

# SAVINGS AND AFFORDABILITY IN SOUTH AFRICA'S LOW-INCOME HOUSING MARKET

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## 1. Introduction

In 1994, South Africa's first democratically elected government inherited an estimated housing backlog of 1.2 to 2.5 million units and rapid expansion of informal squatter settlement. Since 1994 the total demand (or backlog) in housing has grown from 2.5 million to about 3 million households between 1994 and 1997 (Karsens, 1999). There are also an estimated 1.4 million households living in slums and informal housing conditions (CSIR, 2000:21). The inherited housing backlog was largely a result of high levels of urbanization, poverty, high unemployment together with the history of apartheid and separate development.

The South African housing finance system also suffered defaults on home loans that were precipitated by political boycotts and civil disobedience prior to 1994. This campaign brought municipal service delivery to a halt and caused serious loan defaults for the commercial banks that were providing home loans to the low and moderate income households of South Africa. By 1994 the default rate was about 15%, estimated to be worth R10 billion<sup>1</sup> (De Ridder, 1997). Commercial banks together with the state-owned mortgage lender (Khayaletu Home Loans) had on their portfolios approximately 34 000 properties in possession<sup>2</sup> as a result of non-performing loans in 1994 (Banking Council, 1999:15). The inability to effectively and efficiently evict residents that defaulted on payments ultimately caused the lenders to withdraw from the low and moderate - income segment of the housing market.

Soon after 1994 the newly elected South African government initiated a multi-pronged approach to induce the mortgage lenders to provide financing to the low-income market<sup>3</sup>. These included amongst others campaigns to encourage the repayment of bonds and policies that promoted the injection of state subsidies to deliver on housing on scale<sup>4</sup>. A capital subsidy scheme was implemented to kick-start the low income housing market. The capital subsidy scheme was originally managed via the Provincial Housing Boards (PHBs) and in 2000 the state decided to de-establish these structures and make the Provincial Member of The Executive Council (MEC) responsi-

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<sup>1</sup> Estimated the 15% of the loans were in default as apposed to an industry norm of less than 3% for the housing sector.

<sup>2</sup> Phrase used by the banking sector to describe properties that are in default that are repossessed by the banks for resale.

<sup>3</sup> The Housing Act of 1997 has incorporated much of the recommendations of the De Loor Report into the housing problem (De Loor, 1992) under seven key strategies upon which the current housing policy is based - see Pillay (2000).

<sup>4</sup> The scale delivery of housing refers to programmes executed through the three tiers of government that mass produced housing through housing subsidies.

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ble for the subsidy allocation. During 1995 to 2001 one million subsidies were allocated and 90% (CSIR, 2000:18) of these were allocated to people earning less than R1500 per month, 8% to people earning between R1501 per month to R2500 per month and remainder to those earning less than R3500 per month (National Department of Housing, 2001).

These initiatives have, however up until the present, produced mixed results. For instance by December 1998 around 681 203 new housing units were under construction and the number of subsidies approved and 959 415 housing subsidies were approved (National Department of Housing, 2001). However, the backlog of households requiring homes still persists and was estimated to have exceeded 3 million in 2003 (National Department of Housing, 2003). Problems and constraints in low-income housing are wide ranging and a widely accepted opinion is that it is primarily due to lack of savings by low-income households (due to low income). Diamond and Hoek-Smit (2000:31-35) argue that savings play a particularly important role in acquiring a home. Savings is sometimes considered to contribute towards the equity portion of the home loan package and address the issue of risk (owner takes loss) if the owner defaults.

Another reason cited for the persistent low-income housing crisis in South Africa is the apparent inability of low-income households to be able to afford the monthly repayments on appropriate mortgage loans (see Fowlds & Botha, 1996:7; Sidiropoulos, 1998:317-320; Westhuizen & Botha, 1995:14). Often, the apparent lack of affordability of housing is blamed on the formal banking sector's so-called inability to provide suited borrowing instruments for low-income households (Hendler & Pillay, 2001).

