FINANCIAL AND FISCAL COMMISSION

Media Release

EXPLORING ALTERNATIVE FINANCE AND POLICY OPTIONS FOR EFFECTIVE AND SUSTAINABLE DELIVERY OF HOUSING IN SOUTH AFRICA

21 October 2013

Financial and Fiscal Commission
Montrose Place (2nd Floor), Bekker Street,
Waterfall Park, Vorna Valley, Midrand,
Private Bag X69, Halfway House 1685
www.ffc.co.za
Tel: +27 11 207 2332
Fax: +27 388 3965

For an Equitable Sharing of National Revenue

[**21 October 2013, Cape Town**] Housing Finance Challenges, Options and Recommendations

The South African human settlements sector faces many challenges including increasing housing backlogs and a decreasing number of low cost houses delivered by the government. Housing backlogs increased from 1.5 million housing units to 1.8 units between 1996 and 2001 and further to over 2.1 million units as in February 2013. On the other hand the number of low cost housing units delivered by the state started at a very low base in 1994 with the delivery of just over 20 000 units per annum. This number increased to over 200 000 housing units in 1999 and has been declining since then. In 2012 113 000 housing units were delivered. The decline in the number of housing units delivered occurs against a significant increase in the resources allocated and spent, which is a matter of concern to the Commission. For example, the budget allocated for human settlements has increased over the years from over R7 billion in 2006/07 to over R25 billion in 2012/13.Other challenges relate to sustainability of the current housing funding model. Some of the biggest challenges dominating the discourse on housing delivery concern the perceived inability of government to deliver to scale and the perceived unsustainability of fully subsidised housing. The housing sector is also affected by the unique phenomenon of an increasing gap market (those households earning too much to qualify for subsidized housing, earning just above R3 500 per month, and too low to qualify for mortgage bonds, earning just about R15 000). There is a growing number of people who do not qualify for subsidy houses and mortgage bonds at the same time. A combination of land assembly problems, administrative and land market inefficiencies and regulatory costs further drives up house prices by up to 30% on average and thus increase total subsidy funding requirement form government. Funding for complementary housing infrastructure is scattered across various government departments, including municipalities, whose planning activities are not always synchronised and coordinated.

Against the background of the challenges faced by the sector, the Commission undertook to evaluate existing housing policies and financing instruments from an economic and fiscal perspective as well as to develop alternative housing delivery and funding options and scenarios for consideration in improving the efficacy of the housing sector. The analysis sought to:

- Review the long run consequences and implications of the current housing delivery and funding system; reviewing supply supply-side and demand-side interventions;
- Evaluate ways to encourage self built initiatives including leveraging household savings, private sector and co-savings schemes; and
- Ascertain clear roles and responsibility for government with respect to each alternative.

Two sets of public hearings on housing finance were held with participants from national government, provincial government, municipalities, South African Local Government Association, banking sector and state owned enterprises attended the public hearings.

The analysis broadly categorised housing finance interventions into three:

- Supply-side interventions - activities that result in the supply of housing to households, for example subsidy housing projects, site and service schemes.
- Demand-side interventions - activities that result in households being able to afford/access houses of higher standards.
- Investment interventions - activities aimed at stimulating investment in housing such as, for example, tax rebates.

A combination of these interventions is subsequently classified into four alternative financing options namely:

- Historical practice;
- Lowest cost to the state;
- Formalisation of informality and;
- The National Development Plan.

The overall impact of each intervention on both households and the state is a function of eligibility, affordability and credit worthiness. Results from analysis carried out by the Commission shows that the current high levels of credit impairment are a limiting factor to meeting housing needs. These will not be changed by increased subsidies unless these incentivise changed household behaviour. There is a significant opportunity to use incentives around housing to influence the way in which households save and behave in relation to credit. Current limited municipal capacity to directly manage delivery, supply side options that mobilise household and private firms' responsibility and capacity need serious consideration. This also generally enhances gearing. Demand side interventions show promise and should be considered especially interventions such as a housing voucher that is not linked to credit access requirements.

Overall, the Commission concludes that different households in different housing circumstances require specific housing interventions (this is the need for a differentiated approach). The role of government in the provision of housing must be therefore be understood within this context and be responsive to conditions of households' who are in varying circumstances. A combination of government and households/private sector funded interventions cost the state less, but has less overall impact than the fully state funded interventions.

Based on this analysis and validation through the public hearings process, it is recommended that the government should:

- Invest a significant proportion of resources in interventions that stimulate additional funding from the private sector (banks and private developers) as well as household contributions towards housing delivery. Such interventions include investment incentives using tax rebates, upgrading of backyard rental with incentive and housing voucher.
- Embark on housing delivery reforms taking into consideration the following principles: (a) refocusing on building a single, inclusionary housing market; (b) redefining the role of state; and (c) review housing entitlements. Improve institutional coordination and streamline processes within the value-chain of housing delivery to reduce time taken to deliver houses and associated costs. There are institutional and coordination problems in the value chain that should be addressed by increasing efficiencies with respect to the time it takes to deliver a complete housing unit from land assembly to the stage of transfer and handover.

- Establish inter-departmental coordination bodies at the provincial and municipal level consisting of relevant departments responsible for different aspects in the delivery of human settlements.

The Department of Human Settlements should:

- Strengthen its monitoring and evaluation role in the entire human settlements sector.
- Develop monitoring system for verification of housing projects in all provinces.
- Should regularly revise annual performance targets taking into account available resources, capacity and changes in norms and standards among other things.

Thank You

Mr Bongani Khumalo
Financial and Fiscal Commission
2nd Floor, Montrose House, Midrand
Phone: 27-11-2072300
Email: bonganik@ffc.co.za