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Plettenberg Bay

Residential Market Assessment



URBAN-ECON
Development Economists



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1. Report Outline

Urban-Econ Development Economists has been commissioned by The HOME Market to undertake a desktop research analysis to investigate demand for various categories of housing in the town of Plettenberg Bay. The objective of the study is to provide the HOME Market with a better understanding of the affordability dynamics of households residing in the greater Plettenberg Bay area.

As a primarily desktop study, household and personal income will be the major factor considered in quantifying buyer demand for units at the proposed development. Factors such as buyer preference for location, building form (free-standing vs. cluster vs. flat etc.), public services and other infrastructure will not be directly factored in to the calculations undertaken. The study does however augment the statistical analysis through inputs gathered from engagements with local estate agents and property realtors, particularly with regards to the demand for retirement accommodation.

This report will consider housing in the following markets:

- Affordable / subsidised housing (Primary focus)
- Retirement accommodation
- Other real estate market opportunities

1.1. Study Area

This report is concerned with the potential demand for residential development in and around Plettenberg Bay in the Bitou Local Municipality in the Western Cape Province. Plettenberg Bay is situated on the coast along the N2 National Highway in the scenic Garden Route area. Figure 1.3 below shows the position of Plettenberg Bay in the context of the Bitou Local Municipality and major regional towns.

Figure 1.1: Locality map of Plettenberg Bay in the Bitou Local Municipality



Plettenberg Bay is situated along the scenic Garden Route and is close to a number of major Western & Eastern Cape Province towns. Travel times to other major settlements are shown below:

| | |
|------------|--------|
| Knysna | 30 km |
| George | 94 km |
| Mossel Bay | 131 km |
| Cape Town | 515 km |

| | |
|----------------|--------|
| Jeffreys Bay | 154 km |
| Port Elizabeth | 230 km |

The area surrounding Plettenberg Bay includes numerous small elements which combine to form one functional area. Notable major suburbs and major settlements surrounding Plettenberg Bay include:

- Plettenberg Bay CBD
- Beacon Isle
- Whale Rock
- Formosa
- Kranshoek
- Kwanokuthula
- Keurboomstrand
- Kurland
- Harkerville
- Natures Valley

1.2. Kranshoek Locality

The settlement of Kranshoek is situated 8km from the main Plettenberg Bay urban area but is considered a functional element of the town of Plettenberg Bay. Kranshoek is connected to Plettenberg Bay by a growing public transport system. Plettenberg Bay is the main area of employment for residents of Kranshoek.

The residents of Kranshoek are among the lowest income households in the Bitou Local Municipality.

The region between Kranshoek and the greater Plettenberg Bay urban area is of key strategic spatial importance. The topography of the region and land ownership profile of makes further expansion of the main Plettenberg Bay town challenging and costly. The high costs of land and challenging development environment limit the potential of low – middle income residential developments. Thus the likely growth path, especially for more affordable housing developments, is along the Robberg road stretching between Plettenberg Bay and Kranshoek.

While this study will address the total demand for housing in the Plettenberg Bay region. The findings of this study will be put into context of this potential development corridor and Kranshoek as a likely node at which affordable housing developments will likely be established.

Figure 1.2: Kranshoek Locality



1.3. Objectives

The objectives of the report are to:

1. Provide an overview of the region, its population dynamics and economy and how they factor into housing demand.
2. Discuss local property market trends and how they apply to this study.
3. Describe each income brackets population by ward for location, house type and tenure.
4. Determine the Housing Gap in the Plettenberg Bay area for each subsidised housing income category.
5. Calculate the qualifying house price affordability for each income category for both purchase and rental markets.
6. Discuss the potential success of developing affordable/ social residential housing in the area relative to the current and forecasted housing gap and other factors discussed in the report.
7. Assess the demand for additional retirement housing in the area and discuss any other residential property opportunities that may be identified during the course of the study.

1.4. Methodology & Assumptions

The formulation of this report has been undertaken according to the following key project steps:

1. Data Sourcing

Data on household income, housing supply, demographic and economic statistics are sourced via Quantec Research making use of the latest Statistics South Africa data.

Other key information on the national & local property markets as well as consumer behaviour were sourced directly from Statistics South Africa research and engagements with property market and mortgage finance experts.

2. Socio-Economic & Economic Profiling

Socio-economic and economic profiling of the national and local economies is undertaken to provide context within which to view the Plettenberg Bay property market, and to better understand the environment in which Plettenberg Bay residents make housing decisions.

3. Supply Analysis

An analysis of the housing supply in the Plettenberg Bay region is undertaken by analysing forecasted housing tenure numbers based on the 2011 National Census.

4. Demand Analysis

An analysis of demand for housing is undertaken by determining the maximum monthly contribution of households in each income bracket can commit to financing a bond or commit to the rental/lease of a residential property.

5. Housing Gap Modelling

The Housing Gap is calculated by comparing household supply to affordability demand. The results will indicate the extent of the shortfall or surplus of properties in each income category

6. Housing Affordability

An economic model is used to determine the maximum bond affordable, or maximum commitment to property rental, to each income category using various scenarios of percentage-income-to-housing to account for variations in financial circumstances of local residents.

The following assumptions are made in undertaking the study:

Household Expenditure

The amount households can make available to fund either their monthly instalments on a bond or the rental of a property will not exceed 30% of disposable income.

Disposable income here is defined as Total Income, less Tax charges.

Banks and other financial institutions regularly use two bond affordability scenarios to determine the maximum bond repayment a buyer is capable of; one of which is 30% of disposable income.

