

# Making middle-income earners' urban home-owning dreams reality

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For many of South Africa's 4.2-million middle-income earners, owning a well-located urban home is but a dream.



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With this market earning between R15,000 and R50,000 per month, based on figures from the Unilever Institute of Strategic Marketing at UCT, they can only afford to live in the outer suburbs of cities, far away from the economic hubs in which many of them work. This is particularly true in places like Cape Town where, according to research by property analytics group Lightstone, property prices make it difficult for middle-income buyers to find a decent home for under R3m. It's not surprising then that FNB's latest Property Barometer found that there are five times fewer first-time home buyers in the Mother City than in other urban cities.

Middle-income earners can afford a minimum home purchase price of R500,000 and a maximum of R1.5m, if the property is financed over 20 years at 30%. In terms of the areas where they could afford to live, at the lower end of the spectrum these would be Parow Central in the Western Cape, Regier Park in Gauteng and Shastri in Kwazulu-Natal. At the upper end are Lonehill in Gauteng, Durbanville in the Western Cape and Waterfall in Kwazulu-Natal.

## Financial stress

With the 2017 Sanlam Benchmark Survey revealing that more than 70% of middle class workers experience some form of financial stress, how can this market afford to purchase property? While their monthly household income means that they do not qualify for government housing subsidies (provided to those who make between R3,501 and R15,000 per month), a number of banks and mortgage finance providers are addressing this need by enabling those who earn between R15,000 and R25,000 - depending on the lending institution - to get bonds.

For instance, with an Absa MyHome home loan, those who bring in R20,000 a month or less, are eligible for up to 100% financing along with comprehensive insurance to pay off the home loan in the event of the debtor's death. Another example would be Standard Bank offering home loans to individuals earning a single or joint gross monthly income of up to R18,600, also with 100% financing, but with no deposit required. SA Home Loans, South Africa's largest non-bank specialist home loan provider, caters to the gap in the market of people earning less than R18,000, with the provision of 100% loans to

qualifying customers and a 20-year term variable interest rate loan.

## **Income-linked residential mortgage loan**

Old Mutual has taken accommodating middle income earners one step further. Through its Housing Impact Fund South Africa, it finances the acquisition and construction of homes for sale and rent that are affordable to the lower and middle markets. As part of this, the investment group has developed an income-linked residential mortgage loan that accounts for annual loan repayment escalations in alignment with borrowers' actual salary increases. This is aimed at those with monthly salaries of between R3,500 and R20,000 and house prices ranging from R200,000 to R550,000. Furthermore, the company has entered into a joint venture initiative with a private property developer to provide housing to those who earn R22,000 or less.

With South Africa's large emerging middle market, there is a pressing need for more lending institutions, as well as property developers, to enable and empower them to enter the urban property market.

## **ABOUT THE AUTHOR**

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