6

Human Settlements

Introduction

Government has intensified its programme on housing delivery to ensure that it meets its commitment to progressively realise the right of all citizens to safe, affordable housing. This is a considerable challenge as demographic changes and economic factors increase the number of households requiring public support to access housing, as cost pressures restrict the delivery of housing products within available resources, and as resulting neighbourhood environments that are created fail to live up to household or community expectations.

Although government has provided approximately 2.6 million houses since 1994, an estimated 1.8 million households still require some form of public support to access acceptable housing. Moreover, those who have already benefited from government housing programmes require ongoing support. Their houses are not always part of vibrant, functioning communities, and can be far from economic and social opportunities. Many of these newly-created housing areas require further public investments to strengthen community life and to allow households to access urban services and job opportunities.

Government has made inroads in delivery of housing but still far from satisfying the growing demand for housing stock

The challenge facing public housing programmes is not simply to provide a physical structure, but to make sure that this is a home for families, part of a sustainable neighbourhood, and that it contributes to urban economic and social life. This poses complex policy and technical challenges. These range from releasing land for housing development, to designing housing interventions in ways that combat racial segregation and the highly inefficient spatial form of settlements under apartheid, to housing project management, and to coordination with public infrastructure investment (particularly at the municipal level). Through its Breaking New Ground strategy, government is stepping up its efforts to ensure vibrant sustainable communities.

This chapter gives an overview of:

- the South African residential housing market
- the housing responsibilities of the public sector
- housing subsidies and public housing delivery
- key challenges in public housing delivery
- addressing the housing challenge.

The South African residential housing market

A home is the most valuable asset of most households, alongside their pensions and long term investments. The South African Reserve Bank reports that in 2005, residential buildings accounted for over R1 trillion of household assets.

Recent housing boom has only benefited wealthier communities and further opened the gap for lower income groups

Yet access to housing remains a profound challenge for many citizens, reflecting the deep inequalities in South African society. Even the recent housing boom, which resulted in growth in wealth for richer households as house values rose, has left many behind and unable to enter the housing market. New entrants are left with significant mortgage debt and are vulnerable to changes in the economic cycle, as witnessed during the period of interest rate hikes in the recent past.

Price trends

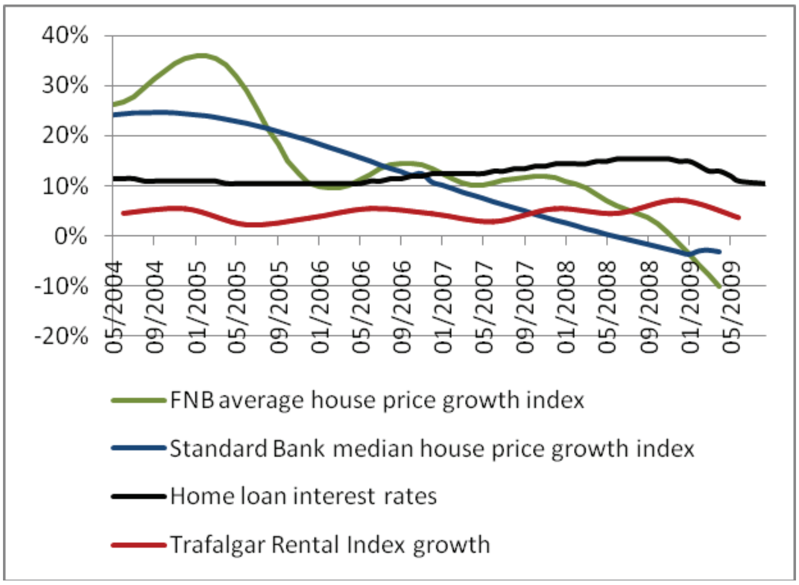
The housing boom has now come to an end, leaving some property owners with negative equity on their properties as the outstanding debt exceeds its current resale value. The year-on-year rate of change in the average price of residential property in the middle segment of the market, as measured by ABSA, declined from 15.7 per cent in March 2007 to a negative 3.6 per cent in May 2009 – the highest rate of decline since August 1986. Similarly, the year-on-year rate of change in the average house price, as measured by First National Bank, declined from a recent high of 12 per cent in October 2007 to a negative 11.3 per cent in May 2009. Over the same period, the rate of change in the Standard Bank median house price declined on a year-on-year basis from 4.4 per cent to a negative 4.1 per cent. The decline in house prices has coincided with a slowdown in mortgage advances to households, and has led to a decline in government revenues from property transfer duties.

The decline in house prices in 2009 was, among other things, a result of tighter lending criteria applied by banks, a significant oversupply of property in the market, and low demand due to the poor economic conditions impacting on employment and income levels of households. Notwithstanding the actual decline in house prices, housing activity has continued to weaken despite the lowering of the home loan interest rate since December 2008.

In real terms, this means that houses have become comparatively more affordable to households, assuming their income levels have remained unchanged in real terms. In 2008, the average price of affordable housing (defined as houses of 40m2 – 79m2 and priced at R400 000 or less) increased by 10 per cent year-on-year in nominal terms compared with the growth rate of 18.9 per cent year-on-year in 2007. However, in practice, one needs to already own a saleable home and be largely free of debt, or be able to easily access and afford housing finance, to realise these benefits. These parameters of home ownership and market access remain out of reach for the vast majority of South African households without public support.