The bank will then typically choose whichever value is the lowest figure to determine the maximum bond the household can thus qualify for.

Thus the 30% of disposable income is the maximum amount a bank will ever consider for the calculation of a bond. Whereas the 30% scenario is easily calculated by using household income data, there is no readily available method of determining Plettenberg Bay households' maximum affordable bond repayment using the second method. Data is not available for monthly debt payments by local households nor is information available for the total monthly fixed expenditures of households. National data suggests a debt-to-income ratio of over 75%. This is a useful indicator, but it encompasses household mortgage debt and will therefore not be used in this report's calculations.

Mortgage Rates

Bonds are calculated on a fixed interest rate based on the prime lending rate. The prime lending rate 10.25% as at 31 January 2019. Banking institutions regularly grant bonds at prime plus an additional rate depending on the risk profile of the home-buyer. In this report, a conservative figure of prime plus 2% is used, resulting in a mortgage rate at the current prime interest rate of 12.25 % per annum.

Bond Terms

Bonds have for many years been offered at a maximum term of 20 years but due to effects of the global financial crisis of recent years many financial institutions have started to provide 25 and 30-year bonds in an attempt to stimulate the property bond market. This has the effect of reducing the monthly mandatory bond instalment payable by the home-owner. The negative aspect of this is that it increases the repayment period of the bond and subsequently increases the total repayment amount.

Demand & Supply Assumptions

Residential demand for property is calculated based on population within stated income brackets and supply calculated on the number of households in each income bracket residing in specific forms of housing, all according to Census 2011 data and modified with the latest Quantec Standardised Regional Dataset.

Census data is reported on a progressive scale in different income increments to those used in this report. To determine the population according to the required applied housing income brackets this data was first standardised and then a regression curve fitted. This curves equation was then used to calculate the number of households present in each income category.

Estate Agent Interviews

Interviews were conducted with local estate agents specialising in the Plettenberg Bay property market for insights into various aspects of the market, trends, and gaps for additional housing. Interviews were conducted in person using a standardised questionnaire.

Housing Categories

Various income categories are assessed in this study aligning with various housing assistance schemes. The Social Housing Rental Scheme assists households in qualifying income brackets with rental accomodaiton, and the FLISP programme which assists households in qualifying households with the purchase of property. The income brackets covered in this report are as follows:

- Free basic units: R0 – 3500 (Freehold Title)
- Social Housing (Primary): R 1500 – R5500 (Rental)
- Social Housing (Primary IMIZI): R2500 – R5500 (Rental)
- Social Housing (Secondary Market): R5501 – R15000 (Rental)
- FLISP: R3501 – R22 000 (Freehold Title)
- Non-subsidised Affordable: R22001 – R30 000 (Freehold Title)
- Non-subsidised Higher-cost: R30 001 and up.

Various housing provision and subsidy schemes are available through different government resources. These subsidies and programmes each focus on a specific income bracket. This report focusses on two such schemes, the Social Housing rental scheme and the Finance Linked Individual Subsidy Programme (FLISP). The target income of each is:

Social Housing Rental Scheme: Social housing is rental option mainly provided by Social Housing Institutions (SHI). A SHI can be a section 21 company, a municipal entity or a private company. Social housing is targeted at low to middle income households earning R 1 500 to R 5 500 per month for the primary market and R 5 501 – R 15 000 for the secondary market. Social housing is a way of providing affordable, medium to high density rental housing. The main purpose is restructuring urban areas, not mass delivery of housing units. It aims to undo the legacy of the town planning under the apartheid regime and to create a socially, racially and economically integrated society.

The FLISP Housing Subsidy: The Finance Linked Individual Subsidy Programme (FLISP) is an initiative of the Department of Human Settlements to “provide a subsidy to allow aspiring home owners to purchase a home”.

The subsidy is aimed at individuals who find it difficult to access finance for a property purchase and who earn too much to qualify for Government’s free basic house under the RDP Housing Subsidy scheme.

The subsidy is applicable to first time home buyers whose household income lies between R 3501 and R 22 000; and provide subsidies on a slideing scale ranging from R 27 690 for households in the highest income band to R 121 626 for households in the lowest income band.

Housing affordability calculations produced later in this report are inclusive of FLISP subsidies.

Figure 1.3: Bond Affordability Calculation

| | |
|--------------|---|
| | Disposable Monthly Income <i>Total available income after tax</i> |
| Less | Monthly Debt Repayments Monthly instalments on existing debt including payments on vehicle finance, personal loans, retail credit instalments and other compulsory monthly personal debt repayments |
| Less | Monthly Fixed Expenditures Monthly fixed expenditures include items such as medical aid, life insurance, vehicle and household insurance, membership fees and other compulsory monthly payments and debit orders |
| Less | Basic Living Margin An amount which financial institutions are encouraged to set aside to allow for a households' basic needs such as food and groceries |
| Total | Maximum Bond Instalment The bond instalment the bank or financial institution will use to calculate the size of the bond to be granted. |

Leakages & Injections

Due to the desktop nature of this study, the subject of residential leakage (households expected to be lured to other areas in short to medium term) and injection (new household demand expected as a result of the new development and subsequent influx of households) have not been addressed.

1.5. Report Preview

The rest of this report will be structured as follows:

Section 2: Socio-Economic Profile

This chapter showcases some key socio-economic statistics of the Plettenberg Bay area and Bitou Local Municipality and provides an overview of the Bitou Local Municipality economy. The aim of this section is to give the reader greater insight into the dynamics of the region, to provide the context within which to view the results of future chapters.

