pay until I died. I’m not sure I can even afford a house for 100, 000 rand.’

It is interesting to note that despite several of the respondents questioning their ability to afford a mortgage, they still exhibited a fierce determination to own their own homes.

The last two quoted interviewees went on to add that,

‘I must own a house not rent. Renting is a waste of money.’

‘I need my own house. I’m tired of renting. I can even build it myself. What I need is just a roof over my head.’

Affordability is a real challenge especially considering most government workers (nurses and teachers (earning R 3,634 and R 3,953 per month respectively), secretaries, and police officers (earning R 4409 per month) are in the gap market (Centre for Affordable Housing Finance in Africa, 2009). Assuming a family of two working adults, one finds that many of these households are particularly at risk of being in a position where they earn too much to qualify for government housing and yet too little to afford a house in the open market. Nevertheless, satisfying the existing and growing enormous demand for housing depends critically on providing long-term home financing on a very large and sustainable scale (Okpala, 1994).

5.3.2 Lack of Financial Literacy

One of the findings from this research study was the obvious link between financial literacy, consumer indebtedness and home ownership. This could be attributed to the unprecedented increase in access to credit in South Africa. The Black Economic Empowerment Act which led to the commissioning of the Financial Services Charter has led to the easy availability of housing finance and credit, notably store cards and credit cards to lower income individuals. This rise in credit lending levels has not been matched by corresponding training on adequate personal financial management skills for these individuals. Instead, growth in credit consumption in the country has exceeded growth in incomes, leading to increasing levels of household debt (Hurwitz & Luiz, 2007; Reza, 2001). Many lower income individuals do not know how to manage their income and are spiraling into debt at alarming rates. Studies (See Engelbrecht, 2003) indicate that a whooping three thousand individuals get into debt judgments daily because of poor personal financial management skills. This is evidence of poor financial literacy levels in the country. Financial illiteracy is so dire that some individuals in the gap market believe that they can get away with not paying back their loans. This is South Africa's silent crisis. One government official confirms this,

‘People in the gap market believed that with the collapse of the African Bank they didn't need to pay back their loans. There was a rumor that if one had enough debt with African Bank one could get away with it.’ A respondent from the gap

market corroborated this, ‘I understand if your credit is 10 years or longer you don’t need to pay it.’

Personal financial literacy is a major challenge for this market (IMIESA, 2013). Studies confirm that lower income individuals are less likely than their higher income counterparts to have any financial education (Harnisch, 2010). As such, they are more likely to get into more unwise debt, and excessive bankruptcies. Most of the interviewed respondents that were in debt expressed regret at not having good financial management skills when they were younger.

‘I had a really good job at a young age fresh from school. When I changed jobs and got one that paid me less, I still wanted to maintain that lifestyle so I took out loans and clothing accounts. That’s how I got into debt not knowing it would haunt me later when I wanted to settle down.’

Another respondent indicated that,

‘I started working at a very young age. By that time I wasn’t properly thinking about the future so I did all these things and later they came back to haunt me. I don’t know who to blame. I don’t know whether to blame myself or who to blame for not being well informed about the impact of a bad credit score.’

Whilst these responses may indicate some recklessness on the part of consumers in the gap market, they also point to the need for personal financial management education especially for emerging young professionals. This is corroborated by one government

official, ‘We have to go back and address this credit crisis with the current youth as well as with the emerging young professionals.’

A key challenge in achieving the goal of adequate housing (and homeownership) for the gap market in South Africa is the ability to address issues of personal financial management training for consumers. Research indicates that higher financial literacy correlates positively with following sound financial management practices (Harnisch, 2010). Since many gap market individuals lack knowledge on how to manage their income wisely and avoid getting into unnecessary debt, sound financial literacy and education initiatives for this target market will enhance their confidence and improve their ability to accumulate assets and consequently build wealth.

5.3.3 Over indebtedness and bad credit ratings

Credit quality influences home ownership rates since a past history of bankruptcy and late loan payments have large positive effects on the likelihood that a family is credit constrained and therefore unable to secure further credit for home ownership (Rosenthal, 2001). Banks refrain from lending to such individuals. This is confirmed in a statement by one of the interviewed bankers, ‘We hesitate to lend to consumers with poor credit history.’

This has had obvious repercussions on home ownership rates in South Africa. Decline rates for home loan applications have been high (IMIESA, 2013). This was confirmed in a response from one government official, ‘Financial institutions have a decline rate of 75% to 80% because of high debt to income levels.’

The poor credit quality of individuals in the gap market was a second major challenge that most of the stakeholders (banks, developers and government) expressed to be a hindrance to home ownership for these individuals. As one developer told me, ‘many of the people in the gap market are blacklisted because they got into credit and perhaps missed a payment or didn’t pay back their loans.’

One government official indicated the following,

‘I think the major challenge at this point is credit worthiness of that market. It has been shown all over that the credit worthiness of that market and the number of people who qualify for bonds based on their credit history even though the demand is extremely high is a major issue.’

These responses lend credit to some of the statistics received on credit indebtedness in South Africa. As at the end of March 2014, it was reported that there were 21.71 million credit-active consumers out of which those with impaired records stood at 9.60 million (Credit Bureau Monitor, 2014). It appears that the perception by the service providers is that the gap market is plagued by huge amounts of debt.

It is said that the South African urban working class has emerged as a distinct market segment as a result of the post-apartheid government’s black economic empowerment policy but is the demographic most affected by increased levels of household debt (Collins, 2008; Hurwitz & Luiz, 2007).

A few of the respondents in the gap market that were interviewed confirmed that they indeed had poor credit ratings. One respondent had this to say,

‘I’ve gone through the process of buying a house about five or six times but the response I’ve received from the banks is that I don’t qualify for a mortgage because my name is on the credit bureau. This is the biggest challenge that I’ve faced in trying to own my own house.’

A different respondent added the following, ‘I have tried to apply for a bond time and time again but the banks say that I don’t qualify because I am a slow payer. I have been blacklisted and I can’t get a loan from any institution.’

Research reports indicate that credit levels particularly in the R 5,000 – 15 000 income bracket (the gap market) are more dominated primarily by retail and furniture credit (Collins, 2008). This seems to be the case. Most of the respondents interviewed that had credit, indicated that they took out the credit to buy clothes and furniture.

The table below gives an indication of the number of respondents in the gap market in Khayelitsha that had clothing or other credit accounts, uses of credit and the amount of money spent per month to service that debt.

Table 8: Credit use by the gap market in Khayelitsha

	Use of credit	Amount spent per month on credit
1	2 clothing accounts	600 rand
2	2 clothing accounts	500 rand
3	2 clothing accounts	500 rand
4	Credit card for emergencies	varies
5	1 furniture account & 1 credit card	1400 rand
6	2 clothing accounts	600 rand
7	1 clothing account	400 rand
8	2 clothing accounts	500 rand
9	2 clothing account & 1 credit card	700 rand
10	2 clothing accounts & 1 credit card	600 rand

From the information gathered, one can argue that the credit obtained by individuals in the gap market is a cause of concern since it is being used to purchase commodities with little or no exchange value beyond use-value considerations. Several of the respondents however indicated that they would cut back on their spending if they could get a loan to buy a house. One can only infer that some of these individuals spend their money on clothing accounts because they have no bond payments to make.

One respondent stated that, ‘I would give up a lot to be able to own my own house. I would give up going out, clothing accounts and things I feel I can live without.’ Another respondent echoed the same thing, ‘If the banks gave me a house and I was paying a bond of 2, 000 rand, I would cut down on other things because I know that would benefit me and my kids.’

This is however contradictory to a response received from one developer who had implemented a rent to buy scheme for individuals in the gap market. The scheme was implemented in order to allow individuals in the gap market who aspired to home ownership to have a chance to clean up their credit record as well as prove that they had the discipline to manage mortgage payments. Renters paid a certain amount each month to live in the house, and at the end of a set period – in this case within five years – the tenants had the option to buy the house. It was expected that tenants would use this time to clean up their credit record and also perhaps save for a down payment for their bond but this wasn’t the case. The developer had this to say about the rent to buy scheme, ‘At the end of the five years they weren’t ready to buy the houses. If they had spare cash they bought a car, big screen TV’s, furniture, clothes and got further into debt.’

It is not clear whether consumers in the gap market faced with these choices will cut back on their spending to get a bond. It is clear that easy access to credit has undermined the ability of lower and moderate income earners to afford bonds for housing.

5.3.4 House Prices

High house prices also emerged as a challenge that prevents individuals in the gap market from realizing home ownership. The demand for residential real estate as influenced by population growth, interest rates, income and employment levels mean that house prices may continue to rise over the years. House price is the most important determinant of the affordability of home ownership (Chen et al., 2007).

