

Housing

Introduction

One of the rights enshrined in the Constitution is the right to “... to access to adequate housing.” Together with bulk infrastructure and socioeconomic services, housing is increasingly becoming a key government programme for the delivery of integrated development to South Africa’s communities. Government has intensified its programme on housing delivery to ensure that it addresses and keeps up with current backlogs. To date, government has made good progress in eradicating backlogs and providing adequate housing. Over 3 million subsidies have been approved, benefiting over 10 million poor people. Cumulatively, government has spent R40 billion on housing development since the inception of the housing programme in 1994. This has contributed to the construction of houses and the preparation of sites totalling 2,4 million.

The comprehensive plan for the creation of sustainable human settlements, approved in 2004, has been addressing the challenge of creating valuable assets in sustainable settlements by providing better quality houses on suitably located land. Government has committed itself to accelerating housing delivery, promoting social cohesion and supporting the functioning of the entire residential market.

Housing delivery is aimed at creating sustainable housing settlements

A few challenges have emerged in recent years. First, some projects involving 70 423 houses have stalled. Second, the speed at which land is released and zoned has slowed down. Third, the patterns of separate development under Apartheid are proving difficult to transform. These are some of the issues that recent policy developments seek to address in the period ahead.

This chapter gives an overview of:

- institutional arrangements in the housing sector
- budgets and expenditure trends
- housing delivery
- the housing sector and affordability
- developments in housing policy.

Provincial governments promote, coordinate and implement housing programmes within the framework of national policies

Institutional arrangements

The Constitution establishes housing as a concurrent competency of national and provincial governments. The national Department of Housing is responsible for setting up and facilitating a sustainable national housing development process. It does this by developing policy and strategy, determining delivery goals, monitoring and evaluating the performance of the housing sector. It also provides capacity building and implementation support to provincial and local government, and establishes a funding framework for the allocation of provincial housing budgets.

Provincial governments promote, coordinate and implement housing programmes within the framework of national policies. Provinces approve housing subsidies and projects, and provide support to municipalities for housing development.

The Housing Act (1997) clarifies the roles of each sphere of government in identifying and managing housing projects and funding. The Act allows for the accreditation of municipalities to administer national housing programmes.

This arrangement of institutional powers and functions requires the funding streams between the different spheres of government to be properly coordinated. Better alignment between the housing subsidy, the municipal infrastructure grant and the integrated national electricity programme would remove the current obstacles in providing integrated planning for sustainable human settlements.

Municipalities could speed up housing delivery

A greater role for municipalities in housing delivery could result in faster housing delivery. For municipalities to play a more prominent role in the development of integrated sustainable housing settlements, the planning of the housing function needs to be done at municipal level. This will allow for better and more localised needs analysis; improve land identification, zoning and procurement; facilitate integrated and inclusionary residential areas; improve planning and procurement of public facilities; encourage private investment; and improve the supply of bulk infrastructure and services. It will also lead to greater accountability at local level and widen options for cross-subsidisation and funding.

Budgets and expenditure trends

The integrated housing and human settlement grant has increased by R2,7 billion

As part of its continued drive to provide adequate housing, government has increased the integrated housing and human settlement grant by R2,7 billion over baseline in the 2007 MTEF. Total allocation for this grant over the MTEF period is currently R29,6 billion. Expenditure is expected to increase from R8,2 billion in 2007/08 to R11,5 billion in 2009/10, an average annual increase of 18,3 per cent. Tables 5.1 and 5.2 give details of provincial spending.

Table 5.1 Integrated housing and human settlement development grant expenditure, 2003/04 – 2009/10

	2003/04	2004/05 Outcome	2005/06	2006/07 Preliminary outcome	2007/08 Medium-term estimates	2008/09	2009/10
R million							
Eastern Cape	810	584	607	637	1 053	1 251	1 482
Free State	327	464	370	528	653	772	893
Gauteng	993	1 121	1 357	1 760	2 197	2 580	2 959
KwaZulu-Natal	928	829	816	1 075	1 311	1 576	1 854
Limpopo	454	318	378	649	652	783	921
Mpumalanga	285	310	269	330	526	629	736
Northern Cape	110	94	103	105	131	161	195
North West	364	381	615	697	767	896	1 022
Western Cape	292	527	552	769	949	1 204	1 469
Total	4 563	4 629	5 067	6 549	8 238	9 853	11 531
Percentage growth (average annual)¹		2003/04 – 2006/07			2007/08 – 2009/10		
Eastern Cape		-7,7%			18,6%		
Free State		17,3%			16,9%		
Gauteng		21,0%			16,1%		
KwaZulu-Natal		5,0%			18,9%		
Limpopo		12,7%			18,9%		
Mpumalanga		5,0%			18,3%		
Northern Cape		-1,6%			21,9%		
North West		24,1%			15,5%		
Western Cape		38,1%			24,4%		
Total		12,8%			18,3%		