Section 3: Property Market Overview:

This chapter will review the local property market providing insight into the conditions present in the local property market, discussing the characteristics of the markets, trends in housing construction, the performance of the local property market in recent years.

Section 4: Market Potential Analysis

Section 4 provides an investigation into the demand for and supply of housing in the Bitou Local Municipality / Plettenberg Bay area after which the Housing Gap is then established for the five income ranges under investigation. Following this, a financial model is used to determine the expected property value residents in each income bracket are likely to afford, either for purchase or for rent.

2. Bitou Local Municipality Overview

2.1. Introduction

This chapter showcases some key socio-economic statistics of the Bitou Local Municipality and provides an overview of the Bitou economy. Plettenberg Bay is the only major settlement within the Bitou Local Municipality. The aim of this section is to give the reader greater insight into the dynamics of the region, to provide the context within which to view the local property market and the proposed residential development.

This Section will continue under the following headings:

- ❖ Demographic profile
- ❖ Economic profile
- ❖ Synthesis

2.2. Demographic Profile

Figure 2.1 presents a summary of key demographic statistics for the Bitou Local Municipality. The Bitou Local Municipality population is relatively small. The economy is less diverse than nearby Knysna and George and reliant mostly on tourism to drive the economy.

Education levels are relatively poor in the Bitou. Bitou's population aged between 20 and older with no formal schooling stood at 7%, with only 30% of the population having a matric or higher qualification. This has negative implications for the employability of residents, limiting many workers to unskilled or semi-skilled occupations.

The population growth rate for Bitou over a period of 2007 and 2018 was 3.61 % p.a. compound annual growth rate (CAGR). There were approximately 17 125 households in Bitou in 2018. The average number of persons per household was 2.97 in 2018

The Bitou unemployment rate of working age adults employed was 18.2% and an employed rate of 56.7%. The figure below only accounts for those who are unemployed and actively seeking work, a significant percentage of the Bitou working age are not economically active at 26.1%.

The average monthly wage for households in Bitou is R 11 056 per household.

Figure 2.1: Key Local Market Variables

| Variable | Bitou Local Municipality |
|--|--|
| Population Size (2017) | 51 029 |
| Population Size (2011) | 42 226 |
| Population Size (2001) | 32 343 |
| Population Growth Rate | 3.61 % |
| Number of Households (2017) | 17 125 |
| Average Household Size | 2.97 |
| Age Profile | <ul style="list-style-type: none"> ◆ < 4 ◆ 5 - 14 ◆ 15 – 34 ◆ 35 – 64 ◆ 64 > |
| Level of Education | <ul style="list-style-type: none"> ◆ No schooling ◆ Some primary ◆ Complete primary ◆ Some secondary ◆ Grade 12 ◆ Higher |
| Employment | <ul style="list-style-type: none"> ◆ Employed ◆ Unemployed ◆ Not Economically Active |
| Weighted Average Monthly Household Income (2013) | R 11 056 |

(Source: Quantec Standardised Regional 2016)

2.3. Economic Profile

Figure 2.2 displays the nine economic sectors below, stated according to the Standard Industrial Classification, and illustrates each sectors contribution to the overall GDP of South African economy.

From figure 2.2 it can be seen that the secondary and tertiary sectors are the largest generators of wealth in the National economy, with the Financial & Business services sector contributing 20.15 %, Trade & Wholesale 15.03 % and Manufacturing contributing 13.22 % to National GDP.

In comparison, the Bitou Local Municipality's economy is less reliant on the manufacturing sector, which makes up 9.38% of the local economy. Mining & Agriculture is almost non-existent within the confines of the municipality. The Construction sector is considerably more important to the local economy than it is to the National and Provincial economy, contributing 12.98% to local GDP. Trade and whole sale and business services are the largest economic sectors contributing 19.09% and 25.04% respectively to local GDP. The South African National Economy has experienced a growth rate of GDP of 1.56 % in the ten years between 2008 and 2017. In comparison, the Bitou Local Municipality's economy has experienced a slightly higher growth rate, but still remarkably low at 1.88% year on year.

Figure 2.2: Economic Sector Contributions to GDP_R

| Economic Sector (SIC) | GDP_R Contribution | | |
|---------------------------------|--------------------|-----------------------|--------------------------|
| | South Africa | Western Cape Province | Bitou Local Municipality |
| Agriculture | 2.55% | 3.92% | 5.29% |
| Mining | 8.02% | 0.30% | 0.23% |
| Manufacturing | 13.22% | 15.16% | 9.38% |
| Electricity and Water | 3.72% | 2.86% | 1.04% |
| Construction | 3.91% | 5.58% | 12.98% |
| Trade & Wholesale | 15.03% | 17.33% | 19.09% |
| Transport | 9.86% | 10.97% | 7.48% |
| Financial and Business Services | 20.15% | 25.44% | 25.04% |
| General Government | 17.73% | 11.63% | 11.27% |
| Community & Social Services | 5.80% | 6.81% | 8.20% |

Source: Quantec - Standardised Regional 2015

Figure 2.3 displays some key economic indicators of the South African national economy. The Prime Lending Rate of 10.25 % will be used in this report as the basis for housing gap calculations.