Rising house prices are often seen as a positive attribute since capital appreciation increases individual wealth. But rising prices also have the unwelcome effects of lowering the rate of house building and creating affordability problems which reduces the standards of living of everyone (Barker, 2003). In South Africa, an interest rate peak at 22.75% prime in 1998, followed by a trough which leveled out at 10.5% in 2005 had an almost instantaneous impact on property prices which doubled and in some cases trebled in the period (Rust, 2006, p.9). As a result, rising property prices have made bond repayments beyond the reach of many.

Chen et al., (2007); Engelhardt, (1994) argue that rising house prices present the dual challenge of increasing the down payment required while purchasing a home and raising the required monthly mortgage payment. In essence, rising house prices require higher incomes in order to afford them. According to one of the bankers interviewed for this research, 'Rising property prices require higher deposits and higher monthly mortgage repayments. This ultimately widens the affordability gap between the poor and rich.'

The affordability gap impacts home ownership levels in the country as more and more people are subsequently forced to rent. For some residents,

‘...If you cannot buy a house you are forced to rent.’

‘Because of high property prices, I have been forced to rent. I am renting everywhere... I’ve been renting for 12 years.’

Further increase in house prices without sufficient increases in earnings make the dream of homeownership even more elusive for a majority of South Africans. As it is, real earnings especially for lower income groups have not risen over the years (Statistics South Africa, 2006).

Rising development costs have also made it difficult for developers to provide affordable houses for the gap market. Rust (2006, p. 9) cited a comment by the Mail and Guardian newspaper that “cement prices have more than doubled in the past seven years and, with production capacity currently ‘under pressure’, could rise even higher, placing the government’s infrastructure rollout in jeopardy.” This is compounded by escalating prices of building materials which have underpinned efforts to increase the supply of low cost housing. As one developer put it, ‘Development costs just don’t allow you to go lower. What one can do is play around with the land price.’

Therefore, developers face the insurmountable task of delicately balancing land costs, development costs and quality in order to build houses that are affordable to the gap market. Partnerships with the government appear crucial in order to do this goal. One

developer specifically noted forming partnerships with government to get land. According to him, “if you can’t get land from the government, you cannot be able to build products that people in the gap market can afford.’

The government has tried to address the issue of high property prices amidst low incomes by creating the FLISP subsidy. The subsidy was introduced for the twenty per cent or so households earning between R 3 501 and R 15 000 (US \$500 – US \$1 810) per month (the gap market) that earns too much to qualify for free RDP housing and is too poor to afford a mortgage loan in the open market. The FLISP subsidy has however been criticized for achieving little impact because of how it had been structured (Centre for Affordable Housing, 2012). According to one developer, ‘There have been few FLISP projects that have been implemented because the model didn’t work. I know they’ve now revised it. The pricing of the FLISP subsidy seems a bit light though.’

Therefore, following widespread criticism of the structuring of FLISP, the subsidy was recently revised.

‘Property prices in the Western Province are much more expensive than other provinces. That is why the ceiling of house prices has been lifted and now individuals earning between 3501 and 15, 000 can buy houses costing more than 300, 000 on the FLISP subsidy.’

Previously, the FLISP subsidy was accessible only when linked with mortgage finance to purchase a new house costing less than R 300 000 (US\$ 36 218). The subsidy offers beneficiaries a once off capital contribution of between R 10 000 – R 87 000 (US\$ 1 207

– US\$ 10 503), depending on household income and can now be used to purchase houses costing more than 300, 000 rand (Lebone, 2013). The expectation is that, by increasing the affordability of the gap market through the FLISP subsidy, the private sector will finally begin to deliver housing products able to fill the current gap between free subsidy houses and the products for the higher income market (Tomlinson, 2006). As the next section shall illustrate, it is debatable whether this goal has been achieved.

5.3.5 Poor supply of gap housing

The demand for affordable housing in South Africa has increased, resulting in a growing housing backlog and situations where demand for housing outstrips current supply (IMIESA, 2013). The first implication of the shortfall in formal housing is that populations that are not catered for (or could not afford houses at the prevailing market prices) have to turn towards self-built and informal housing. In urban areas this translates into the growth of slums (Arvantis, 2013). It is reported that over 400, 000 (12%) of people in the gap market are living in inadequate housing. About 500, 000 (16%) of them are living in overcrowded spaces and approximately 350, 000 (11%) are living in informal settlements (Centre for Affordable Housing Finance in Africa, 2009). The mismatch between supply and demand has served to increase the housing backlog which currently stands at 2.1 million units (Department of Human Settlements, 2004). In addition, there has also been a decline in the production of affordable houses (Department of Human Settlements, 2004). Statistics report that residential buildings constructed by

the private sector dropped by 60% between 2003 and 2012 (Lebone, 2013). This could partly be attributed to high property prices (Barker, 2003).

A key challenge in meeting the housing needs of the gap market is the massive shortage of housing costing between R150 000 to R450 000. The question now is not whether banks are willing to finance the bonds but rather if there are products available in the market in the required price range. Government officials argue that, ‘There are not enough products on the ground for the gap market even though now we’re trying to facilitate the gap market along our major transport systems.’

In 2005 therefore, it was estimated that an annual delivery of about 132 000 units was required to address the housing backlog and accommodate population growth (Centre for Affordable Housing Finance in Africa, 2009). An increase in housing supply was deemed to be paramount in order to extend the levels of home ownership (Arvantis, 2013).

The long standing shortage of affordable housing units could be attributed to the markets primal interest in serving the high income market. The market approach usually focuses on building new, modern, bigger and better quality housing units targeting upper income individuals with the hope that as upper income households move to new housing units, they leave their previously occupied units vacant and subsequently available to individuals down the income ladder.

Research indicates that 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’ (Rust, 2006, p. 33). Simply put, there has not been sufficient effort to understand how the housing needs of lower income earners affect those either above or below them in the housing ladder. Even housing officials acknowledge that one cannot look at the market as individuals. ‘If we unlock this challenge to create a more formal and structured market for the gap bracket, we release the bottleneck that they create for those at the lower end of the housing ladder.’

This indeed proved to be the case on the ground. It was observed that as a result of inadequate housing supply those in the lower half of the gap market often tried to buy the government subsidized RDP houses in the townships since those were the only houses in the market that they could afford.

One respondent added that, ‘There are no houses available at a price range that I can afford here in Khayelitsha or elsewhere. That’s why I’ve been looking to buy an RDP house.’ It is noteworthy that banks generally do not finance bonds to purchase RDP houses and as such these purchases are often done informally.

It is essential to note that due to the insufficient supply of housing opportunities, the gap market has taken up accommodation intended for the RDP market (those earning between R 0 and R 3, 500) thereby pushing the RDP market further into informal settlements and inadequate housing conditions. Literature confirms that, informal housing supply is in fact the dominant delivery mechanism in the gap housing market (Rust, n.d.). Percentage wise, 15% of those earning R 3,500 – R 8,000 and 4% of those earning R 8,000 – R 12

000 live in informal housing while the others live in overcrowded conditions, or inadequate structures their income notwithstanding (Centre for Affordable Housing Finance in Africa, 2009). Housing officials add that,

‘The gap market currently occupies the rental stock of the 3, 500 and below market through backyarder dwellings and other rental options. This then pushes the bottom market into informal settlements and overcrowded accommodation.’

Another respondent corroborated this point, ‘I am paying about 350 rand a month on rent. I am renting a shack at the back.’ A government official pointed out why this happens, ‘because the gap market are much more able to pay for the backyarder accommodation, people will take them in rather than those earning 3, 500 and below’.

The housing backlog has resulted in the sprawling of informal settlements, overcrowding and insecurity in South Africa (Department of Housing, 1995). Between 1996 and 2011 there was a 76.8% increase in the number of informal dwellings or shacks in backyards in South Africa (Lebone, 2013). The availability of housing for individuals at various income levels is important for housing mobility. That way, as a household moves up the ladder to the next available housing units, they free up their previous house for another family and therefore inadvertently become part of the housing supply chain.

It is also interesting to note that those at the higher end of the gap market didn’t prefer to buy houses in the townships or to buy shacks as they preferred a ‘better’ environment to raise their children. Consider these two responses,

‘For R 200, 000, you can get a shack. I don’t want to buy a shack. I wouldn’t want to raise my kids in such.’

‘The banks say when you earn R 10, 000 then you qualify for a bond but the bond is only for 200, 000 rand. Where will I get a house for 200, 000 rand in a decent place in South Africa? You can never! I don’t want to buy a house in a township.’

There is a shortage of affordable housing in the R 100 000 to R 250 000 and the R 200 000 to R 600 000 price ranges (Kneale, 2013). The literature suggests that bankers and developers are wary of offering an equivalent to the subsidy unit for sale, for fear of the commercial risk this would create as buyers with a twenty-year loan obligation realized that others were receiving the same house for free (Centre for Affordable Housing Finance in Africa, 2009). Since the government subsidized RDP house costs about R 180, 000, builders and financiers hesitate to build houses costing 200, 000 and less. The specifications applied to the government subsidized house price the next level up out of the affordability of the target market (Centre for Affordable Housing Finance in Africa, 2009).