In this paper we consider the empirical evidence for the role of savings and affordability in the low-income housing crisis in South Africa. We provide results from a survey of 653 households (within the income group of R1000 to R6000 who are actively trying to buy a formal house<sup>3</sup>) across 5 provinces of South Africa. In the survey, a structured questionnaire was used to obtain information on the savings behavior, ability and willingness to pay, personal aspirations and preferences of low-income households.

The paper is structured as follows. In section 2, the research methodology is explained. Section 3 reports the findings from the survey. After describing the salient characteristics of low income households in the sample, the results pertaining to low-income households' saving behavior and the extent to which they can afford homes are set out. The paper concludes with a summary and recommendations.

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<sup>3</sup> A formal house include new housing stock, secondary stock, flat and a RDP starter home or the purchase of land to construct a home that complied with minimum standards.

## 2. Research Method

The survey, conducted in 1999 and 2000, has been structured into three components. Firstly a primary market survey aimed at the end- user or borrower level<sup>6</sup>, secondly an incident survey using a control group with an income range between R7000 to R10 000 and thirdly interviews with lenders and key housing activists.

The end-user survey comprised 653 interviews spread across different incomes groups and five provinces (Gauteng, Kwazulu Natal, Western Cape, Eastern Cape and Limpopo Province). The interviews were carried out by trained interviewers during October 1999. Table 1 below summarizes the sample.

**Table 1: Sample across Provinces**

Joint income (buyer & spouse/partner)	TOTAL		PROVINCE									
			Limpopo		Gauteng		E.Cape		KZNatal		W.Cape	
R1000-R2600	150	<b>224</b>	30	<b>33</b>	30	<b>41</b>	30	<b>72</b>	30	<b>42</b>	30	<b>36</b>
R2601-R4200	150	<b>225</b>	30	<b>42</b>	30	<b>42</b>	30	<b>48</b>	30	<b>45</b>	30	<b>48</b>
R4201-R6000	150	<b>120</b>	30	<b>25</b>	30	<b>27</b>	30	<b>18</b>	30	<b>18</b>	30	<b>32</b>
R6001-R10 000	150	<b>84</b>	30	<b>12</b>	30	<b>13</b>	30	<b>9</b>	30	<b>14</b>	30	<b>36</b>
TOTAL	600	<b>653</b>	120	<b>112</b>	120	<b>123</b>	120	<b>147</b>	120	<b>119</b>	120	<b>152</b>

Because of the difficulty in identifying appropriate respondents in the upper income categories, quotas for the two income groups over R4 200 were adapted to be more in line with the market. However, enough interviews were obtained in each province and in each income group to ensure that significant analysis was possible. (The only exception was the Western Cape: this was the only province in which historically "Coloured" areas were sampled in the incidence survey, and also the only province in which the quota for the control income group was met).

The final sample achieved was 653 interviews as indicated in the table above, with a fairly even spread across the provinces, and a greater concentration amongst the two lowest income groups where the defined target market tends to predominate.

The incidence survey consisted of a random survey to determine the incidence of the defined target market. The incidence questionnaire served as a filter to select only

<sup>6</sup> Primary data was extracted from the NHFC survey conducted in 1999 and in which the first author played an instructive role. The author has been given permission by the NHFC to use the data from survey for the purposes of this paper.

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the potential homeowners and it formed the first sub-section of the in-depth surveys. Within each of the five provinces, four areas were selected for random sampling – two localities with formal housing, and two informal settlements. In addition, two inner city precincts were sampled in the Gauteng province, bringing the total number of sampled areas to 22. A random sample of 60 interviews was conducted in each of these 22 sites. The results of the random survey provide the incidence of the target market – i.e. the percentage of the population who qualify as “unsuccessful would-be buyers” in terms of the market definition. A total of 1320 interviews were undertaken during October of 1999.