Figure 2.3: South African Economic Indicators

| Indicator | Rate | Date |
|--------------------------------------|---------|--------------|
| Consumer Price Index (CPI) Inflation | 4.50 % | January 2019 |
| Producer Price Index (PPI) Inflation | 6.80 % | January 2019 |
| Repo Rate (SARB Interest Rate) | 6.75 % | 2019-01-30 |
| Prime Lending Rate | 10.25 % | 2019-01-30 |
| R/\$ Exchange Rate | 13.59 | 2019-01-30 |
| R/£ Exchange Rate | 17.80 | 2019-01-30 |
| R/€ Exchange Rate | 15.55 | 2019-01-30 |

(Source: South African Reserve Bank, www.resbank.co.za)

2.4. Synthesis

The economy in Bitou is reliant on the financial and business services sector as well as the trade & wholesale sector. Both of these sectors include a significant portion of the tourism sector. Unfortunately “tourism” is hard to quantify and thus is not provided as a specific industry classification in the official datasets. Tourism contributes greatly to the regions economy and is a major driving force behind economic activity in a number of key sectors.

Within the municipality there is generally a low level of educational attainment with only 30% of the adult population having a matric and or higher education qualification. Basic education and skills development are needed in order for the unemployed population to attain jobs in order to improve the livelihoods of the population. Employment is likely to improve as the local economy continues to grow.

3. Property Market Overview

This chapter will review the local property market providing insight into the conditions present in market, discussing the characteristics of the markets, trends in the housing market, performance various property types, and the general demand for housing in the purchase and rental markets.

3.1. The Local Property Market

Plettenberg Bay is known traditionally as a holiday town and summer playground of wealthy tourists; however, the town has started to mature in recent years into a more diverse and multi-faceted town. The town has seen a sharp rise in demand for permanent homes in recent years, attracting families in search of a better lifestyle as well as empty-nesters and retirees looking to enjoy their golden years in a scenic, tranquil setting. While much of this demand has originated from upper-middle to upper income households, this shift in the nature of the town has seen an increased demand for housing in the lower- and middle-income categories as local employment opportunities have increased.

The spike in demand in recent years has precipitated a surge in residential development, especially in the growing secured (gated) estate sector which now accounts for 20% of the property landscape.

Performance and Growth

Emerging from a period of subdued performance, following the financial crisis of 2008/09, Plettenberg Bay has shown remarkably strong performance in recent years, with 2017 and 2018 showcasing remarkably strong performances for property sales and property prices.

Despite a flailing economy and subdued market, in 2017 the coastal town achieved its highest ever sales in terms of Rand value, with transactions totalling R1.043 billion, up from R1.041 billion in 2016. Sotheby's International Realty Plettenberg Bay recorded an increase of 60% (year on year) for the first quarter of 2018. 2017 was a record year for the property market as a whole in the upmarket coastal resort town. Total sales value was the highest ever documented, breaking the R1 billion mark for the second time in history, and total average prices were also the highest recorded to date at R2,3 million, though the number of sales were down by 14% from 2016. While data for 2018 is still incomplete, interactions with local estate agents indicate that this strong performance continued throughout 2018.

Entry level prices have increased substantially. While this is a positive for property developers, it does put increased pressure on lower- and middle-income earners. The entry level for apartments is R800,000 and vacant land starts at about R275,000. The entry level for freestanding houses is around R1,8 million, though there are cheaper options in areas surrounding Plettenberg Bay, particularly found in townhouse styled cluster sectional title estates. It is becoming increasingly difficult to find houses below R2million.

There is an imbalance in the town's property market (something which is not commonly noted by estate agents in the area); There are a plethora of housing options for upper income earners, and growing low income areas, but very few options for middle income earners. This can be observed by looking at the average property prices per suburb, where suburbs are either filled with properties above R 1.2 million average price, or below R 200 000. As a result of this large gap in housing options, rental rates in middle income brackets are elevated when compared to other urban areas.

High Priced Property Market

A feature of the Plettenberg Bay property market has been the strong performance of high-priced properties. The highest price achieved in residential sales in 2017 was shared by two Robberg beachfront properties which sold for R 36 million each. One was on Beachy Head Drive and one was in Robberg Beach End estate at the end of Robberg Beach next to Robberg Nature Reserve. Over the past few years there have been a number of sales on Beachy Head Drive in the region of R 30 million. Property data is backed up by sentiments from local estate agents, and it seems that a new level for beachfront property prices has been established. This entrenches Plettenberg Bay as one of the highest value property markets on the African

Continent. According to the 2018 AfrAsia South Africa Wealth Report, produced by New World Wealth, Plettenberg Bay is the third on the list of locations in South Africa with homes priced R 20 million and above. The top two locations on the list are the Urban Centre of Gauteng (Johannesburg, Pretoria and surrounds) and Cape Town. The report goes on to predict that Keurbooms and Natures Valley will soon follow Plettenberg Bay as a leading market for R 20 million plus homes.

This growth of house prices brings mixed fortunes for the town as a whole. Continued property price increases will increase the value of vacant land and put even more pressure on lower income earners seeking to enter the property market. On the other hand, continued growth of the property market and development of areas such as Keurbooms and Natures Valley will boost the local economy and create employment opportunities (directly benefiting the construction sector and creating increased demand for retail services).

Demand for Housing

Following on from the discussion above, it is no surprise that there is significant demand for housing in the lower income brackets. There is a dire need for houses between R 400 000 – R 600 000, of which there is currently non-existent supply available in this bracket.

Estate agents consulted in this research process, also indicated that there is strong demand for middle-income market holiday apartments in the R 800 000 – R 2 million, and that properties with a good value offering will be taken up very quickly. Units in this price bracket are expected to appeal to both private households and property investors seeking new rental stock.