According to government officials, ‘There are no products costing R 150, 000. That is obviously a gap in the market. For persons earning from R 3,501 to R 7, 000 there are no houses for them to buy more so in the Western Cape.’

Notice that there appears to be a split in the gap market between the upper gap market (R, 7, 000 to 15, 000) and the lower gap market (R 3500 – R 7000). One government official

noted that, ‘Banks and developers move to the upper end of the R 3, 501 to R 15, 000 market because of less risk with the upper gap market than with the lower half.’

Literature confirms that the cheapest newly built house in the South African market costs about R 250 000 (US\$ 30 000) and can only be afforded by households with an income of about R 8 000 – R 10 000 (US\$ 960 – \$1200) a month, assuming they have no other debt (Centre for Affordable Housing, 2012). It has also been reported that families earning between R3 000 and R9 000 a month are particularly vulnerable to being in a position where they earn too much to qualify for a government housing subsidy but not enough to qualify for a traditional mortgage (Finweek, 2010).

Some of the stakeholders in the housing industry are doubtful as to whether the lower half of the gap market can actually afford bonds for home ownership. This is according to a statement from a government official who stated that, ‘Those earning between R 3501 and R 7000 can’t afford the houses in the market. They are a good target market for rentals.’

Another government official added that,

‘Home ownership for all has become a fallacy. I call it an urban legend. Certainly those in the bottom half of the gap market can’t afford to buy homes, even the RDP houses costing R 180, 000. They must rent.’

Homeownership for lower income people has been held up as a government-supported South African dream. But it is evident that the government is unable to keep up the

growing housing demands amongst its citizenry (Centre for Affordable Housing, 2012). As a result, some stakeholders are weighing whether it would be better to focus on rentals for the gap market especially for the bottom half of the gap market rather than on homeownership.

Government officials interviewed for this research gave a similar account on this. This perhaps hints at a possible shift in government policy in moving towards affordable rentals rather than on homeownership. According to one government official, ‘Government cannot deliver at the pace that the gap market is growing.’ This is because, ‘People have been indoctrinated into the system that they will be home owners but that’s not possible. Give those people decent rental opportunities.’

In conclusion, several myths about the housing preferences of the gap market were disproved in the course of undertaking this research.

Table 9: Summary of new understanding obtained about the gap market

Myth	Findings
<p>Individuals in the gap market in Khayelitsha cannot be able to afford homes</p>	<p>Respondents showed willingness to spend considerable portions of their salary – many of them about R 2, 000 a month for bond repayments.</p> <p>Respondents were willing to make sacrifices in order to afford mortgage payments</p>
<p>Gap market individuals have adequate information on subsidies and housing finance options available to them</p>	<p>None of the respondents interviewed knew about the FLISP subsidy the government had created expressly for people like them that earn too much to obtain RDP housing and too little to afford market housing.</p>
<p>Gap market individuals have an adequate supply of housing available to them</p>	<p>Many of the respondents in the gap market were looking to buy RDP houses since these were the only houses they could afford in the market.</p>
<p>Renting</p>	<p>Most of the respondents preferred owning their own homes to renting even though they couldn't afford mortgages to buy houses at the prevailing market prices.</p>
<p>Capital costs of housing</p>	<p>Average price of houses desired by individuals in the gap market in Khayelitsha was about R 100, 000 – 200, 000.</p>

5.4 Partnerships in place to facilitate housing for the gap market in Cape Town

Development cooperation involves the coming together of any two or more actors in order to change the living conditions of vulnerable groups in society. Strength sharing is the key to successful public private partnerships in housing projects (Cabana, 2014). The different stakeholders must be proactive and provide supportive actions to others to ensure a collective growth in every facet of the development (Abidin, Yusof, & Othman, 2013). In Sudan, in order to meet the housing needs, the public sector provided the required regulatory frameworks, investment guarantee and land while the private sector provided financial resources and technology (Cabana, 2014). The government is often one of the main institutions that have a major influence over the development of any industry (Abidin et al., 2013). As such, several strategic partnerships formed with the South African government have catalyzed the growth of what has now come to be termed as the affordable market.

The gap or affordable market now the largest market in South Africa with the most people and the most properties (Rust, 2010). It is estimated that over 50% of the six million residential properties on the Deeds Registry are valued at less than R 500 000 and are therefore in the affordable market (Rust, 2010). When asked what could have led to the unprecedented growth of the affordable market and what would address the looming housing shortage in South Africa, two stakeholders had this to say,

‘Partnerships between the public and private sector are crucial in addressing South Africa’s looming housing shortage.’

‘The strong performance of the affordable housing segment has been the result of strong mutual partnerships between the public and private sector.’

5.4.1 Key differentiators between the affordable and market housing developers.

i. Obtaining land cheaply

The financial market segment, which includes the banking sector and investors, plays a critical role in ensuring the smooth functioning of the property market. Without an effective capital market, it is difficult for investors to raise the necessary funding and developers find it difficult to fund development projects. In the gap housing market, capital markets provide the mortgage financing that enables individuals to acquire houses at affordable prices. But public sector interventions and institutions equally have an important role in the facilitation of mortgage financing to lower-income groups. Therefore, several linkages have been formed in South Africa in order to support the development of a well-functioning lower income housing market. The National Government provides funds and jurisdiction to municipalities to take charge of the housing needs represented in their locations.

Often in affordable housing policies, business-partnership ventures are formed whereby the state provides the land for the development of affordable housing units while the market provides the financing, implementation and delivery of housing units (City & Onatu, 2010). A crucial task for developers is to obtain land cheap enough in order to build affordable structures. In South Africa, land is sometimes given away freely to the developer by the government while in other instances the developer seeks reimbursement

for private land that they have borne holding costs for whilst they await development approvals (Centre for Affordable Housing Finance in Africa, 2009). The developers interviewed indicated that they indeed got into several partnerships with local government in order to get land free or at reduced prices. This is because, ‘A challenge we face as developers is to keep the costs of a developments at a minimum but with the right quality as well. Land is a huge cost of the overall cost of a house.’ Another developer corroborated this by saying, ‘The challenge we face is to get land affordable enough to be able to go through the process of servicing it, building a house and selling it at a profit while still keeping it affordable.’

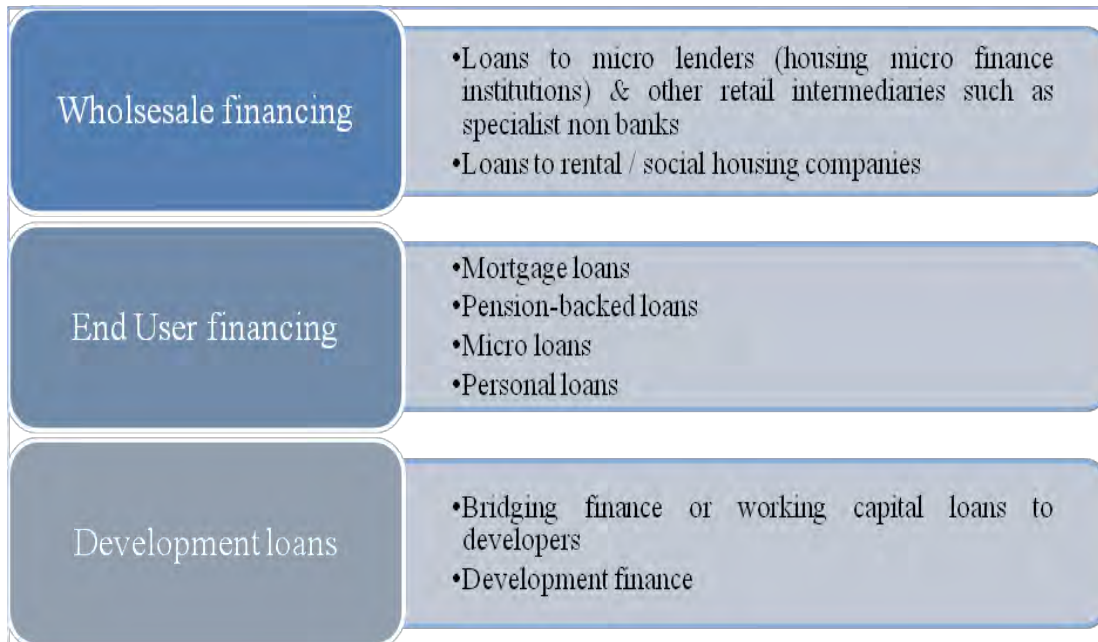
In conclusion, developers interviewed for this research agree that, ‘The government recognizes that the private sector cannot be able to serve the gap market unless there is an intervention from the state side with regards to the land.’

ii. Working in partnerships with banks

Banks and developers work hand in hand to ensure that customers get financing to buy houses. Banks also help developers with their liquidity. When asked about the partnerships they have formed in order to provide affordable housing, one developer had this to say, ‘We work very closely with the banks. Not only because of the bonds they give our clients but they also give us a rolling facility that helps us with our cash flow.’

