



THE SELF-BUILD HOUSING OPTION: PUBLIC FINANCE FOR THE LARGEST POVERTY-LEVEL HOUSING MARKET?

*Presentation to Financial and Fiscal Commission Hearings
Challenges & Opportunities in Housing Finance in South Africa*

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THE MARKET NOW?

The percentage of **poor South Africans in formal housing** is rising –

As FFC notes, **so is the delivery backlog**

Recent work from Finmark Trust shows that *the formal housing market is starting to work* –

- **Property values** are rising for the African population
- **Bank finance** is starting to come in

However, **only a tiny share of transfers in communities go through the formal market**

- Below maybe R 40 000-60 000, *sales tend to stay informal because bank finance is not needed and the banks struggle to profit*
- Rising formal prices can expose poorer house owners to **displacement through down-market raiding** –
- **Or if they can't afford their housing's costs**

The normal function of the formal free market is to transfer assets to whoever can best afford them

The informal housing market then needs consideration

PRESENTATION

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- i) **Supporting self-build** is the the best way to address the largest and most problematic sector of housing demand: the lower poor and the unemployed
- ii) Self-build is expanding rapidly and may already represent the major national concentration of **household capital formation for the poor**
- iii) FFC may want to look at whether **major government housing finance** should go toward non-formal self-build housing delivery
- iv) Self-build offers the **best chance to break the housing backlog** in the next 15 years

- *Since Polokwane, government acknowledges a large role for self-build*
- *DHS Minister's recent Budget Vote Speech underlines it*
- *The self-build approach links onto FFC push for individual citizens to get involved*

DATA: IPDM SURVEY

The **data analyzed on demand aspects of settlement** and economic outcomes is from the Phase 1a IPDM survey from DST –

Goal is to profile shelter + transport demand

- 2965 questionnaires covering Gauteng, Sekhukhune and northern Mpumalanga
- Spatially stratified random sample in 2007/8
- Current survey data will extend coverage to 8 provinces

Identifies **40+ types of settlement**, each with a distinct **demographic profile**

If we unpack these demographic profiles, we can read off **what types of household** are settled in different kinds of locality

- And what assets and needs characterize these households
- *Analysing results now for remaining five provinces surveyed in 2010*

SCALE OF SELF-BUILD HOUSING

HSRC's findings from DST's IPDM project help to place the informal housing question:

*The Phase 1a 2008 survey data shows **self-build housing of decent quality is spreading fast in GT, LM, MP***

- **Government subsidy housing delivery 2008** accounted for:
 - 10% of all urban and rural African housing surveyed
- **Informal self-development areas** – modern-type decent-quality new housing developments equivalent to RDP, but built by the poor on informal land – represented:
 - 8% of all housing surveyed
- **Decent-quality owner-built housing** in South Africa's poor communities appears in other rural and urban settlement types too:
 - **Self-build good-quality housing = 35% of all housing**
 - **This is how and where SA breaks the backlog**

VALUING SELF-BUILD?

How does government finance align with informal self-delivery?

- **Estimated replacement value, self-build housing:**
 - R 10 000-R 25 000 per unit, urban areas often R 50 000+
- *A community with 1000 decent self-build units has **housing assets worth R 10-25 million on the informal market***
 - *1000 shacks' market value would be around R 2.5 million*
- **Estimate good self-build R 12 billion for whole survey area**
 - And reasonably liquid, with few if any formalities
- Increasingly over the last ten years, **this kind of asset accumulation is self-funded by poor families**
 - Using savings, local contractors and incremental construction –
 - *No mortgage or formal credit usually involved*
 - *Subsidy = 0 in most cases*
 - Title rarely registered but tenure security usually good
 - **Regular wage income not necessary**

WRITING OFF OWNER-BUILT HOUSING?

For South Africa's national housing picture:

- The decent self-build component of the informal housing sector has major potential –
 - It's **how people move up** when they exit the shacks
 - And how the **shack settlements upgrade themselves**
 - It delivers massive amounts of good housing **without needing formal credit or formal employment**
 - *But it receives little or no formal support*

To hold down the cost of housing finance?