Although the high-end market has performed strongly in recent years, there is a growing trend for households choosing not to purchase properties and instead seeking to rent. These households don't want to invest in expensive developments as they feel they will not make profit when they sell the property. In addition, there is a growing trend for wealthy persons (who would typically have invested in property in Plettenberg Bay) seeking rental properties as they only reside in Plettenberg Bay 6 months of the year, and do not want to be burdened with the upkeep of property or high rates payments.

As discussed previously, there is a lack of housing catering for lower- and middle-income earners, and thus demand for property rentals catering to this market is high. In fact, rental demand is high across all income categories, albeit for varying reasons. Rental prices for small 2-bedroom units stands at ± R 6500 in the major suburbs of Plettenberg Bay. So there appears a degree of room for the development of more affordable rental units.

Semigrants

Plettenberg Bay has outperformed the national average as well as other holiday towns in South Africa. This is due in part to its having been part of the most sought-after region for 'Semigrants'. Semigrants are described as those people relocating to different parts of the country, rather than emigrating. The migration of a very significant group of repeat home buyers in recent years to the Western Cape region has been well-documented.

The Western Province has had by far the strongest net inflow of repeat home buyers of any of the country's nine provinces, as higher income people have searched for a better perceived quality of life.

The majority of these households have been economically productive people, making the larger City of Cape Town and surrounding economy the most attractive targeted sub-region of the province, given the large size of the Cape Town economy. Towns along the Southern Cape have also benefited greatly from this phenomenon. Most notably is the town of George who benefits from having an airport allowing business persons to work in Johannesburg or Cape Town and come home to their homes along the Garden Route.

Plettenberg Bay has benefited significantly from the arrival of Semigrants.

Recent Developments

Two notable developments have come onto the market recently in Plettenberg Bay. These are the Quartet Hotel & Retirement Estate and the Plett Quarter development.

The Quartet Hotel & Retirement estate offers retirees a choice of lifestyle options specially tailored for the different retirement phases and the residents' contemporaneous lifestyles and

daily needs. At the heart of the scenic, landscaped property is a deluxe hotel in which the fully serviced retirement suites are situated, with a further 22 freestanding units on the estate. There are numerous on-site amenities, including a medical centre and a wellness centre.

The other sought after new property is Plett Quarter, the first development of its kind in the town. Situated on the sea side of Main Street, Plett Quarter comprises upmarket shops and restaurants and a reception area at ground level with several floors of modern apartments ranging between R 2.2 million and R 8.9 million with a rooftop communal pool exclusively for use by residents.

Retirement Accommodation

Local estate agents were asked about the demand and potential gap for retirement accommodation in and around Plettenberg Bay. Based on the feedback, there is a large demand for retirement homes, particularly in the price range R 800 000 - R1.5 million. As discussed above, there is already a new retirement development that has just entered the market, but this caters for a slightly higher income bracket. Estate agents have stressed that any new retirement developments must not be too small. Based on agent feedback, properties should be at least 120 m² in size. The estates should have numerous facilities.

The retirement population in Plettenberg Bay is generally young and active and engage in numerous activities such as hiking, walking along the beach, tennis, golf and bowls.

The majority of retirees in Plettenberg Bay are not from the area, having moved to Plettenberg Bay from other larger centres after completing their careers. In many instances' individuals are involved in 'active retirement', still engaged in work of some sort but choosing to move away from the larger cities seeking an improved quality of life and preparing to transition into full retirement. One of the major reasons for retirees choosing to settle in Plettenberg Bay is lower crime levels. As such it is critical that any new retirement developments have adequate security infrastructure.

Low Income Areas

Although much has been done to improve housing for lower income households, there is still a major disconnect between the high- and low-income sides of Plettenberg Bay. Housing projects in Formosa and Kwanokuthula have gone a long way to increase options for lower income households but there remains a large portion of this community who are not adequately served.

Key to improving the functional dynamics of these areas is providing new housing options which also serve to improve the mobility of residents and improve safety and security.

Tourism

While much of the tourism in Plettenberg Bay takes the form of long stay residential accommodation, small bed and breakfasts, and up-market lodges, there is a need for a new hotel development that is capable of handling larger numbers of short-stay tourists. There are numerous tour groups and buses which pass along the garden route and there is a lack of infrastructure to accommodate this traffic in Plettenberg Bay at present.

3.2. Synthesis

Based on feedback from local estate agents, and research conducted into the nature of the Plettenberg Bay property market, the following key outcomes have emerged:

- There is a need for short term / holiday homes for rental. There is a need for the price bracket that is between R750 000 and R 1,5 Million for residential units. There is a particular market gap catering to foreigners who wish to live in Plettenberg Bay for up to 6 months of every year but do not want to be burdened with property ownership.
- There is a need for affordable/ low cost retirement homes.
- There is a large need for new low-cost housing, especially properties below R 600 000.
- There is a big market for big hotels as there's lack of facilities for buses with tourists. It is often a problem to approve those plans at the municipality.

It is clear that Plettenberg Bay is maturing as a property market. Over the next few years the town is likely to face further growing pains as easily developable land becomes scarcer and

the need for more affordable housing options becomes ever greater. The continued success of Plettenberg Bay's high-end property market, and the tourism appeal of the town will depend on how well the town adapts to the increased demand for products and services, and the options the town can provide for lower- and middle-income households.