The figure below summarizes the different housing finance products available in the market.

Figure 4: Housing Finance Products available in the housing industry

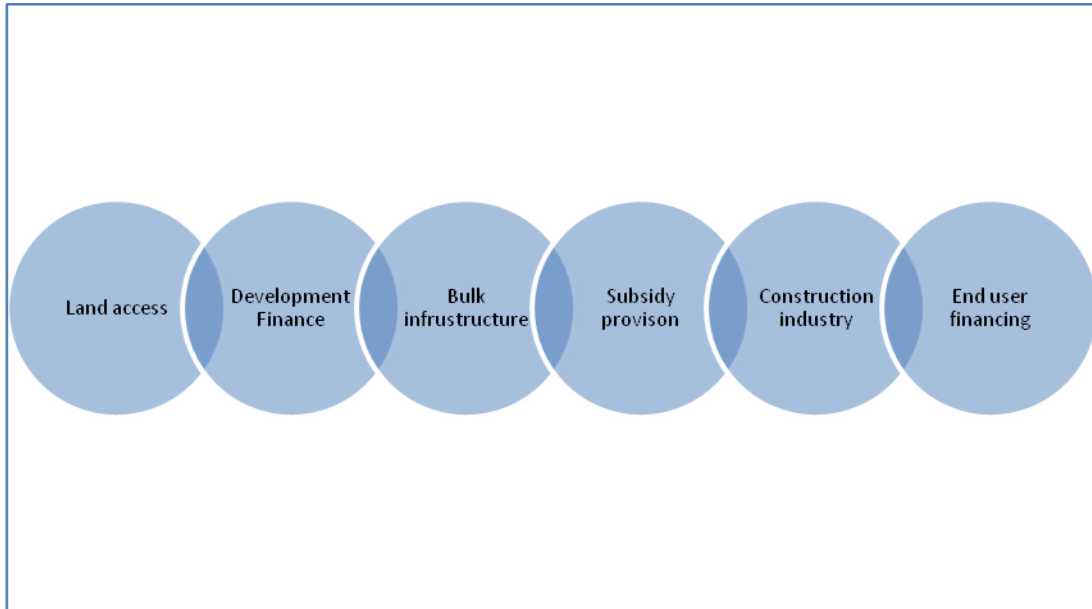


Based on the responses received, these are some of the stakeholders involved in the housing gap market.

Table 10: Hybrid Value Chain of the housing Gap Market

STAKEHOLDERS	CONTRIBUTED	GAINED
National Government	Housing subsidies	Delivery of housing policies and the constitutional right to adequate housing.
Provincial Government	Land	Reduced housing backlog
Private/Wholesale Funders	Provide funding for the project	Equity; Interest Income
Housing Professionals (architects, engineers, project managers)	Technical, environmental & construction knowledge & design innovation	Service fee for technical advice & knowledge of a new market segment
Real Estate Developers	Source for land, delivery of complete housing units	Access to new markets & cash flow from the sale of houses
Gap Market	Demand for home ownership	New houses

Figure 5: Summary of Housing Value Chain



iii. Using cross subsidies for the housing projects

The concept of mixed income housing developments is gradually gaining momentum in South Africa. Local government, in an effort to address the challenge of rapid growth in housing demand, has placed a high premium on informal settlement formalization and mixed-income housing development with an aim of tackling urban poverty, segregation and redevelopment (City & Onatu, 2010). As a result, integrated housing projects in South Africa have attempted to challenge historical housing provision informed by racially and economically defined spatial segregation by incorporating people from various income groups ranging from above-moderate income to very low into the same housing projects. One government official confirms this, ‘In mega projects you need to have components of the various income brackets so that you don’t build slum towns.’

The aim of mixed income housing projects in this case is to address the issue of ‘urban ghettos’ by enhancing neighborhood characteristics.

Developers have also undertaken to build mixed income housing projects in order to have the various income groups subsidize housing for the next lower income group. In such cases, units are allocated based on a quota system whereby the developer is obliged to build certain above-moderate income and low income housing units. Consider this comment, ‘We develop integrated housing projects where the market houses subsidize the FLISP market houses which in turn subsidize the RDP houses. It works perfectly’

These projects are often structured as public private partnerships between the City of Cape Town (the land owner), the provincial government (the subsidy provider) and private developers.

5.5 Gaps in Service Delivery

Access to quality, affordable housing in cities has been an ongoing challenge and a persistent and contentious public policy issue in South Africa (City & Onatu, 2010). The newly elected government in 1994 prioritized the provision of adequate housing for the very poor in its RDP Programme. A target was set for the delivery of one million houses in five years (City & Onatu, 2010). Four hundred and seventy housing units were delivered in South Africa every day between May 1994 and May 2002 (City & Onatu, 2010, p. 210). The government has been criticized for its focus on the rapid delivery of housing as it has overlooked other critical vehicles that could facilitate the provision of affordable housing for the majority in South Africa.

5.5.1 Lack of adequate information on government subsidies

In 2004, the Cabinet adopted the Breaking New Ground (BNG) strategy that aimed to promote an integrated society by developing sustainable human settlements and quality housing (Department of Human Settlements, 2004). The BNG plan contains a subsidy system (the Finance Linked Individual Subsidy Programme) for households earning between R 3 501 and R 15 000 (US \$500 – US \$1 810) per month (the gap market). The subsidy was created specifically for the gap market after the realization that this income group was constrained in that they earned too much to qualify for free RDP housing and were too poor to afford the mortgage loans in the open market. Despite the promise it holds to enable low income individuals to become home owners, the FLISP subsidy program has been criticized for its slow implementation (Centre for Affordable Housing, 2012). It is unfortunate that none of the respondents from the gap market in Khayelitsha were aware of the government subsidy created to assist people like them. Here are some of the shocking responses from the various respondents,

‘The government gives free housing to very poor people. Why can’t they assist people in my income bracket?’...‘The system already caters for people who are unemployed and can’t afford houses. It would be good if we could get access to resources to be able to own a house.’...‘I don’t know of any support that’s out there for people like me in the stupid class.’...‘I would want the government to give me a push and assist me in owning a house. I don’t know of any help that the government gives us normal people.’

Government officials are aware of this problem, 'There is not sufficient education to the gap market on how they can help themselves to manage their housing needs. Not many of them know about FLISP.' Responses from some respondents shed some light on why the FLISP subsidy isn't popular.

'The first challenge with FLISP is that it takes too long for a beneficiary to get access to it. It can take up to a year to get a FLISP subsidy. Secondly, the bureaucracy and administration around getting people the FLISP subsidy can make them get into a blacklisting crisis as they wait to receive it.'

The administrative challenges of getting the FLISP subsidy make it difficult for estate agents and banks to lend based on the subsidy. Estate agents work on a commission basis and as such do not reveal to their clients that they would be able to qualify for a FLISP subsidy as this would stall the sale of their house and subsequently stall their commission. One developer noted that, 'Estate agents want the process through quickly so that they get their commission.' Upon investigating the efficacy of the FLISP subsidy further, it became apparent that banks hesitate to give bonds based on the FLISP subsidy. This is because, 'the FLISP subsidy is cumbersome.'

The government has tried to address this challenge by creating a window period within which a home buyer can apply for the subsidy even after buying a house. One government official added that, 'If someone has purchased a property and qualifies for FLISP, they have up to a year post registration of the property to apply for the FLISP subsidy.'

Despite this improvement, it can be inferred that most people in the gap market are unaware of the FLISP subsidy let alone the window period.

5.5.2 Overemphasis on home ownership

The world over, there is a rigorous and analytical discussion on the benefits of homeownership versus renting. This debate is an important one as far as personal finance is concerned since occupancy costs amount to about 20% -25% of the typical family budget (Shelton, 2001). The rental industry has however received limited attention compared to home ownership in many developing countries (The World Bank, 2009). Many governments, including the South African government have supported home ownership over rentals especially for lower income individuals on the basis that home ownership allows these individuals to gain access to a medium that will allow them to participate in the formal financial economy. This policy approach is characteristic of South Africa, where the government provides historically disadvantaged households with a monthly household (joint spouse) income of below R 3,500 with formal free hold title deeds to small newly built houses that are fully subsidized by government (Davies et al., 2007). In essence, this is a perpetuation of De Soto's 'land titling' theory which posits that formal land titling can play a big role in enabling previously marginalized lower income groups to participate in the formal financial sector (de Soto, 2000).