To complement the borrower data set, interviews were conducted with key individuals in the retail-lending including housing activists. For this purpose a new questionnaire was designed to collect qualitative data that provided insightful information on the low and moderate income housing market from an institutional and academic perspective. Copies of the three questionnaires are available from the authors on request.

### **3. Findings from the Survey**

In this section the main findings of the survey as pertaining to savings and affordability is set out. Firstly however, section 3.1 below describes the sample's salient characteristics.

#### *3.1 General Description of Respondents*

##### **3.1.1 Income and Employment**

Almost 53% of the sample population lived in formal townships, while 35% live in informal settlements, 3% live in Inner city areas and 9% reported living in a sub-urb. The majority of people in the formal township areas are already homeowners. The implication of this situation is that as an existing homeowner the probability of residential mobility is lower and fewer people would represent those looking for a new home. This finding is evidence for a slow secondary property development. The result of this feature is that property market sales are limited and the property sales turnover in that location would be non-existent (Abt and Associates, 1999:6-8).

The greatest concentration of respondents (60%) falls into the R1000 to R4200 income category, while 7% find themselves in the income category R4201 to R6000. This is suggestive of the fact that while the above groups are not the most vulnera-

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ble economic income groups within society, it nonetheless represents the very groups that experience the most difficulty in acquiring a house and access to finance - which is confirmed in this paper.

On average 64% of the total sample are formally employed (This is defined as people with regular form of income from the formal economic sector). Fifteen percent of the respondents indicated that they were informally employed while 11,4% are self-employed. Within the sample population 81% derive some form of income, which excludes any contributions from the spouse. Employment status of the spouses indicate that some financial capacity exists to contribute to the purchase of the home.

Unemployment amongst the head of the household was less than 2%, which is indicative of an economically active sample population. While the employment status of the spouses is lower than those of the head of the household, it does indicate some capacity to take up joint debt responsibility. Within the income group R1000 to R2600 almost 92% of the respondents are engaged in some form of economic activities that could supplement household income. In the R26001 up to R10 000 income group almost 90% of the respondents are able to derive income that could be jointly used for housing purpose.

While the majority of the respondents are engaged in some form of economic activity to derive income, 7% do not pay for their current accommodation. These respondents do include those who are living with families that own property. The income earned by the spouses are not insignificant and when combined with the partner's income the household income can contribute towards the purchase of house which could be less than R60 000. A significant 30% of the respondents reported that they live in rental accommodation; while this enlarges the potential market of prospective buyers it does signify that rental accommodation is considered to be more attractive than home-ownership. Rental preference was however restricted to the inner city areas and the younger economically active and highly mobile respondents.

### 3.1.2 Length of Time to Acquire Home

Of those who managed to acquire a home the time scale varied considerably. Almost 30% of the respondents indicated that it took more than three years to acquire a home. A further 27.7% said that it took them between 7 to 18 months and 18.3% stated that it took them between 3 to 6 months to acquire a home. These times are relatively long when compared to other countries like the US and Britain where the average time taken to acquire a home is two months.

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It was found that the different income groups have experienced different levels of frustration in terms of time factor or length of time to acquire a home. In the income category of less than R1000, 57% of the respondents were able to acquire a home in less than 3 months. This finding confirms that the people in the lowest income group are indeed able to access housing much easier than those in the low and moderate income groups. This finding does seem like a contradiction, however, factors such as the government subsidy has allocated more than 90% of its subsidies to this income group. (National Department of Housing, 2002) While 42% of the sample live in informal settlement 30% fall into the category that earn less than R1000 per month. Therefore this could be attributed to the fact that people are able to find informal housing more easily and live without legal tenure rights.

Also interesting is that the majority of those that earn more than R10 000 per month/household are able to find homes in less than three months. The same is true for the income group R6001 to R10 000. This suggests that income level influences how quickly one acquires residential property.

However, in the other income groups' difficulty is experienced in acquiring homes. In the income group R4001 to R6000 almost 23% have waited more than 19 months to gain access to a home. In the next income group R2601 to R4000 about 45% of the respondents waited longer than 19 months to acquire a property. It was most difficult for the respondents in the R1000 to R2600 income category where 51% waited 3 to 6 months, 54% waited 7 to 18 months and over 90% waited more than 19 months to acquire a home.