4. Market Potential Analysis

4.1. Introduction

Chapter 4 will provide an analysis of households in the Plettenberg Bay study area in the following income categories which include the qualifying income bands for social housing (R 1 500 – R 15 000) and FLISP housing subsidy schemes (R 3 501 – R 22 000) as well as income bands corresponding with the open market for housing, R 22 001 and above.

- R 0 – R 1 500
- R 1 500 – R 2 500
- R 2 501 – R 3 500,
- R 3 501 – R 5 500,
- R 5 501 – R 15 500,
- R 15 501 – R 22 000,
- R 22 001 – R 30 000
- R 30 001 and above.

Households in these income bands will first be profiled to determine their location, popular housing types and tenures before the Housing Gap is determined and the maximum rental and purchase price calculated.

4.2. Target Market Analysis

This section will provide insight into popularity of various housing and tenure types in the Bitou LM area.

4.2.1. Housing Analysis

Figure 4.1 presents the proportion of households occupying each tenure type i.e. the proportion of people renting accommodation, owning accommodation and still paying off a bond. The population of each income bracket is split according to the relative share of each tenure type.

Figure 4.1 reveals that tenure type is relatively consistent between income groups, with very similar tenure patterns across all income groups. When combining owned and mortgaged properties, it is evident that as many people are interested in renting accommodation as in purchasing accommodation (excluding households occupying rent free). Rental rates are remarkably consistent across income brackets indicating that rentals are a firm feature of the local property market and not purely a result of economic limitations. Rental rates do increase in the highest income categories, however. This is due to the relatively large portion of the local community who do not live in Plettenberg Bay all year around. Many households actively choose to rent instead of purchasing as they do not use the property for large portions of the year and thus do not want to be burdened with upkeep and maintenance etc. Many of these households are also foreign nationals who are not interested in owning property in South Africa.

Figure 4.1: Tenure Type – Bitou Local Municipality

| Tenure Type – NMBM | R 0 – R 1 500 | R 1 500 – R 2 500 | R 2 501 – R 3 500 | R 3 501 – R 5 500 | R 5 501 – R 15 500 | R 15 501 – R 22 000 | R 22 001 – R 30 000 | R 30 001 and above |
|----------------------------|---------------|-------------------|-------------------|-------------------|--------------------|---------------------|---------------------|--------------------|
| Rented | 34% | 31% | 31% | 31% | 33% | 34% | 37% | 41% |
| Owned but not yet paid off | 11% | 11% | 11% | 10% | 7% | 7% | 9% | 13% |
| Occupied rent free | 26% | 25% | 25% | 29% | 29% | 34% | 32% | 31% |
| Owned and fully paid off | 24% | 27% | 27% | 25% | 25% | 21% | 16% | 11% |
| Other | 5% | 6% | 6% | 5% | 6% | 5% | 6% | 4% |

Source: Quantec Standardised Regional

4.2.2. Housing Gap (Bitou Municipality)

In order to determine the Housing Gap for accommodation it is necessary to isolate the current supply of residential owned and mortgaged housing. The housing gap will then be calculated by comparing the total demand for housing in each income category with the supply of owned and mortgaged housing. The difference between the two will be regarded as the housing gap in each income bracket. It must again be noted that the housing gap calculated in this report is based solely on affordability and does not take personal preferences for size, location or other parameters into account. Figure 4.2 displays the property supply for owned & mortgaged housing in each income bracket, as well as rental supply in each income bracket.

Figure 4.3 displays the calculation of the **Housing Gap**, which indicates the net shortfall / surplus of housing in the target income bands. This housing gap includes households who are currently renting as it is the assumption that people would buy property if possible (Housing Gap (A)). For a view of the housing gap exclusive of rentals Housing Gap (B) indicates the number of households who both do not own their own property, and who also are not currently renting accommodation.

It must be stressed that this Housing Gap is merely **indicative of the presence of conditions favourable to the development of new housing** targeting households in appropriate income bands. It does not indicate the number of units which can / should be constructed. This is due to other factors such as households moving from existing accommodation to take up rental accommodation, people moving from other areas to take up residence in the development etc.

Figure 4.2: Residential supply of housing (Bitou Municipality)

| Income Brackets (Rands/Month) | Residential Owned & Mortgaged Properties | Rentals |
|-------------------------------|--|---------|
| No Income | 1671 | 971 |
| R 0 – R 1 500 | 117 | 71 |
| R 1 500 – R 2 500 | 78 | 48 |
| R 2 501 – R 3 500 | 78 | 48 |
| R 3 501 – R 5 500 | 169 | 109 |
| R 5 501 – R 15 500 | 1221 | 873 |
| R 15 501 – R 22 000 | 756 | 573 |
| R 22 001 – R 30 000 | 679 | 565 |
| R 30 001 and above | 4643 | 2893 |

Figure 4.3: Housing Gap (Bitou Municipality)

| Income Brackets (Rands/ Month) | Demand | Owned & Mortgaged | Housing Gap (A) | Housing Gap (B) |
|--------------------------------|--------|-------------------|-----------------|-----------------|
| No Income | 3 702 | 1 671 | 2 032 | 1 061 |
| R 0 – R 1 500 | 282 | 117 | 165 | 94 |
| R 1 500 – R 2 500 | 188 | 78 | 110 | 62 |
| R 2 501 – R 3 500 | 188 | 78 | 110 | 62 |
| R 3 501 – R 5 500 | 408 | 169 | 239 | 131 |

| | | | | |
|---------------------|-------|-------|-------|-------|
| R 5 501 – R 15 500 | 3 027 | 1 221 | 1 805 | 932 |
| R 15 501 – R 22 000 | 1 884 | 756 | 1 129 | 555 |
| R 22 001 – R 30 000 | 1 681 | 679 | 1 002 | 437 |
| R 30 001 and above | 9 124 | 4 643 | 4 481 | 1 588 |

4.3. Property Affordability Analysis

This section follows on from the derivation of the Housing Gap for the Plettenberg Bay area by calculating A) price of property that the identified households could feasibly afford and B) what rental rate could these households afford.