The FLISP subsidy was also created in 2012 to enable individuals in the gap or lower middle income market to obtain mortgage finance from financial institutions. In South Africa, home ownership has been seen as the definitive measure of financial success: a

commodity that can be traded, improved and used as security for loans, representing an individual's primary stake in the economy (Lemanski, 2011). Home ownership is also believed to provide several social and economic benefits such as ontological security (Dupuis & Thorns, 1998), a higher sense of control (Herbert & Belsky, 2006), increased self-esteem and self-sufficiency (Kleinhans & Elsinga, 2010b) as well as enhanced wealth through capital appreciation (W. Rohe et al., 2002; Ronald & Doling, 2012).

The South Africa government has injected more than R 44.1 billion in the belief that home ownership is an important tool against poverty (Southern African Housing Foundation, 2007). By 2014, the government had delivered 3.7 million housing opportunities to its residents, a feat accomplished by no other country (City & Onatu, 2010; Department of Human Settlements, 2014).

As a result of these initiatives, many lower income individuals (even the gap market) have been indoctrinated into the belief that they must own their own homes. One government official explains his frustration, 'The days of free housing are over. People have to change their mentality of waiting for the government to provide them with free housing.' Another government official reiterated the same thing, 'Home ownership for all has become a fallacy. I call it an urban legend.'

There are also concerns that the government has focused too much on home ownership for lower income individuals rather than on creating an environment that enables diverse tenure options to thrive. This is all the more regrettable seeing as not everyone in the economy can be able to realize owner occupancy. Another implication of this approach is

that the bulk of the government subsidies go towards assisting lower income households to realize and sustain homeownership (The World Bank, 2009). Private sector tenants do not receive as much help. Reports indicate that very little new development of formal rental stock, especially in respect of the low-middle income target, has happened in recent years (Rust, 2006). One interviewed government leader noted that, ‘Giving free housing to people is not the answer and is not sustainable. They need good rental opportunities.’ He went on to add that, ‘The rental stock will address the credit worthiness issue that this market faces.’

Reports indicate that there is indeed a severe shortage of rental accommodation in large urban areas in South Africa (Centre for Affordable Housing Finance in Africa, 2009). The total estimated demand for affordable rental housing stood at about 1,8 million units in 2001 and was expected to grow at about five percent per annum (Rust, 2006). Taking into account the affordability (and credit worthiness) constraints mentioned by the respondents in the gap market, especially those in the lower half of it (earning R 3, 00 – 7, 000), it can be inferred that perhaps home ownership may not be the most ideal tenure system and that perhaps affordable rental options would be better suited for them.

The government officials interviewed expressed concern over the governments focus on being a housing deliverer rather than an enabler. They each noted that the days of free housing were over and that the government could no longer afford to deliver housing to people. The downside of the government, in removing the private sector from its central role as developer, and handing this role over to under-resourced local authorities

expected to carry out supply driven delivery, is that the delivery process has slowed down enormously (Tomlinson, 2006). One government official noted that, ‘we don’t have the resources to deliver 20, 000 to 30, 0000 units a year. The economy won’t allow it.’ Consequently, ‘the definition of our targets should change and start focusing more on enabling rather than delivering houses.’ Indeed the South African housing policy acknowledges that the subsidy is insufficient to ‘cover the cost of delivering a formal house to every South African in need of housing’ (Department of Housing, 1995).

5.5.3 Inefficient approval processes for developers

Currently in South Africa, local authorities are expected to determine where houses should be built, what standards should apply, and then to hire and manage and monitor the companies that will establish the townships, install bulk infrastructure, service the stands and build the houses (Tomlinson, 2006). A (negative) consequence of this is the time-consuming bureaucratic logjams arising from such a planning approach (Tomlinson, 2006). Research undertaken on behalf of the Banking Association in 2005 found that where it took between twelve and eighteen months to convert raw land into registrable stands, the process now takes a whopping thirty to fifty nine months because municipal governments have insufficient capacity to perform their role in the development process (Rust, 2006).

One banker noted that lack of adequate supply of housing stock for the lower and moderate income earners is because of inefficiencies at the municipal level in facilitating the development process. According to this banker, ‘This ends up delaying delivery and

increasing costs which regrettably discourages developers from participating in this process.’

All four developers that were interviewed were questioned on the challenges they faced in tailoring products for the gap market. One major frustration that they all expressed was that the amount of time it took to obtain approvals from the city which consequently increased their risk and ate into their profits. Naturally, where the perceived risk of a project is higher, the risk pricing and consequently developer margin is set higher thereby making housing more unaffordable (Centre for Affordable Housing Finance in Africa, 2009).

‘Going through the approval process and environmental impact assessments could take you anything from three to five years. In the mean time, you’ve got a bond that you are servicing on that land and you still need to put bulk services. By the time you’re done you cannot put that product in the market in the gap market. It stops being affordable’ ... ‘Getting the plans approved takes too much time. This affects your risk and the costs of the projects and developments.’

When asked about why this was the case, one government official noted that they experienced dire capacity constraints at the municipalities. A (negative) consequence of this is that, ‘It becomes difficult to approve the environmental impact assessments, subsidies, general plans and zoning issues in good time.’ Another government official also felt that they could do more to make it easier for developers to target the gap market. ‘We can incentivize developers by providing them with tax breaks, shorter approval

processes and reduced development levies.’ The stakeholders in the housing industry must address these obstacles, and be mindful of ever emerging challenges that the industry will face. By working together in mutually beneficial partnerships these obstacles can be addressed and the dreams of adequate and affordable housing as entrenched in the South African constitution become a mission fulfilled.

CHAPTER 6: CONCLUSION

A cursory view of South African cities indicates growing levels of derelict inner city buildings, sprawling informal settlements, overcrowded housing spaces and inadequate housing. All these are indicative of the dire housing crisis in the country. Housing supply does not meet the current demand. This is especially so in the gap market which faces an acute housing shortage.

The first research question in this thesis asked ‘What is considered as the “gap market” in Cape Town?’ The findings were somewhat expected. On the whole, the gap market refers to those who earn too much to qualify for government subsidized housing and too little to receive mortgage bonds from formal finance institutions. Nevertheless, there hasn’t been a single policy document by the government defining the exact cut off for the gap market. As such, the various stakeholders in the housing industry have created their own definition of the gap market. The gap market is generally defined in terms of income and value of houses. For the latter, houses costing less than R 500, 000 in value are termed as gap market or affordable housing. The definition of the gap market varies with income but seems to be moving upwards with inflation. Proper demarcation of the gap market needs to be done so that the stakeholders in the housing industry can effectively meet the housing needs of this target market.

The second research question sought to investigate the challenges faced by banks, developers and the government in designing mortgage instruments for the gap market in

Cape Town. These largely included affordability constraints, over indebtedness and poor credit ratings of this income group. Easy access to credit has undermined the ability of the gap market to afford bonds for housing as has high house prices and current undersupply of gap market housing.

Several public private partnerships have been put in place to facilitate housing for the gap market in Cape Town. These partnerships, often characterized by strength sharing, have been crucial in catalyzing the growth of the affordable market. The state has often provided land for the development of affordable housing units while the private sector has provided the financing, implementation and delivery of housing units. As such, government, financial institutions and developers often work hand in hand in most mega development projects in order to ensure the smooth delivery of housing to the gap market.

This research also sought to establish the gaps in service delivery in meeting the demand for home ownership products suitable to the gap market in Cape Town. This is largely because of the current mismatch between demand and supply of housing for the gap market. It emerged that there is lack of adequate information in the gap market on the FLISP subsidy. None of the interviewed respondents were aware of the FLISP subsidy that was created specifically for them. The current approval processes at the municipal level have also been criticized for being inefficient and cumbersome. It takes too long to obtain approvals for developments. This has the (unwanted) effect of causing construction delays, increasing risks and costs associated with construction which

ultimately discourages developers from participating in this market. Another major gap that was identified was the current government's overemphasis on home ownership for lower to moderate income households rather than on the provision of adequate tenure options for this market. There was a consensus that the government could not sustainably provide housing for all lower income individuals and as such should focus on providing adequate rental stock for those that cannot afford home ownership. In practice, this may mean broadening the government's view of housing intervention such that more players are incentivized to get into the housing market.

In order to address the current mismatch between demand and supply of housing for the gap market, the researcher established that the market would need to provide adequate housing stock and tenure options for all individuals in the market – whether high or low income. This approach would have the effect of catapulting individuals at one level of the housing ladder onto the next upper level, making their previously occupied unit available to others. The challenge is to ensure adequate supply of housing at affordable levels for each of the income groups and ensuring that the housing backlog does not become any bigger.