1. Growth rates should be viewed against significant underspending and rollovers in previous years.

Source: National Treasury provincial database

Within provinces, in 2006/07, Western Cape and Eastern Cape showed spending rates of less than 90 per cent on the grant. Underspending in Western Cape was attributed to the N2 Gateway project due to the R372 million allocated in the 2006/07 adjustments budget in October 2006. The national Department of Housing withheld R144,4 million due to underspending in Eastern Cape (R85,3 million) and Mpumalanga (R59,1 million). Considering the underspending in both provinces in the past, the projected increased allocations for 2007/08 of 65,1 per cent in Eastern Cape and 59,5 per cent in Mpumalanga will require these provinces to step up their spending capacity.

Mpumalanga and Eastern Cape both show patterns of weak spending

While the grant has grown by 29,3 per cent between 2005/06 and 2006/07, Limpopo, Free State and Western Cape have shown significantly higher growth rates.

Table 5.2 Integrated housing and human settlement development grant expenditure, 2005/06 – 2006/07

R million	2005/06				2006/07				Growth 2005/06– 2006/07
	Adjusted appro- priation ¹	Outcome	Over(-)/under expenditure		Adjusted appro- priation ¹	Prelimi- nary outcome	Over(-)/under expenditure		
				%				%	
Eastern Cape	607	607	–	0,0%	677	637	39	5,8%	4,9%
Free State	492	370	122	24,8%	529	528	0	0,0%	42,8%
Gauteng	1 357	1 357	0	0,0%	1 758	1 760	-2	-0,1%	29,7%
KwaZulu-Natal	800	816	-16	-2,0%	1 048	1 075	-26	-2,5%	31,7%
Limpopo	478	378	100	21,0%	521	649	-128	-24,5%	71,8%
Mpumalanga	330	269	61	18,5%	271	330	-59	-21,7%	22,6%
Northern Cape	100	103	-3	-2,6%	105	105	0	0,1%	2,1%
North West	618	615	2	0,4%	700	697	3	0,5%	13,2%
Western Cape	563	552	11	2,0%	998	769	229	23,0%	39,3%
Total	5 346	5 067	279	5,2%	6 607	6 549	57	0,9%	29,3%

1. Includes transfers received from national and provincial rollovers.

Source: National Treasury provincial database

Housing delivery

Housing subsidies

Three million housing subsidies have been approved since 1994/95

Since the housing subsidy scheme was introduced in 1994/95, over 3 million subsidies have been approved. With the number of approved subsidies peaking in 2002/03, there has been a steady decline since. Gauteng has had the highest number of approved subsidies, at approximately 40 per cent of the total over the last 13 years. In 2006/07, Gauteng approved more than twice the number of subsidies approved by Eastern Cape and KwaZulu-Natal, which approved the second and third most subsidies respectively. Limpopo had the least amount of subsidies approved for the same period at approximately 1 per cent of the total in 2006/07.

Table 5.3 Number of subsidies approved per financial year, 1994/95 – 2006/07

	1994/95 – 2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Total
Eastern Cape	174 963	51 503	16 849	20 811	13 882	2 189	22 532	302 729
Free State	86 499	8 799	18 096	16 084	16 768	8 770	14 334	169 350
Gauteng	499 677	84 907	404 432	39 086	54 045	56 373	53 234	1 191 754
KwaZulu-Natal	214 214	27 801	23 437	43 397	42 776	13 766	21 906	387 297
Limpopo	93 506	16 574	18 223	32 681	17 503	27 456	2 138	208 081
Mpumalanga	102 884	42 748	7 861	14 378	2 407	1 153	14 281	185 712
Northern Cape	31 981	3 109	4 161	7 452	1 763	812	5 671	54 949
North West	141 821	3 107	1 790	7 570	23 543	14 778	19 440	212 049
Western Cape	156 237	31 857	32 952	8 143	77 354	12 449	12 987	331 979
Total	1 501 782	270 405	527 801	189 602	250 041	137 746	166 523	3 043 900