### 3.1.3 Savings Behavior of Low-Income Households

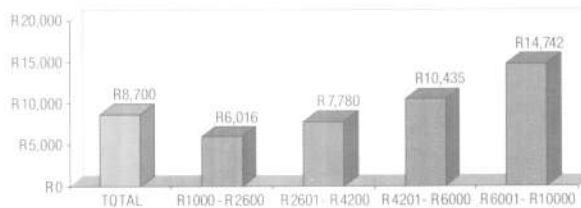
The survey found that the majority of prospective buyers are serious about saving towards their house. In total, 66% of the market indicated that they had saved money specifically to buy a property. Of the 66% who indicated that were saving for housing, the majority (57%) saved with the intention to use the money as a deposit on a house, while 28% planned to buy building materials with their savings. Prospective buyers at low income level were more likely to be saving for building materials than those at upper income, which were significantly more likely to save towards a deposit.

In addition to those saving for deposits and building materials, 9% were saving to buy a whole house for cash, and 4% planned to use the money to buy land on which they would build a house; 11% did not specify what exactly the money would be used for.

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The period and reported amounts saved indicate that the market's ability to save is not insignificant. On average, the entire sampled population had been saving for 25 months, and saved an average of R8 702. The amount of savings achieved varied enormously – ranging from R100 to as much as R70 000. In general, the greater the income, the greater the average amount saved. Rutherford (1999: V) also found that low income borrowers can save and want to save, and when they do not save it is because of lack of opportunity rather than lack of capacity. The relationship between income and savings is illustrated below:

**Figure 1: Average Amount Saved Towards Purchase of Property**



While commonly assumed that people in the upper income groups save more, the above graph seems to confirm the association that the higher the income, the greater the saving in real terms. However, if one analyses deeper, an inverse relationship exists. When calculating the average amount of savings as a percentage of monthly income it is evident that the lower the income, the higher the proportion of money saved towards buying a property. So, where prospective buyers in the lowest income group saved the equivalent of nearly 13% of their monthly income over an average period of 24 months, the control group saved an average of less than 7% of their income over a 30 month period. Those in the middle income groups were saving at a rate of just under 9%. This calculation is illustrated in the table below:

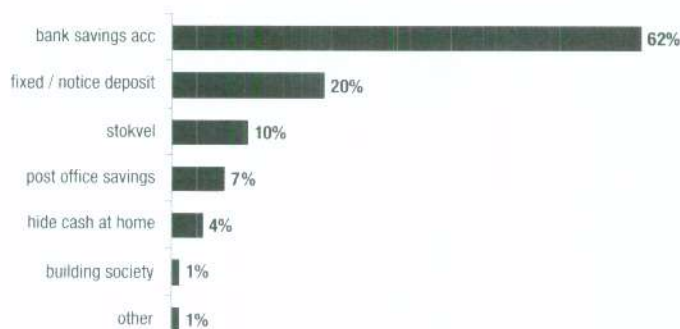
**Table 2: Calculation of Percentage Monthly Savings across Income Groups**

SAVINGS	INCOME GROUP			
	R1000- R2600	R2601-R4200	R4201-R6000	R6001-R10 000
Ave amount saved	R6 016	R7 781	R10 436	R14 743
Ave period saved	24 months	26 months	24 months	30 months
equivalent savings per month	R251	R299	R435	R491
Ave monthly income	R1 956	R3 365	R4 938	R7 408
% monthly income saved	12.8%	8.9%	8.8%	6.6%

The majority (62%) of those who saved towards a house used a conventional savings account at a bank in order to save their money. This finding is also contrary to the widely held view of the housing sector that most low-income households have a poor savings culture, track record and most of all are unlikely to deposit their savings in a bank.