CHAPTER 7: RECOMMENDATIONS

Housing is important because of its performance as both a private asset and public good. At an individual level, housing can perform as an asset financially, economically or socially. As a public good the housing sector in South Africa is a rapidly growing subsector of the economy. In addition, the housing sector has a series of hidden multipliers that are useful for emerging economies. Given the importance of housing, the housing production chain is only as strong as its weakest link. Government policies are needed to ensure that each part of the chain works well. Based on the theoretical constructs developed and findings from the research study, the following are some government initiatives that can enhance the effective development of the housing market in South Africa. Inasmuch as government plays an integral role in the development of any industry, government, however, does not have the capacity to meet a country's housing needs on its own-the private sector must be involved if the housing sector is to grow.

7.1 Different Interventions for improving housing affordability

It is unlikely that there is a silver bullet product that will solve the housing crisis in South Africa but rather it is a bespoke package of interventions based on an understanding of the needs of the market in terms of the constraints to their operating efficiently and effectively within a particular context. The government would need to develop a package of products to achieve this goal. Below are some of the interventions the government might consider.

7.1.1 Stimulate increased supply of housing

Housing backlogs and inadequate supply of housing prevent the mobility of individuals across the various levels of the housing ladder. Adequate supply of housing must therefore be the central priority of the government. Considering the challenges faced by bankers and developers in meeting the housing needs of their target markets, it is imperative to streamline, optimize and expedite housing development approval processes at the municipal level. This includes procedures involved in obtaining approvals for housing developments, issuing title deeds, obtaining clearance certificates, provision of utilities and services, bulk servicing of land and processing of applications. One way this can be done is by increasing the manpower at the municipal level and having a performance based approach of optimizing these procedures. By reducing the turnaround time for developers, this would reduce or eliminate time delays, increased costs and risks in their projects which would subsequently incentivize more developers to participate in the housing industry. Developers may also be incentivized by way of tax breaks and rate concessions. An increased rate and scale of delivery would reduce the housing backlog, ensure a smooth transition of households at each level of the housing affordability ladder and also stabilize prices in the housing industry that are fueled by the massive housing shortage.

7.1.2 Building and Facilitating Adequate Rental Stock

A challenge in the South African housing market is that rental housing has not been looked upon seriously enough as a way of meeting the housing needs of the country. The government has instead focused on homeownership especially for the low income populations (Centre for Affordable Housing, 2012). As this is not a sustainable approach, the government will need to devise other means of meeting the country's housing needs. Research shows that those in the lower half of the gap market would struggle to own their own homes. As such, the government can play a key role in ensuring that there is an adequate portfolio of rental stock to meet the housing needs of these individuals. Besides, the labor market in South Africa is quite mobile and as such home ownership may not be suitable for all. Rental housing is critical for this group. That is much more manageable for them than home ownership (considering affordability constraints) especially for those in an urban setting. Even though affordable rental is currently the focus of some of the social housing institutions, given their rate of delivery, the housing needs far exceed current supply. Those unable to pay more than R 1, 500 a month (or earning about R 6,000 – 7,000) are particularly at risk because there is currently a gap for formal rental accommodation that fits their budget.

By enabling a vibrant rental industry, the government can enable households that do not have sufficient income to afford homeownership to still have an outlet through which their housing needs can be met. The government should focus sufficiently on ensuring that there is a vibrant rental market in the country.

7.1.3 Support self-build

Given that housing construction for most people in developing countries is essentially progressive, there should be more institutional support in South Africa to facilitate it. This could be another mechanism of dealing with the housing needs of those with little or no access to formal mortgage loans. The government can facilitate this by scaling self-help housing at fairly high densities and by providing individuals with a serviced stand upon which they can construct houses in progressive steps. South African rural communities have proven that it is possible for the low income earners to provide houses for themselves incrementally over time (Khathi, 2012). Through the use of savings and housing microfinance, populations in urban areas can also access institutional credit to build, improve or expand their dwellings in progressive steps.

7.1.4 Allow more competition in the banking industry

The banking industry in any country plays an important role in resource mobilization. Indeed having a well-functioning housing finance industry is salient in having a well-functioning housing market. The South African market is dominated by five big banks (accounting for about 86% of deposits). This hardly creates a conducive environment for competition in the banking industry. In fact, a taskforce created to assess the of competition in the banking industry in South Africa concluded that collectively, the big four banks behaved as a *complex monopoly* (Falkena, Davel, Hawkins, & Llewellyn, 2004). A complex monopoly exists if at least twenty five percent of a market is supplied by members of a group of persons (which are not interconnected companies) who either

voluntarily or not, and with or without agreement between them, so conduct their business that prevents, restricts, or distorts competition (Falkena et al., 2004, p. 11).

Competition is important in all industries as it is a spur to efficiency, innovation, consumer choice, quality of goods and services, and low prices. If competition is weak these advantages may be lost and there is likely to be a transfer of welfare from consumers to both the producers of goods and services and the shareholders in these firms (Falkena, Davel, Hawkins, & Llewellyn, 2004, p. 146). The market segment for lower-income earners is generally under-served in South Africa (Falkena et al., 2004). Low income earners typically face high transaction costs and are often limited in the choice of providers of basic banking services (Falkena et al., 2004). The liberalization of the financial system and the entry of more banks especially second- and third-tier banking institutions (as well as non-banks) into the financial system should allow for competing business models that target the lower income target market. It is expected that through reforms (increased competition), banks can potentially be the main source of financial innovation and efficiency in the housing industry (Moyo, Nandwa, Oduor, & Simpasa, 2014). None of the interventions to increase the supply of housing can work if the structure of the banking industry is non-competitive. There is no doubt that financiers can enhance the availability of housing finance if they restructured and optimized their products, services, procedures and requirements to be more aligned to the needs of their target market.

7.1.5 Focus on growing the resale rather than new build market

In South Africa, the government has majorly subsidized newly built houses but these are often more expensive than existing houses since they are built from the ground up. A lot of emphasis has been placed on the new build market rather than the resale market. One implication of this is that lower income individuals are priced out of the market since they are hardly able to afford to buy newly built houses. The cheapest newly built house in the South African market costs about R 250 000 (US\$ 30 000) and can only be afforded by households with an income of about R 8 000 – R 10 000 (US\$ 960 – \$1200) a month (Centre for Affordable Housing, 2012). In light of the revealed affordability constraints in the gap market, the government now also has an opportunity to support the house resale or secondary market.

Township settlements have often been thought of as dysfunctional but there is sufficient evidence that proves that that is not the case. There have also been many cases of RDP houses being sold informally at prices well below their worth.

Resale homes are typically cheaper and more readily available than new builds. By buying resale houses, one also frees up the existing stock in the market and creates room for other households to buy the previously occupied housing units thereby causing a churn of units in the housing ladder. The sellers of those houses also get an opportunity to buy bigger houses that are newly built. This is why the resale market is important.

7.1.6 Recognizing and supporting backyarder rental accommodation

This approach holds massive accommodation potential and should be acknowledged and incorporated into current housing policies. Informal housing supply is the dominant delivery mechanism in the gap housing market (Rust, n.d.). Nearly one-fifth of urban households in South Africa reside in an informal dwelling (Lemanski, 2009). A significant number of these dwellings are on shacks constructed informally on the back yards of another property thereby making back yarder rentals a distinctly South African phenomenon (Lemanski, 2009). These backyard dwellings receive no direct support from the government and are 100% based on private initiative. Housing policies have overlooked these informal settlements and have focused instead on the eradication or upgrading of informal settlements. These backyarder dwellings hold the most latent potential in addressing the country's housing shortage. Backyarder accommodation holds the potential for the delivery of new, affordable and intermediate rental stock.

The government may design a series of interventions to recognize and formalize backyard rentals. This can be done by servicing them with basic health and safety services like water, sewerage and electricity.

There are also many landowners who are potential landlords with 'dead capital' since they do not hold title deeds to their land. By providing a sense of tenure security for such people, more landowners would be encouraged to put up backyard dwellings.

The government has delivered about two million RDP units to date. If these new home owners could be encouraged to leverage government support by producing a secondary

housing unit, they could create a secondary income for themselves whilst creating a housing opportunity for someone else thereby allowing for the rapid delivery of the country's housing needs. Housing microfinance may be used to facilitate construction of the new units. The government may however step in to cover the hidden costs of construction such as obtaining approvals and permits and installing infrastructure, water, electricity and sewerage.

7.1.7 A change in the government's approach from being a deliverer to being an enabler of housing

The South African government has taken on the responsibility of being the major deliverer of housing for lower income individuals. To date, the government boasts having delivered in excess of two million free RDP houses to households earning less than R 3,500 per month. The effect of such a policy approach is clear; the housing backlog and subsequently housing crisis continues to persist. Furthermore, the South African fiscus cannot sustain such an approach, a reality which should prompt the government to move away from the perception that it should be the major deliverer of housing. Instead, the government may play a more facilitative or enabling role in order to better meet the housing demand. In practice, this may mean engaging in more public-private partnerships or in broadening the government's view of housing intervention such that more players are incentivized to get into the housing market.