Source: National Department of Housing

Since 1994/95, the maximum monthly household income for beneficiaries qualifying for the housing subsidy has remained constant, at R3 500. To mitigate the gap created by the ceiling on the nominal subsidy, a new credit-linked subsidy for households earning between R3 501 and R7 500 has been introduced. The aim is to promote access to mortgage finance. However, with the strong growth in house prices, the challenge now is to facilitate the provision of houses to people at the bottom end of the credit-linked subsidy range, where housing stock is limited. Table 5.4 shows the approved credit-linked individual subsidies per province.

A credit-linked subsidy introduced for households earning between R3 501 and R7 500 per month

Table 5.4 Approved credit-linked individual housing subsidies, 1994/95 – 2006/07

	1994/95 – 2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Total
Eastern Cape	3 767	482	276	66	3	–	5	4 599
Free State	1 695	19	2	57	50	39	70	1 932
Gauteng	26 598	1 442	1 087	1 101	2 232	2 148	544	35 152
KwaZulu-Natal	3 931	7	118	164	85	42	35	4 382
Limpopo	159	5	4	–	–	–	1	169
Mpumalanga	971	41	23	69	68	6	4	1 182
Northern Cape	329	11	8	20	1	4	2	375
North West	1 414	45	51	37	46	60	5	1 658
Western Cape	6 012	385	261	153	911	498	349	8 569
Total	44 876	2 437	1 830	1 667	3 396	2 797	1 015	58 018

Source: National Department of Housing

Delivery of houses and serviced stands

Between 1996 and 2001, the demand for subsidised houses increased significantly, driven mainly by a 2,1 per cent population growth, rapid urbanisation and the growing number of households. The number of households increased mainly because the average household size decreased, from 4,5 persons per household in 1996 to 3,8 persons per household in 2001. This translates into a 30 per cent increase in the number of households as well as the greater housing backlog. These factors have hampered the provision of adequate housing to all South Africans. Table 5.5 shows housing delivery statistics per province since 1994.

More demand for subsidised housing

Table 5.5 Housing units completed and in process of completion, 1994/95 – 2006/07

Number	1994/95 – 2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Total
Eastern Cape	117 759	10 816	58 662	27 119	37 524	19 825	16 526	288 231
Free State	71 699	7 005	9 155	16 746	16 447	20 536	19 662	161 250
Gauteng	269 264	46 723	24 344	49 034	66 738	59 310	77 044	592 457
KwaZulu-Natal	206 670	14 379	24 485	33 668	36 734	35 872	38 290	390 098
Limpopo	83 147	16 667	14 953	15 810	16 514	46 813	23 609	217 513
Mpumalanga	68 860	14 584	21 649	21 232	18 000	14 986	10 651	169 962
Northern Cape	20 569	2 588	6 056	3 787	3 598	8 667	3 880	49 145
North West	87 684	13 885	23 784	10 484	10 037	35 515	46 972	228 361
Western Cape	148 376	16 634	20 500	15 735	11 756	11 310	34 585	258 896
Total	1 074 028	143 281	203 588	193 615	217 348	252 834	271 219	2 355 913

Source: National Department of Housing

Despite the fact that there has been good progress in the delivery of subsidised housing products, an area of concern is projects that have not been completed, or so-called blocked projects. Table 5.6 shows the number of projects in which delivery has not been completed as at 31 March 2007.

Table 5.6 Blocked projects, completed units and funding allocated as at 31 March 2007

	Number of projects	Number of unplanned units	Number of units completed	Total budget	Amount paid	Balance available
R million						
Eastern Cape	52	28 742	17 765	631,5	509,1	122,4
Free State	72	19 020	10 340	440,0	311,4	128,6
Gauteng	–	–	–	–	–	–
KwaZulu-Natal	6	4 341	946	110,1	30,0	80,1
Limpopo	57	8 495	1 066	325,8	40,9	284,9
Mpumalanga	3	1 693	584	42,5	14,7	27,8
Northern Cape	4	916	210	20,3	18,1	2,2
North West	13	7 216	2 039	200,7	139,3	61,4
Western Cape	–	–	–	–	–	–
Total	207	70 423	32 950	1 770,9	1 063,5	707,4

Source: National Department of Housing

The housing sector and affordability

Demand for low cost housing outstrips supply

While South Africa's rate of delivery of subsidised housing units is unparalleled internationally, the supply of low cost housing has not met the demand, which has resulted in rising prices¹. This is evident in rising property prices, which have doubled and in some cases trebled since 1998, and increased prices in building materials over the same period. Capacity constraints in both the low income housing construction sector and at municipal level are preventing the growing housing backlog from being eradicated. The process for registration

¹ Rust, K (2006), "Analysis of South Africa's Housing Sector Performance", Finmark Trust.

and approval alone takes up to 59 months, while the timeframe for actual housing development has increased from 5 to 19 months.