- ***Not all owner-built housing should be written off as needing replacement***
- Adequate budgeting for **government assistance would multiply the impact of people's own efforts**
 - That comes from the level of individuals and households

FINANCING THE INFORMAL MARKET

Informal self-build is how the 60 % at the bottom of the market access decent housing

- It serves the **unbankable**, with incomes \leq R 2000/m
- And the **semi-employed**, living on unstable temporary work

This section of the market is massive and expanding –

With formal jobs shrinking, it accounts for most of the shack population

- ***With high continuing unemployment, mortgage finance is unfeasible here***

But **government financing assistance** can achieve impact through informal financial structures

- **Focus on the shacks** – where the rural in-migrant youth access the urban sector as singles
 - The shacks are the lowest rung of the housing ladder
- Then **address the rural sector**, where new households often go back home to build once they find work

SUBSIDIES VS MOBILITY?

Conventional subsidy may inadvertently tend to exclude the primary population served by urban informal housing –

- ***This is mobile work-seekers***, mainly youth, mainly male, trying to access the central city zones with highest job density
 - **Subsidies mostly go to the people in place**, with or without waiting list status
 - They don't serve migration till long after it has already settled

The unemployed moving around to chase the job market need **short to medium term housing options** –

- They rarely qualify for subsidy access
- They take the informal route through the shacks instead, no alternative

*Conventional subsidy may also tend to exclude the mainly rural **self-development and self-upgrade areas***

- These are families investing savings now in housing
- Some FLISP but mostly **self-finance** → **huge capital formation**

DISPERSION THRU THE LABOUR MARKET?

Housing need is a moving target –

- Risk of not getting the *right product* into the *critical locations* for the key constituencies?

Unemployed youth are the most critical constituency

- Subsidies don't usually help them
- Shelter need depends on where individual has got to in life cycle –

Unemployed youth come into **central cities to look for work** as singles or new couples –

They try the central zone, highest job density

As they get more job information, **rural-born in-migrants disperse outward**

- *Moving toward jobs in the outer concentrations*

Check out settlement functionality from the data –

FUNCTIONALITY: MOVED FOR ACCESS TO...

Settlement type	<i>Jobs</i>	<i>Housing</i>	<i>Schools</i>	<i>Clinic/ health services</i>	<i>Water or electric</i>
Informal Central	56%	12%	15%	2%	11%
Informal Periphery	26%	51%	9%	7%	6%
Informal Rural	27%	28%	23%	11%	7%
Rural self-development	15%	45%	27%	5%	4%
Urbn formal rentals	31%	30%	29%	-	-

LIFE CYCLE SHELTER NEEDS?

*Most live on insecure temporary jobs indefinitely – labour casualization impacts mean **no marriage, no family household till find regular job***

- No family household formation till job is secured means **delay in permanent housing demand**

Unemployed work-seekers need ultra-cheap, immediate-access **informal shelter first, then family housing later**

- *And further out – the peripheries are the informal suburbs*
- And, central zone job market will eventually saturate
- Quicker, if too much permanent housing is introduced to zone where natural climax vegetation is informal rentals

Wrong mix of shelter can stop employment-seeking demographic flow in and out, how cities breathe

WHAT ARE WE LOOKING AT?

Swedenville is a new unserviced shack area bordering an established Gauteng township

About 20 km from nearest metro CBD

- Young population – mean **age of household head** = 33
- Average **wage / temporary wage income** = R 2100/ m
- Average **education of head** = Grade 11
- **Cost of stand** to build house = R 300-600 from committee
- Mean replacement **cost of house** = R 2600
- **Cost of rent = 0, all housing is owned**
- **Cost of service charges = 0, area is unserviced**

Conditions are tough but not squalid

Possible to move in for less than R 1000, stay free of charge and walk or catch bus or train to work:

*'I can budget now. I am relying on my own income to make ends meet, I manage to send money to my two children. **We don't intend to move, because Swedenville is a good place for people with low-income jobs.'***