Other savings methods such as stokvels (informal), Post Office savings, and hidden cash, could possibly indicate that potential buyers are not using savings mechanisms, which can yield high interest returns. The other saving mechanisms mentioned included fixed deposit accounts (20%) and unit trusts and off-shore investments accounts. The latter savings methods were restricted to the control group.

**Figure 2: Method of Saving**



Diamond and Hoek-Smit (2000:31-35) argue that savings does play an important role in acquiring a home. Savings is sometimes considered to contribute towards the equity portion of the home loan package and address the issue of risk (owner takes loss) if the owner defaults. This finding does indicate that potential homeowners do have the ability to save, and have demonstrated a track record of savings yet they are unable to acquire a home.

At the very least, this savings pattern would provide lenders with an indicator of "character" traits in the market. Given that these prospective buyers are still struggling to purchase a house, their savings have thus far not provided them with the mobility to find an affordable yet desirable property in a housing market.



### 3.1.3 Household Affordability Analysis

Table 3 below reflects that the mean monthly disposable household income for income group is R1000 to R2600 is R319.13, for income group R2601 to R4200 is R1242.82, for income group R4201 to R6000 is R2565.14 and for income group R6001 to R10 000 is R4033.89. Household expenditure has been computed to include regular monthly expenditure (food, clothing, medical expenses, transport, telephone, dependants, entertainment, savings, bond and rental, holidays, personal loans etc) and regular installments.

Using the current income qualifying criterion (25% of gross monthly income) for a mortgage loan used by the banking industry the potential monthly repayment and loan size can be calculated to determine purchasing power of the would be buyer. Applying the above calculation, would be buyers in the R1000 to R2600 income on average could pay R488.99, the R2601 to R4200 income group on average could pay R841.22, the R4201 to R6000 income on average could pay R1234.39 and the R6001 to R10 000 income group on average could pay R1851.91 towards a mortgage loan. The potential loan size based on an interest rate of 17% with a mortgage term of 20 years the following loan values were determined, R19951.10, R34321.90, R50363.20 and R75558.10 respectively for the different income groups.

**Table 3: Household Affordability Analysis**

INCOME	R1000 – R2600	R2601 – R4200	R4201 – R6000	R6001 – R10 000
Mean Gross Household Income	1955.99	3364.89	4937.57	7407.66
Mean Household Expenditure	1636.86	2122.07	2372.43	3373.77
Mean Disposable Household Income	319.13	1242.82	2565.14	4033.89
Cost of Current Housing	33.54	60.06	104.69	191.5
% of mean household gross income	1.7	1.8	2.1	2.6
25% of Gross Household Income	488.99	841.22	1234.39	1851.91
Potential Mortgage Loan (17%x240)	19951.1	34321.9	50363.2	75558.1
mean savings per month	R251	R299	R435	R491
% monthly income saved	12.8%	8.9%	8.8%	6.6%
ave. period saved	24 months	26 months	24 months	30 months

The above analysis establishes only the ability to pay and not the willingness to pay. However, in the lower income group (R1000 to R2600) the mortgage loan repayment exceeds the disposable income, which indicates that a level of unaffordability exists. This situation changes when the monthly savings are added to the disposable income ( $R488.99 + R251.00 = R739.99$ ). Across all income groups, would-be buyers are saving between 6.6% and 12% on a monthly basis, specifically to buy a home. This trend certainly improves the affordability index of the majority of would-be buyers. While affordability might be a problem in the lower income groups, this analysis is pointing out that the majority of respondents can afford to repay mortgage loans and that affordability might not be the key barrier that prevents access of housing. The results also show that currently housing expenditure across all income groups is less than R200 per month which is low in relation to the need to find a home of choice. However, if this R200 can be added to the savings and the disposable income this will be consolidated as a housing related expense.

Almost half of all prospective buyers already own property, relatively few are burdened by loan repayments, since less than a fifth of all owners accessed housing finance. Reported household expenditure confirms that the current cost of housing is artificially low, with the majority of the market carrying no regular payments towards the cost of housing at all (neither through rent nor loan repayments) and the average proportion of the household budget across the market spent on housing reflected as a low 4%.