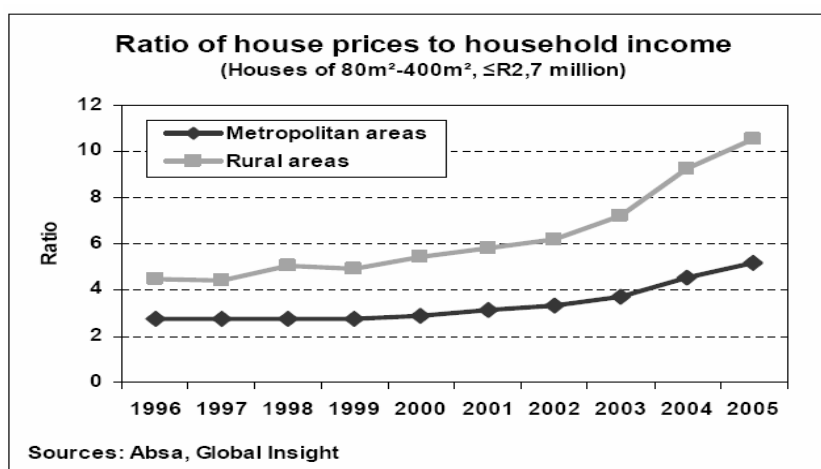
Broad sector and market trends impact on the successful creation of sustainable human settlements. In the current market, there is a clear lack of affordable housing units, particularly units smaller than 80m².

Trends in housing prices and affordability²

Affordability refers to the relationship between income and house prices. Figure 5.1 shows that increases in property prices for houses in the affordable market have outstripped the increases in household income, especially in rural areas.

House prices rise faster than incomes

Figure 5.1 Ratio of house prices to household income³



For the period 1996 to 2005, nominal growth in house prices exceeded that of household income. In metropolitan areas, the house price to income ratio increased from a stable average of approximately 2,7 between 1996 and 2000 to 5,2 in 2005⁴. This shows that housing has become less affordable, not only in metropolitan areas; in rural areas the ratio has increased from 4,9 in 1999 to 10,5 in 2005.

Supply of affordable housing

Affordable houses are defined as houses available in the market at below R200 000. Based on enrolment figures from the National Homebuilders Registration Council (NHBRC) for private sector housing, approximately 200 000 houses were built between 2000 and 2004⁵. Of this, less than half (42 per cent) are in the affordable

Affordable houses are becoming scarce

² Data based on the ABSA Residential Property Perspective, 2007.

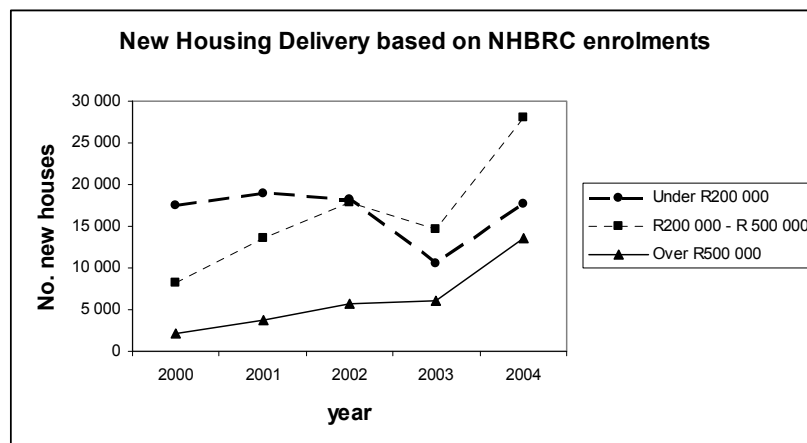
³ ABSA, 2007, Econo Trends: Chart of the Week – 25 April 2007.