The rental market is important to consider. Figure 4.1 identified that between 30% and 40% of households in the study area currently rent their accommodation. That rental rates are stable across income bands indicates that this is an ingrained feature of the local property market, likely related to the relatively high prices of property in the area. While this may also be true for upper income categories, it is expected that numerous upper income households rent out of choice and not solely for the factors mentioned above.

Purchase affordability assumes that households will apply for a bond and will pay no deposit.

Four expenditure scenarios are presented for both purchase and rental affordability. These expenditure scenarios represent the maximum percentage of income which a household may contribute towards bond repayments or towards monthly rental fees. The derivations of the four expenditure scenarios (30%, 25%, 20%, 15%) are discussed in section one of this report).

4.3.1. Purchase

Figure 4.4 presents the property affordability range of households in each income bracket.

It is clear when viewing the possible purchase price of properties those households earning less than R 3500 per month are limited to the very bottom of the property ladder, relying predominantly on housing rental, government subsidised or provided housing or other forms of accommodation.

The FLISP subsidy aids households in the income categories R 3 501 – R 22 000, which in all expenditure scenarios can afford some form of formal accommodation.

The 30 % scenario represents the maximum proportion of income spent by local households on accommodation per month. 15% represents the minimum. Some households may be able to afford the 30 %, and others may only manage 15 %. It is however assumed that the majority of local households will fall within the middle two scenarios of 20 % and 25 %.

4.3.3. Rental

Rental ranges are calculated according to the same expenditure scenarios as for property purchases, but instead of the proportion of income going towards bond repayments, they go directly to rental fees.

Figure 4.5 reveals that all households discussed in this report should be able to afford some form of rental accommodation.

Figure 4.4: Property Affordability – Purchase

| Income Brackets | Expenditure Scenarios | |
|---------------------|-----------------------|---------------------|
| | 30% | 25% |
| R 0 – R 1 500 | R 0 – R 40 325 | R 0 - R 33604 |
| R 1 500 – R 2 500 | R 40 326 – R 67 209 | R 33605 – R 56007 |
| R 2 501 – R 3 500 | R 67 210 - R 94 092 | R 56008 – R 78410 |
| R 3 501 – R 5 500 | R 94 093 – R 147 859 | R 78411 – R 123216 |
| R 5 501 – R 15 500 | R 147 860 - R 403 253 | R 123217 – R 336044 |
| R 15 501 – R 22 000 | R 403 254 – R 591 437 | R 336045 – R 492864 |
| R 22 001 – R 30 000 | R 591 438 – R 806 505 | R 492865 – R 672088 |
| R 30 001 and above | R 806 506 + | R 672089 + |
| Income Brackets | 20% | 15% |
| R 0 – R 1 500 | R 0 – R 26884 | R 0 – R 20163 |
| R 1 500 – R 2 500 | R 26885 – R 44806 | R 20164 – R 33604 |
| R 2 501 – R 3 500 | R 44807 – R 62728 | R 33605 – R 47046 |
| R 3 501 – R 5 500 | R 62729 – R 98573 | R 47047 – R 73930 |
| R 5 501 – R 15 500 | R 98574 – R 268835 | R 73931 – R 201626 |
| R 15 501 – R 22 000 | R 268836 – R 394291 | R 201627 – R 295719 |
| R 22 001 – R 30 000 | R 394292 – R 537670 | R 295720 – R 403253 |
| R 30 001 and above | R 537671 + | R 403254 + |

Figure 4.5: Property Affordability – Rental

| Income Brackets | Expenditure Scenarios | |
|---------------------|-----------------------|-----------------|
| | 30% | 25% |
| R 0 – R 1 500 | R 0 – R 450 | R 0 – R 375 |
| R 1 500 – R 2 500 | R 451 – R 750 | R 376 – R 625 |
| R 2 501 – R 3 500 | R 751 – R 1050 | R 626 – R 875 |
| R 3 501 – R 5 500 | R 1051 – R 1650 | R 876 – R 1375 |
| R 5 501 – R 15 500 | R 1651 – R 4500 | R 1376 – R 3750 |
| R 15 501 – R 22 000 | R 4501 – R 6600 | R 3751 – R 5500 |
| R 22 001 – R 30 000 | R 6601 – R 9000 | R 5501 – R 7500 |
| R 30 001 and above | R 9000 + | R 7501 + |
| Income Brackets | 20% | 15% |
| R 0 – R 1 500 | R 0 – R 300 | R 0 – R 225 |
| R 1 500 – R 2 500 | R 301 – R 500 | R 226 – R 375 |
| R 2 501 – R 3 500 | R 501 – R 700 | R 376 – R 525 |
| R 3 501 – R 5 500 | R 701 – R 1100 | R 526 – R 825 |
| R 5 501 – R 15 500 | R 1101 – R 3000 | R 826 – R 2250 |
| R 15 501 – R 22 000 | R 3001 – R 4400 | R 2251 – R 3300 |
| R 22 001 – R 30 000 | R 4401 – R 6000 | R 3301 – R 4500 |
| R 30 001 and above | R 6001 + | R 4501 + |

4.4. Housing Gap

The analysis of housing gap and affordability up to this point has only considered the apparent gap in housing provision in the individual income bands in the Plettenberg Bay, based on income distribution patterns and general residential purchase/rental market assumptions.