**Table 4: Regular Monthly Payments**

Expenditure Item	Sample %
Clothing accounts:	85%
Furniture accounts:	64%
Other hire purchase / lay-by:	8%
Loans from provident / pension fund:	8%
Personal loans (family / friends):	7%
Vehicle instalments:	6%

Table 4 suggests a reason why prospective buyers that demonstrated a level of affordability have not yet been able to access a loan to purchase a home. Ninety three percent of the entire market has existing debt obligations that have to be serviced on a monthly basis. These loans are called term loans because they are paid over long periods of time. This study reveals that the above expenditure varies from

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a term of less than one-year to terms that can extend up to years. Clothing (85%) and furniture (64%) accounts account for more than half of the debt while loans account for about 8% of the regular debt servicing. In this question respondents were allowed to select more than one account type. A significant finding in this regard is that 29% of all respondents perceive that their existing debt obligation is an impediment to accessing housing finance.

#### 3.1.4 Perceived Housing Affordability

It was found that the majority of the prospective buyers in the market desire a formal house in an established township or in a new area that is being developed. The criteria to select an ideal home included locational factors, safety and good amenities. The size of the house typically consisted of 2 bedrooms, kitchen, and bathroom, living and dining area. In evaluating these requirements with the affordability table above it is plausible that the majority could afford the house that has been described. However, results show that even these moderate aspirations may be unattainable for prospective buyers.

To establish the potential capacity to pay for the desired home, prospective buyers were asked to estimate the average purchase price, the deposit required, deposit that they could afford as well as any savings that could be added to the funding package. The main aim of this analysis was to assess the respondent's alignment of aspirations, personal affordability and market pricing realities.

The average cost of a typical home, as estimated by the prospective buyers themselves, is R80 950, with an estimated required deposit of R20 524. Given the average savings record of two years this exceeds existing accumulated savings. Moreover, average monthly repayments on a home loan for such a property are estimated at just under R2 000 – seemingly an impossible amount for a market where only a quarter of all prospective buyers (whether renters or owners) currently carry any regular housing payments at all, and those that do pay for housing spend under R200 per month.

The following table provides a comparison of estimated and affordable housing costs across the respective income groups. It must be noted that bank transfer cost has been omitted and the cost for deeds office registration has been excluded. Properties that are valued less than R100 000 are excluded from paying transfer costs. Again the conclusion, based on these calculations, is that affordability may not be a problem to access to housing.

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**Table 5: Perceived Housing Affordability**

Perceived Cost and Affordability of Desired Home	TOTAL	INCOME GROUP			
		R1000- R2600	R2601- R4200	R4201- R6000	R6001- R10 000
Estimated purchase price:	R80950	R55 900	R79 500	R86 400	R143 800
Estimated deposit needed:	R20 524	R16 036	R19 930	R22 713	R30 845
(deposit as % of purchase price):	(25%)	(29%)	(25%)	(26%)	(22%)
Estimated monthly payments:	R1 960	R1 718	R1 939	R2 011	R2 557
Declared savings for housing:	R8 703	R6 017	R7 781	R10 436	R14 743
Affordable deposit (estimated):	R12 185	R8 576	R11 716	R13 876	R20 555
Affordable monthly payments (est.)	R900	R700	R886	R982	R1 353
Loan required <sup>2</sup> :	R68 765	R47 324	R67 784	R82 524	R123 145
Potential affordable loan:	R70 313	R54 687	R69 219	R76 719	R106 484

