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Fiscal commission urges paradigm shift in housing provision

HOUSING
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In this year's State of the Nation address, President Jacob Zuma announced a housing subsidy of up to R83 000 for people earning between R3 501 and R15 000 a month.

Although this initiative will help some people to buy a property, it will not make much of a dent in the country's housing backlog. What is required is an urgent paradigm shift, according to the Financial and Fiscal Commission's report on the public hearings on housing finance, released in February.

The report is the culmination of public hearings involving a broad range of stakeholders, including the three spheres of government, finance institutions, developers and non-governmental organisations, which made submissions on the draft problem statement presented by the commission. It represents a novel contribution to the debate on human settlements and, in particular, the financing of housing.

Over the past 17 years South Africa has delivered three million fully subsidised houses to low-income households, a feat that few other countries have achieved. Yet, despite this effort, the country still has a backlog of more than two million houses. Actual delivery of housing units consistently falls short of the government's targets. For example, in 2009-2010, the government delivered only 161 854 housing units and 64 362 serviced sites, well short of the annual target of 300 000 houses.

The failure to deliver to the required scale is the result of various factors, including the limited availability of well-located and affordable land and bulk infrastructure, as well as inefficiencies in the housing delivery chain. None of the 70 000 hectares of state-owned land identified for housing purposes has been made available. And even when land is available for township development, it can take three years before the housing units are handed over — a deterrent for many developers.

To clear the backlog would cost an estimated R35 billion, assuming no further growth in demand and a projected delivery rate of 250 000 houses a year. This is far beyond the state's fiscal capacity, especially with the reduced gross domestic product growth rates in the wake of the global financial crisis and continuing eurozone uncertainty.

Although the government has shifted from providing housing to establishing human settlements, an undesirable outcome of the subsidy scheme is the continued dependence on the state. Subsidies have created the unrealistic expectations that poor households will receive a free, completed house. As a result, the private sector and households are failing to invest in the housing market.

> **The role of the state needs to be redefined to focus on delivering public goods that support human settlements**

The commission's report identifies what is needed for the required paradigm shift. The aim should be to build a single, inclusionary housing market. A greater focus on the rental market is required and the design and administration of housing grants must be investigated.

The role of the state also needs to be redefined to focus on delivering public goods that support human settlements and reducing regulatory red tape. Households must also move from being passive beneficiaries dependent on the state to contributing to their housing needs with their own resources and private sector financing. Lastly, the emphasis needs to be on upgrading informal settlements. Their proliferation is a reflection of the dysfunctional housing sector and their upgrade should be seen as an opportunity to empower households and redesign South Africa's cities.

The commission is in the process of identifying an initial set of policy options and recommendations, which will be considered at a second public hearing. It is hoped that this research will precipitate urgent action by policymakers in response to the country's housing shortage.

To read the entire report, go to *ffc.co.za/index.php/media-a-events-interactive/public-hearings/housing-finance.html*

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