There are numerous additional considerations which when included provide a range of 'units demanded' to provide the reader with a 'MAX' (maximum expected demand) and 'MIN' (minimum expected demand) case scenario.

The figures presented below in Figure 4.6 will be used here as the BASE scenario, considering only those households which are currently not served in the local area, ignoring those households which may wish to relocate from within, or outside of the Plettenberg Bay area.

The MIN scenarios are arrived at by addressing the constraints of the various purchase / rental assistance schemes that will be in use at the proposed development. The most important constraint is that an applicant for housing must prove stable income. Two criteria have been used to account for this. Firstly, the levels of employment in the formal sector in each income band, and secondly national statistics on the number of blacklisted households (48% of households have impaired credit records). Applying these rates to the BASE case presented in Figure 4.9 yields an expected effective gap for units in the Plettenberg Bay area. This effective housing gap presents a range for the housing gap based not only on simple affordability, but also on household's ability to negotiate home-loans / qualify for rental assistance etc.

The MAX case encompasses all those households in the Plettenberg Bay area who are expected to meet the financial qualification constraints of the new development, even if currently occupying suitable housing. This MAX scenario thus takes the extreme optimistic view that all households able to afford property at the development would choose to move to such a development if possible.

The total housing gap across all income brackets stands at 3 394 for the primary income categories (1501 – 22000) in the base scenario, and 9 042 overall across all income categories in the Bitou LM. When accounting for household indebtedness, the total gap for housing in the target income brackets could drop to as low as 2 036 in the primary income category. By 2028 this housing gap is expected to grow to 4 698 in the primary income categories and 12 518 overall.

The effective housing gap range is displayed below:

Figure 4.6: Net demand for housing

| Income Brackets (Rands/ Month) | MIN Scenario | BASE Scenario | MAX Scenario |
|-----------------------------------|--------------|---------------|--------------|
| R 0 – R 1 500 | 99 | 165 | 231 |
| R 1 500 – R 2 500 | 66 | 110 | 154 |
| R 2 501 – R 3 500 | 66 | 110 | 154 |
| R 3 501 – R 5 500 | 144 | 239 | 335 |
| R 5 501 – R 15 500 | 1 083 | 1 805 | 2 528 |
| R 15 501 – R 22 000 | 677 | 1 129 | 1 580 |
| R 22 001 – R 30 000 | 601 | 1 002 | 1 403 |
| R 30 001 and above | 2 689 | 4 481 | 6 273 |
| Total (R 1500 – R 22 000) | 2 036 | 3 393 | 4 751 |
| Total | 5 425 | 9 041 | 6 385 |

5. Summary & Recommendations

The following provides a summary of this report's findings regarding the demand for affordable housing in Plettenberg Bay, as well as findings relating to general property market trends and demand for retirement accommodation in the Plettenberg Bay area.

5.1. Residential Demand for FLISP and Social Housing

The report has shown that there is a clear demand for new affordable housing in Plettenberg Bay. At present the housing gap across all income brackets stands at 3 394 for the primary income categories (1501 – 22000) in the base scenario, and 9 042 overall across all income categories in the Bitou LM. When accounting for household indebtedness, the total gap for housing in the target income brackets could drop to as low as 2 036 in the primary income category. By 2028 this housing gap is expected to grow to 4 698 in the primary income categories and 12 518 overall.

There thus appears sufficient demand for the development of a new affordable housing development offering FLISP and other social housing rental units.

5.2. Retirement Accommodation

Interactions with local estate agents indicates that there is a strong and growing demand for retirement accommodation in Plettenberg Bay. This is especially true for middle income households who are underserved at present in the local market. The largest gap for new retirement accommodation is in the R 800 000 - R1.5 million price range.

Based on agent feedback, properties should be at least 120 m² in size. Properties smaller than this are not likely to perform well.

The retirement market is relatively young and active, as many persons seek to relocate to Plettenberg Bay to retire after completing their careers in larger urban centres such as Johannesburg. While there is a demand for retirement accommodation aimed at older aged individuals, featuring frail-care facilities, the immediate need is for retirement accommodation aimed at an active population in the age range of 50 – 70 years of age.

5.3. Middle Income Housing

This report has also highlighted the extreme lack of middle-income housing options in Plettenberg Bay. The town is split between suburbs offering properties above R 2 million and properties below R 200 000 with very few properties occupying the middle ground. This has resulted in high rates of rental in the middle-income brackets. In the coming years, it is critical that the housing shortage in this market is addressed to ensure the efficient functioning of the Plettenberg Bay economy. Without increased options it is unlikely that the town will be able to maintain its current trajectory.

5.4. Kranshoek development potential

The results of this study show that there is clear demand for housing in the lower income brackets in the Bitou Local Municipality. Many of these households requiring adequate accommodation will reside in the Kranshoek area. The findings support the planned development of Kranshoek is a major functional node of the greater Plettenberg Bay area. With the lack of developable land, especially for developments catering for lower and middle income households, the stretch of land between Kranshoek and Robberg, is possibly the best location for the expansion of Plettenberg Bay.