⁴ This means that between 1996 and 2000, the average house price was 2,7 times the annual income of a household, increasing to 5,2 times this in 2005.

⁵ Rust, K., 2006, "Analysis of South Africa's Housing Sector Performance", Finmark Trust.

market. While this is a significant amount, the annual proportion of affordable housing delivery in the private sector has declined from 63 per cent in 2000 to 30 per cent in 2004.

Figure 5.2 New housing delivery



Source: Finmark Trust

The supply shortage in the affordable housing segment was estimated at 622 220 houses in 2004/05, while 19 703 houses were delivered in the same year. At this level of delivery, the backlog in the affordable sector is projected to grow to 726 857 in 2009/10, as reflected in table 5.7, unless there is intervention.

Table 5.7 Estimating the housing backlog in the affordable sector, 2003/04 – 2009/10

Number	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
No. households earning R2500 - R7500 pm	2 465 873	2 525 050	2 580 605	2 632 210	2 682 216	2 710 009	2 737 109
Housing stock needed	2 509 946	2 572 494	2 629 723	2 683 237	2 734 629	2 763 681	2 791 318
Existing units	1 933 271	1 950 274	1 968 977	1 989 551	2 012 183	2 037 077	2 064 461
Physical need	576 675	622 220	660 746	693 686	722 446	726 604	726 857

Source: Finmark Trust

Developments in housing policy

Housing finance

The Financial Sector Charter aims to introduce greater equity in the allocation of national savings, with a R42 billion commitment to housing. The charter targets 2,4 million households earning between R1 600 and R8 200 per month, eligible for finance in the affordable housing market (houses below R200 000).

Research carried out by the Banking Association of South Africa⁶ shows that only 5,6 per cent of the subsidy allocation between 2004 and 2009 is intended to support credit-linked projects. If the objectives of the Financial Sector Charter are to be met, housing departments will need to improve their engagement with this previously unserved segment of the market.

Aligning housing subsidies to the affordable housing market will contribute to even more demand in this market. This is because an increase in demand without a matching increase in supply will merely put upward pressure on the prices of these units. Government is exploring possible options to stimulate the supply of affordable housing to cater to the lower-middle income households with a monthly income of between R3 501 and R7 000.

Housing subsidies need to be aligned with the affordable housing market

Inclusionary housing

Inclusionary housing presents an opportunity for achieving a better balance of race and class in new residential developments that aim to promote social integration. The Department of Housing has initiated a regulatory impact assessment of inclusionary housing to inform its understanding of the benefits inherent in this policy, including:

Government is exploring ways of breaking Apartheid settlement patterns

- making a contribution to achieving a better balance of race and class in new residential areas
- providing accommodation opportunities for low income and lower middle income households in areas where they are excluded due to residential market dynamics
- boosting the supply of affordable housing for rent and ownership and making better use of existing infrastructure
- mobilising the delivery capacity of the private sector to provide affordable housing.

Availability of land

The provision of affordable housing in South Africa on well located sites close to existing services and places of employment has been hampered by the high cost and scarcity of government owned land. As a consequence, most new low income housing projects have been developed in peri-urban areas, increasing the cost of services to residents in low income housing projects. The acquisition and management of land is currently a function of municipalities, which fulfil this function in line with their integrated development plans (IDP) and spatial development plans.

Most new low income housing projects have been developed in peri-urban areas

⁶ Nell, M and M Morkel, (2005) "Research into Housing Supply and Functioning Markets", Banking Association of South Africa, Housing Workstream.

Integrated human settlements

A key challenge in the provision of integrated human settlements is developing integrated planning processes which seek to ensure that socioeconomic infrastructure and services are aligned with housing development. Current business planning processes do not provide for the necessary alignment between municipal infrastructure services and provincial and national infrastructure planning for services like schools, clinics and police stations. Better coordination within the housing sector and national and provincial government should be strengthened to ensure sustainable integrated human settlements.

Conclusion

One of the remarkable successes of the democratic South Africa is the delivery of housing. The progress achieved in the past 12 years is unparalleled.

Although housing delivery has been substantial since 1994, the sector is facing challenges in relation to coordination. Clearer lines of accountability are needed to ensure that government meets its responsibility towards both poor and low income households for them to have access to adequate housing and the housing market. Clear funding models with specific policy objectives are critical for delivering housing in a sustainable way that improves the built environment in support of human dignity and development.