



Media Release

A NEED FOR A PARADIGM SHIFT IN HOUSING FUNDING AND DELIVERY IN SOUTH AFRICA

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For an Equitable Sharing of National Revenue

[15 March 2012, Midrand] For its impact on South Africa's national goals and realisation of constitutional right to adequate housing, the present structure of the housing subsidy requires reforms. With the capital subsidy undertaking often subject to the conflicting objectives of numerous actors involved in human settlement delivery, the present distribution of housing is often assessed as 'worse than under apartheid'. To date massive resources have been committed by the fiscus, and the impact has been large, widespread and worthwhile. More than 3 million fully subsidised housing units have been delivered to poor households over the past 18 years since 1994. Current estimates indicate that ten to fifteen percent of poverty level housing has been delivered by government, much of it in the rural areas. At the same time, the costs of delivering house have risen sharply over the last decade, contributing to rising backlog, estimated at over 2 million units. With the weak economic prospects ahead, it appears that the fiscus cannot sustain the current levels of funding required to deliver shelter and human settlements. These necessitate a clear need to review the housing delivery model from a financial standpoint and align it fully to the new national planning trajectory.

The Financial and Fiscal Commission convened housing public hearings in October 2011 in its quest to better understand the underlying challenges within the housing sector. The hearing was attended by a total of 83 stakeholders from government, the private sector and civil society organisations. Discussions which ensued from the hearing suggested that no amount of private and public interventions will remedy the ills of the housing system without fundamental sector wide reforms. The housing sector is beleaguered by myriad of challenges ranging from entrenching dependency, access to finance and market distortion. Key challenges which stood out from the hearing include the following:

- The current subsidy system distorts prices in the gap market. The gap market consists of households earning between R3 500 and R10 000 per month who find themselves earning too little to participate in the private property market but too much to qualify for state assistance.
- The current levels of unemployment and debt make access to home ownership difficult due to inability of households to save and raise finance.
- Poor understanding of housing demand, its nature and drivers as well as household settlement patterns contributes to an inefficient mix of housing supply.
- Access to well-located land is limited resulting in placements of housing development on the peripheries of cities where transport facilities are either not available or expensive to the commuting public.
- The housing delivery chain is extremely inefficient. It can take up to three years before houses are completed and handed over to beneficiaries. Delays increase the cost of construction and impacts on overall affordability.
- The current housing delivery model is supply-side driven and focuses on the delivery of fully subsidised and new-build houses instead of considering other means of supplying houses and forms of tenure such as rental, rent to buy and partial subsidy.
- The model does not fully recognise, reinforce and encourage informal self-build.

- Fully subsidised housing creates perverse incentives and other related problems as it results in an undesirable dependency on the state and crowding out of private investment. It has become a common practice for able bodied individuals to simply register their names and wait for government to supply them with free houses. When these expectations are not met, people resort to service delivery protests against government. More often these protests become violent.

For housing policies and funding to be responsive to the overall housing needs, the first step is to clearly understand housing demand and its underlying drivers, characteristics of households and how housing needs change over time with life cycles. Secondly, housing supply chain inefficiencies and institutional arrangements need to be addressed as they extend delivery time and escalate overall costs. Lastly, there is a need to fundamentally reform the housing finance framework both on the supply side, via grants and the demand side, leveraging private finance and household savings. The current housing delivery model encourages households to wait for government to deliver and fails to encourage households to be involved in the process of funding and addressing their own housing needs through promotion of self-built initiatives.

The Commission will be undertaking comprehensive studies and an *options analysis* that will provide practical options for government to explore when dealing with these challenges. Results will be presented in a second set of public hearings that have been scheduled for June 2012.

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

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