7.1.8 Revising current business operating models

There is an imperative need to understand the housing needs and preferences of the gap market so that businesses may create operating models, products and services that meet the needs of this market. The respondents expressed preferences for different tenure options that banks, developers and the government should be aware of. Some of these include but are not limited to installment sale agreements, rent to buy schemes, some would consider buying RDP houses, self-build, renovating with a small loan, buying land first and building later and buying homes through cooperatives. These ‘bottom up’ innovations for homeownership also need the support of the other stakeholders in the housing industry such as the governmental agencies and lenders in order to overcome potential economic and legal obstacles. There is also need for a housing finance system that adequately takes into consideration the complexities of affordability and income constraints that lower income households face. The onus is on the stakeholders in the home ownership industry to respond to market needs and create disruptive business models that will meet consumer needs.

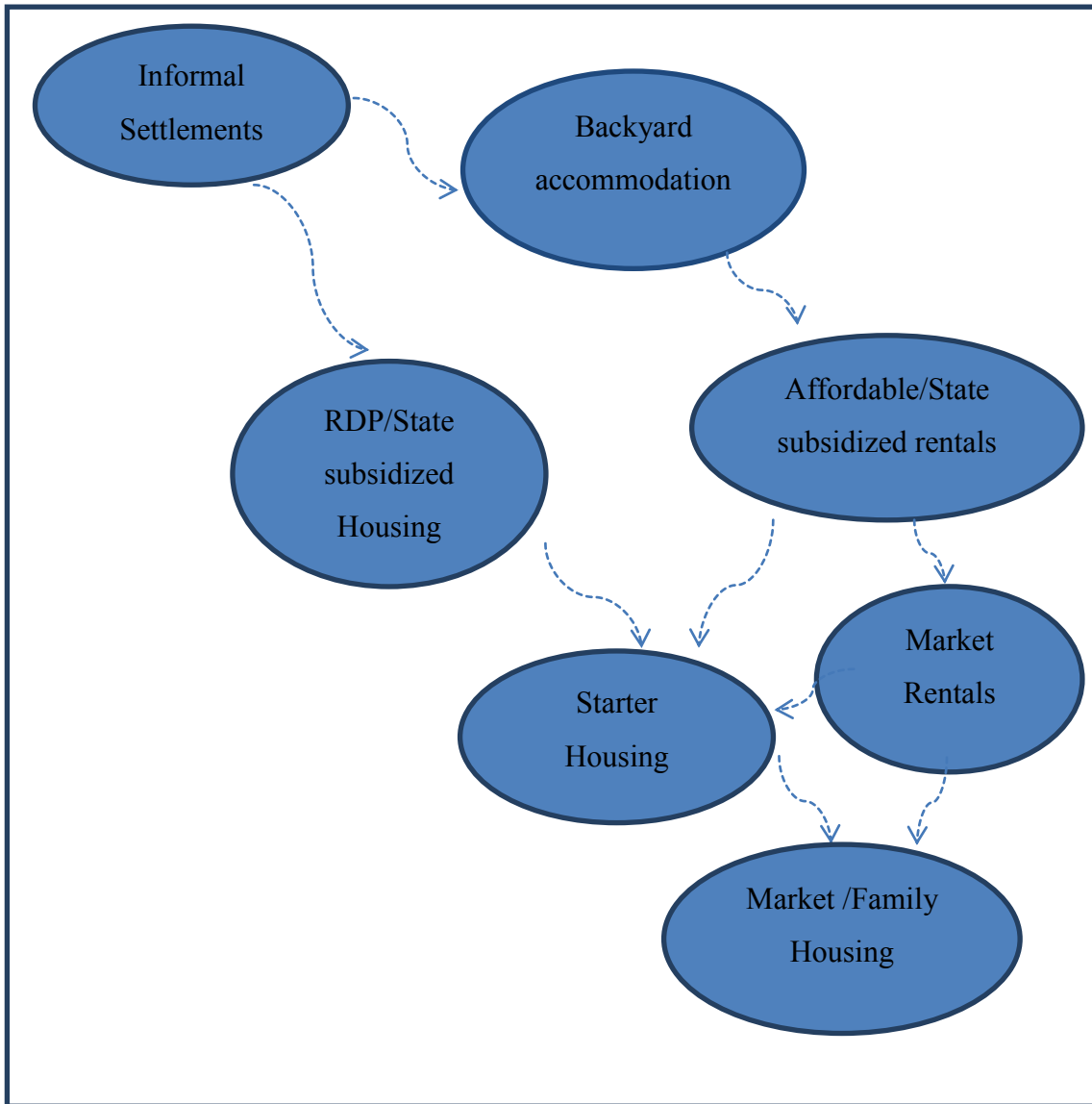
7.2 Recommended approach to housing based on flows

It is critical to address the challenge of increased demand and limited supply of housing in South Africa. The housing market needs to provide adequate stock and tenure options for all individuals in the market – whether high or low income. This fluidity will catapult individuals at one level of the housing ladder onto the next upper level, making their previously occupied unit available to others. Practically, as more housing options are

made available to the different income earners, RDP occupants can leverage their acquired assets to move into another starter house thereby freeing up their stock to those on the waiting list or to another low income earner. This flow however depends on supply. If there are bottlenecks, this inhibits the movement of lower income individuals onto RDP houses and those in RDP houses to gap market houses or affordable starter homes and those in gap housing onto market houses. This also applies to rental accommodation. By ensuring an adequate supply of housing options, those in informal backyard dwellings can in time move onto affordable rental provided by social housing institutions from which they can move onto market rentals.

The challenge is to ensure adequate supply of housing at affordable levels for each of the income groups and ensuring that the housing backlog does not become any bigger. Adequate mechanisms would need to be in place to incentivize the private sector to participate in delivery of housing supply. The public sector would also need to streamline its processes to support the delivery of adequate housing for the market.

Figure 6: Flow of housing



7.3 Recommended business model

In order to build a system of affordable housing and affordable finance in the housing industry, we need to leverage existing players in the market and expand the scope of homeownership. New business models that strengthen collaboration across the stakeholders in the housing industry are necessary in order to build new products and services that meet the current housing demands. The current gap housing market delivery framework has been sufficient to some extent. This refers to partnerships formed between the government, developers and financiers. These strategic partnerships have tried to address the housing backlog by facilitating the provision of affordable housing units and financing of the same to individuals in the gap market. Based on responses received from the interview process, the missing link in this value chain is the strength that community based organizations (CBOs) would bring. All respondents in the gap market in Khayelitsha were not aware of the FLISP subsidy that was created specifically for them. This means that a good number of the South African population – almost twenty percent - is missing out on the opportunity to become potential home owners because of lack of sufficient information on policies and systems put in place to assist them.

It is possible that the importance of CBOs as potential partners in the housing value chain may have been overlooked. CBOs are often able to draw upon their strengths as community focused organizations. CBOs in housing may act as the developer, land owner or broker. Such CBOs are embedded in the communities and therefore respond to the needs represented therein.

Strategic partnerships with CBOs would enable the current housing players to draw upon the deep contextual understanding and language skills that CBOs have. It is likely that the grass root support that CBOs face would enable them to market the FLISP subsidy to a greater number of people in the gap market. There are two approaches that may be used; the broker approach and the joint venture approach.