WHAT WE'RE LOOKING AT, RURAL

Bergpoort is a farmworker village forcibly removed to the nearest 'homeland' territory about 20 years ago

About 400 km from the closest metro CBD

- Rural **migration sending area** in Mpumalanga
- **Enclave on tribal land** run by a committee
- Housing is almost entirely **decent quality self-build**
- Older population – mean **age of head** = 47.6
- Average **wage income** = R 3 400/m; 4 h/hs had no wages
- Average **education of head** = Grade 9
- **Cost of rent** = R 150/m for one cross-border migrant's room
- Mean replacement **cost of house** = R 27 000

*Compared to the shack community, Bergpoort's scope for **savings in self-build housing assets** is clear in a poor rural removals community with average income = R 3400*

WHERE TO UPGRADE?

How to target upgrading to include the unemployed?

- **Periphery shacks can usually upgrade** into permanent owned housing
 - ***The peripheries function as the informal suburbs***
 - Owned housing there is mostly good, if it has very low prices and running costs –
 - Even so, the semi-employed may struggle to afford subsidy housing
- But the **central-zone shacks** probably mainly want to upgrade by **incentivizing ultra-low-cost informal rental stock**
 - No formal delivery, ownership or rental, can be *fast enough and cheap enough to meet the need of the unemployed*
 - **Formal delivery may be exclusionary** for the semi-employed in informal housing
 - **Who can't take on permanent housing yet**, because people's lives aren't yet ready for to afford it –

THINKING PAST THE BACKLOG

FFC gives direction by highlighting rentals, and own-contribution from individuals and households

- **But the formal market is not the only place to go**
- *It may not even be the main way forward*

Since Polokwane, policy has been turning toward self-help, self-build

In an economy of spiralling unemployment, few of the unbankable poor may ever make the conditions for formal bankability or mortgage

REVIEWING THE ROUTE MAP?

What shelter delivery is available for the unemployed?

- Formal **private rentals** serve an elite constituency
- **Social housing** serves the employed, not the unemployed
- **Upgrading** the wrong shack areas can turn out to be exclusionary if it favours the employed
- *Formal financing is never going to extend all the way down the market* – the route to the middle class has to start in the shacks

Solutions that people put up themselves through the informal economy are faster and more responsive, and rule the low end of the market

- **To engage poor people in housing delivery, go with the routes they devise themselves – ?**

To assist decent-quality informal self-delivery, new forms of subsidy – and options other than subsidy – need to be put forward for funding

AND THE BACKLOG?

Self-build housing delivery has exploded in the last 10-15 years

- Government should get the credit, subsidy housing has opened the way
- And made brick construction a real option for poor households
- *If decent self-build of RDP quality has gone to 35 percent of all surveyed African housing in about 12 years –*
- And if it's given systematic government support direct to the household sector –
- **Can it double again to 70 percent by 2023?**
 - *If so, then **the housing backlog is in principle eliminated** a few years after that –*
 - Because lot of the remaining (township, formal) housing stock doesn't need to be replaced (repairs, improvements instead)
- *Careful attention is needed to defining 'backlog' realistically, before planning sweeping intervention*

TO QUESTION COMPACTION?

Addressing informal means **reviewing the spatial question in the cities –**

How to square the circle for well-located land?

While still allowing the cities to breathe population in and out?

A life cycle in the labour market can mean cheap, rough **informal accommodation in the central city to start**

Followed by semi/permanent **family shelter on the periphery**, RDP or informal, far from the central zone and marginalized

Dealing with this dichotomy means questioning the principles of urban compaction

And then **moving the peripheries closer to the central city**

MOVING THE PERIPHERY

Recent comparative work (Angel et al 2011) across 130 major world cities argues that **compaction rarely works**

Over time, most cities naturally tend to de-densify

- People move from the core to the outside

Forcing ultra-concentration in the core zone also results in **high, distorted property prices**

- Pushing out poor rural-born work-seekers through the action of the market

Angel et al argue that informal settlements are so dense that they can support additional transport provision

The metro periphery can be moved inward with the right transport delivery

Transport can sharply expand the sphere of well-located land

THANK YOU!

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