Respondents estimate affordable monthly repayments on a home-loan as far higher than their current regular expenditure on housing. If their estimates of affordability are reliable, then it appears (after deducting the affordable deposit amount from the estimated purchase price) that the desired house at its envisaged price may in fact be within the reach of most of the market. Expressed as an average of the market R80950.00 – R12185.00 = R68756.00 which illustrates the value of loan required. We then use the average affordable monthly payment to calculate the potential affordable loan that could be accessed from a bank ( $R900.00 \times 240 \times 0.15$ ). On average the potential loan accessible is R70313.00. A significant finding is that the majority of the respondents across all income groups are willing to exceed their disposable income to purchase a home. The table illustrates that the mismatch between aspirations and affordability is greatest in the control group, where the potential affordable loan (based on reported affordable monthly payments) is most likely to exceed the required loan amount. Amongst the lower income groups, on the other hand, the potential affordable loan is calculated as being slightly higher, on average, than the required loan amount after a deposit has been paid. Thus, amongst the target market, it would appear that affordability is not the key obstacle, and the desired house may be attainable provided that blockages relating to availability of suitable housing stock and finance can be addressed.

<sup>2</sup> Potential Loan required is calculated at 15% interest over a 20-year term.

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#### 4. Summary and Conclusions

South Africa faces a low-income housing crisis with the current backlog estimated at over 3 million units. The persistence of the back-log has been argued elsewhere in the literature to be due to inadequate savings and lack of affordability of housing by low-income households. In this paper we present evidence from a survey of 653 households across 5 provinces of South Africa on the savings behavior and affordability levels of low-income households in the housing market.

The survey firstly confirmed that low-income households indeed face difficulties in obtaining housing as well as mortgage finance. For instance in the monthly income category of R1000 to R2600 it was found that 90% of households took more than 19 months to acquire a home, compared to only 23% in the income category above R4000.

As far as the savings behavior of households is concerned it was found that low-income households' ability to save is not insignificant, and that where they do not save enough it is because of lack of opportunity rather than lack of capacity. Indeed, as a percentage of monthly income we found that prospective home buyers in the lowest income growth saved the most – nearly 13% of their monthly income over a 24-month period. The majority (62%) used a conventional savings account held at a formal bank in order to save.

When monthly savings are added to the disposable income of low-income households, and other debt obligations such as clothing and furniture credit lessened, it is found to significantly improve the affordability of housing for all but the very lowest income categories. The majority of respondents were found in such a case to be able to afford to repay mortgage loans.

Finally, housing affordability is significantly affected by other debt obligations of households. It was established that ninety three percent of the entire market has existing debt obligations that have to be serviced on a monthly basis. These loans are called term loans because they are paid over long periods of time. This study revealed that the above expenditure varies from a term of less than one-year to terms that can extend up to years. Clothing (85%) and furniture (64%) accounts account for more than half of the debt while loans account for about 8% of the regular debt servicing. It was found that 29% of all respondents perceive that their existing debt obligation is an impediment to accessing housing finance.

Improving the opportunity for low-income households to save, improving their general indebtedness and expanding the choice of available housing stock, can therefore be important policy initiatives to improve access to housing amongst South Africa's poor households.

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**Abstract**

South Africa faces a low-income housing crisis with the current backlog estimated at over 3 million units. The persistence of the back-log has been argued to be due to inadequate savings and lack of affordability of housing by low-income households. In this paper we present evidence from a survey of 653 households across 5 provinces of South Africa on the savings behavior and affordability levels of low-income households in the housing market. It is found that low-income households' ability to save is not insignificant, and that where they do not save enough it is because of lack of opportunity rather than lack of capacity. Indeed, as a percentage of monthly income we found that prospective home buyers in the lowest income growth saved the most – nearly 13% of their monthly income over a 24-month period. The majority (62%) used a conventional savings account held at a formal bank in order to save. When monthly savings are added to the disposable income of low-income households, and other debt obligations such as clothing and furniture credit lessened, it is found to significantly improve the affordability of housing for all but the very lowest income categories. The majority of respondents were found in such a case to be able to afford to repay mortgage loans. Improving the opportunity for low-income households to save, and improving their general indebtedness, can therefore be important policy initiatives to improve access to housing amongst South Africa's poor households.

JEL Classification: O16, O55, R21

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