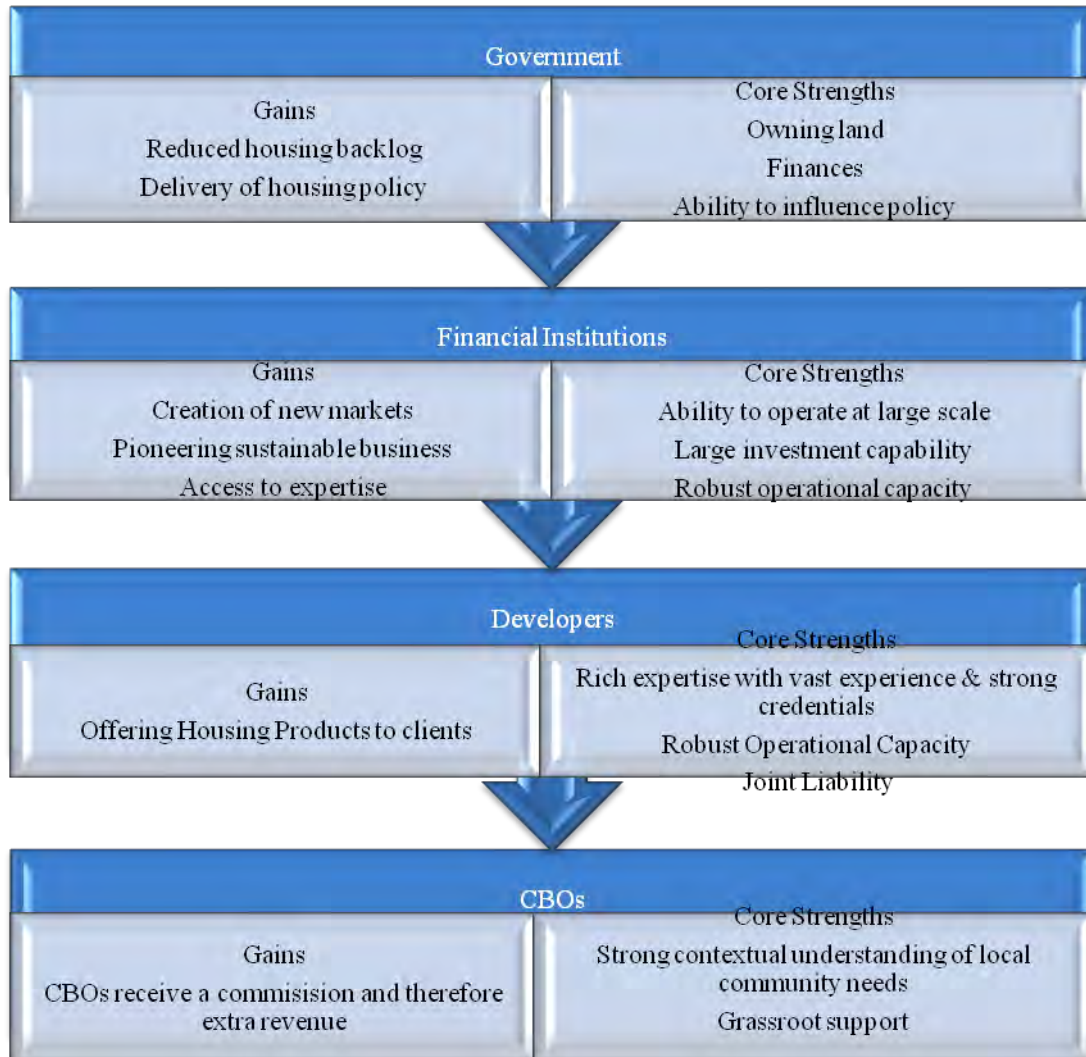
In the broker approach, CBOs with a good understanding of the housing needs and preferences of their communities would broker for housing products and services that meet those needs. Such CBOs would essentially aggregate demand for the developer and market financial products provided by financial institutions. The marketing would be done based on the systems that CBOs currently use – by using existing physical spaces in the communities or by using field workers. This would also enable developers and financiers to gain community support for their projects.

CBOs may also be engaged as possible marketing agents of the FLISP subsidy and FLISP approved housing developments in order to elicit more grass root support. They may be paid a commission for this. In the joint venture approach, the CBO and developer are engaged in a joint venture where both parties stand to benefit. In some cases, the CBO may contribute land to the venture and the developer the expertise.

To conclude, in order to effectively create meaningful and strategic partnerships, it is imperative to first analyze the strengths of each of the players in the housing industry so as to determine existing resources. Secondly, it is critical to have open and candid

dialogue on all housing issues amongst these players so that trust is built. It is only by having open dialogue that real opportunities for all stakeholders will emerge.

Figure 7: **Emerging Hybrid Value Chain**



CHAPTER 8: FUTURE IMPLICATIONS

8.1 Areas for Further Study

During the course of the research, other themes emerged that fell outside the mandate of the study but nonetheless require sufficient attention in future studies on housing for the gap market in South Africa.

For instance, it would be worthwhile to have a clearer understanding of the effective demand for home ownership in the gap market. Effective demand in this case would be an indication of the people in the gap market that can actually afford a bond (where desire to buy a product is backed by the ability to pay for it). Indebtedness levels in the gap market and in South Africa as a whole indicate that the desire to own homes may be constrained by the ability to pay for the bonds because of high debt to income levels. A few of the respondents expressed a desire to have a solid understanding of the effective demand for home ownership in the gap market as captured by the words; ‘The challenge we face in that market is that we need to understand what the exact effective demand is and the supply that meets that demand in order to address the imbalance.’ This concern warrants an investigation on the effective demand for homeownership considering indebtedness levels and financial constraints for the gap market.

The researcher also received a certain amount of evidence suggesting that there should be an exploration into how the South African government can become an enabler rather than direct deliverer of housing within the current legislative environment. The government’s approach as a deliverer of housing especially for the low income population has proven to

be unsustainable, a sentiment shared by several of the respondents from government. The fiscus won't allow it. This reality should prompt the government to move away from the perception that it is mandated to be the direct deliverer of housing to becoming an enabler or facilitator of adequate housing. On the whole, further studies on home ownership in the gap market in South Africa would be welcome in order to enable stakeholders to tailor support to this income group appropriately.

APPENDICES

APPENDIX I: Interview Schedule with the Gap Market

1. What is your source of income?
 - What kind of job do you do?
 - How long have you worked there?
2. Tell me some of the challenges you've experienced in trying to own a home
 - How have you dealt with the challenges faced?
 - Which banks did you apply to?
3. How much do you spend on housing per month?
 - How has your income influenced your ability to realize home ownership?
 - How much would you be willing to spend on a loan to own your home?
 - Do you have any credit cards or in store cards?
 - How much of your income do you use to service debt each month?
 - What is this credit used for?
 - How has your credit rating influenced your ability to realize home ownership?
4. What do you consider to be an affordable home?
 - Describe your ideal affordable home
5. What do you suggest can make it easier to own homes?

APPENDIX II: Interview Schedule with Mortgage Providers

1. What do you understand by the term 'gap market'?
2. How would you describe the uptake of bonds in the gap market?
3. What are some of the challenges you currently face in providing bonds to households in the gap market in South Africa?
 - How have you tried to overcome these challenges?
4. Who is involved in providing affordable finance to the gap market?
 - Are you working with any other institutions to provide home ownership?
 - What do you consider your major strengths in comparison to other institutions offering similar products/services?
5. What do you suggest can make it easier for the gap market to own homes?
6. What do you consider as an "affordable" house for those in the gap market that are considering home ownership?

APPENDIX III: Interview Schedule with Property Developers

1. What do you understand by the term 'gap market'?
2. How would you describe the uptake of homes in the gap market?
3. What are some of the products you offer to the gap market in South Africa?
4. What are some of the challenges you currently face in providing housing and homes to households in the gap market in South Africa?
 - How have you tried to overcome these challenges?
5. Who is involved in providing affordable housing to the gap market?
 - Are you working with any other institutions to provide home ownership?
 - What do you consider your major strengths in comparison to other institutions offering similar products/services?
6. What do you suggest can make it easier for the gap market to own homes?
7. What do you consider as an "affordable" house for those in the gap market that are considering home ownership?

APPENDIX IV: Interview Schedule with Department of Human Settlements

1. What do you understand by the term 'gap market'?
2. How would you describe the demand for home ownership in the gap market?
3. What are some of the strategies the government has used to facilitate home ownership in the gap market in South Africa?
4. Are there any anticipated changes in government policy regarding housing for low income and gap market households in South Africa?
5. What are some of the challenges you currently face in facilitating home ownership in the gap market in South Africa?
 - How have you tried to overcome these challenges?
 - How are you addressing the resistance by banks to lend to this income segment?
6. What are some of the gaps in service delivery in providing home ownership in the gap market in South Africa?
7. Are you working with any other institutions to provide home ownership?
 - What do you consider your major strengths in these partnerships?
8. What do you suggest can make it easier for the gap market to own homes?
9. What do you consider as an "affordable" house for those in the gap market that are considering home ownership?

APPENDIX V: Informed Consent Form

Dear Participant,

My name is Gloria Nyawira. I am a student at the University of Cape Town Graduate School of Business studying for a Masters of Philosophy in Inclusive Innovation under the supervision of Dr. Steven Nabieu Rogers. I am conducting a research on the current challenges faced by the housing market (developers, banks, and the government) in addressing the needs of the gap market. This study has been approved by the University of Cape Town Commerce Faculty Ethics in Research Committee.

I shall be conducting interviews in order to develop a solid understanding of the above mentioned topic. I believe that the information obtained shall be useful and relevant to the stakeholders in the housing industry in order to assist them in tailoring business models that enable more people in the gap market to realize home ownership. To the researcher's best knowledge, there are no recognizable risks from participating in this research.

Participation in this study is voluntary. The identity of the respondents shall be kept anonymous. It is estimated that the interviews shall take 30 minutes. You may drop out of the study at any point. There are no consequences to dropping out of the study. All information obtained shall be treated with the utmost confidentiality and shall be presented in the form of a dissertation thesis to the University of Cape Town. Should you

wish to have a copy of my research findings, kindly contact me via email on glorinyawira@gmail.com or through my mobile number +27 (0) 804 806 5502.

By signing below you indicate that you have understood the contents above, that any questions or concerns about the interview questions or research study have been answered to your satisfaction and that you give your informed consent to participate in this study.

Thank you for your kind consideration.

Printed Name of Interviewee

Signature

Date

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