Declining house prices will only benefit wealthier households; government still needs to intensify efforts to ensure lower income groups enter the housing market

Figure 1: House price and rental growth indices and interest rates, 2004 to 2009



Source: FNB and Standard Bank property indexes, Trafalgar rental index

While house prices have declined, residential landlords are enjoying significant rental increases on their properties. The Trafalgar rental index shows rents increasing by 7.5 per cent from the beginning of 2009, indicating that much of the price rises came in 2008. This has further restricted the affordability of housing to those seeking rental opportunities. The growth in rental prices has been projected to continue into 2010, though it will be susceptible to broader economic trends, particularly if large scale job losses occur, which will place downward pressure on prices.

The rising rental prices further exclude access to lower income groups indicating that government still needs to invest in efforts that facilitate access by lower incomes groups

Access to housing

The 2007 Community Survey showed that the majority of people participating in the economy cannot afford housing for themselves without state support. In 2007, 85.6 per cent of South African households earned R3 200 or less per month.

Even those households who can afford to buy a house are finding it difficult to access home loans. In 2005, home loan repayments typically accounted for around 10 per cent of total household liabilities, and are the single largest source of household debt. But the ability of households to obtain home loans and service repayments has declined. This is due to two broad factors: first, the tighter lending conditions imposed by banks, due to their own balance sheet concerns and the impact of the National Credit Act (2007); second, the eligibility of households for home loans has declined, due to the effect of the economic downturn on employment, and thus affordability. This is despite the decline in the home loan interest rates by a total of 500 basis points since the end of 2008.

Despite the house prices declining, household's financial position has deteriorated making most households cautious about taking on any new debt

Recently released statistics show that year on year growth in mortgage advances slowed to 9.4 per cent in May 2009, down from 10.6 per cent in the previous month. ABSA has reported that the balance of outstanding mortgages has declined slightly from April to May 2009, to R708.3 billion, while the growth in the value of mortgages dropped to 6.8 per cent in May (year on year) from April's 7.7 per cent. This slowdown in mortgage advances tracks the deteriorating financial position of households. Although levels of household debt remain stubbornly high, the ratio of mortgage repayments to household disposable income has declined. This has been due to declining house price growth, stable interest rates, and some growth in nominal disposable household income. Yet most households have remained cautious about taking on any new debt.

The demand for housing

There are about 12.5 million households in South Africa, of which 71 per cent have access to a freestanding house or traditional dwelling and a further 11.3 per cent have access to a flat, townhouse or rental accommodation. These figures can obscure high occupancy levels, leading to overcrowding, as well as the poor physical condition of some housing stock.

Still 1.8 million households without access to housing, the majority of which are concentrated in big cities

Beyond this, the 2007 Community Survey indicates that there are a further 14.4 per cent of households (or 1.8 million households) that have inadequate access to housing and are forced to live in informal settlements or informal backyard structures. These households in particular are unable to enter the housing market without assistance, and the overwhelming majority of them (74 per cent of residents of informal settlements and 78 per cent of informal backyard dwellers) are located in large cities across the country, namely the metropolitan municipalities and the largest 21 local municipalities.

Rising housing shortfall catering for the group earning between R1500 and R8600 per month compelling government strategies to work with the private sector in providing stock to this gap market

Broadly correlating with the findings of the Community Survey, it has been estimated that about 2 million households, in the R1 500 to R7 500 monthly household income category, depend on government support for better housing. The Southern African Housing Foundation estimates that there is presently a national housing supply shortage of more than 600 000 units for households earning between R2 500 and R8 600 per month. The Finmark Trust estimated that there was a shortfall of nearly 694 000 units in the R2 500 to R7 500 range in 2006/07, which will have risen to nearly 727 000 units by 2009/10. This indicates that demand is growing considerably faster than the supply of housing units, at a ratio of about 4 to 1. Addressing this housing need by 2014 would mean erecting 170 000 new houses each year for five years.

Table 6.1 Dwelling by municipality category, 2007

	Total - metros	Total- top 21 municipality	Total metros + top 21	Total- South Africa	% house-hold in dwelling	% house-hold in metros	% house-hold in top 21	% house-hold in metros + top 21
House or brick structure on a separate stand or yard	2 684 186	1 397 109	4 081 295	7 406 799	59.3%	36.2%	18.9%	55.1%
Traditional dwelling/hut/ structure made of traditional material	676 653	81 449	758 102	1 459 377	11.7%	46.4%	5.6%	51.9%
Flat in block of flats	394 462	93 588	488 050	595 943	4.8%	66.2%	15.7%	81.9%
Town/cluster/semi-detached house (simplex:duplex:triplex)	247 665	40 768	288 433	337 375	2.7%	73.4%	12.1%	85.5%
House/flat/room in back yard	207 564	66 738	274 302	364 039	2.9%	57.0%	18.3%	75.3%
Informal dwellings/shack in back yard	324 684	133 160	457 844	590 194	4.7%	55.0%	22.6%	77.6%
Informal dwellings/shack not in back yard e.g. in an informal/squatter settlement	619 445	283 187	902 632	1 214 236	9.7%	51.0%	23.3%	74.3%
Room/flatlet not in back yard but on a shared property	43 687	25 791	69 478	115 361	0.9%	37.9%	22.4%	60.2%
Caravan or tent	6 125	3 014	9 139	15 115	0.1%	40.5%	19.9%	60.5%
Private ship/boat	2 032	618	2 650	4 255	0.0%	47.8%	14.5%	62.3%
Workers hostel (bed/room)	105 369	77 853	183 222	360 152	2.9%	29.3%	21.6%	50.9%
Other	11 143	4 728	15 871	37 765	0.3%	29.5%	12.5%	42.0%
Total	**5 323 015**	**2 208 003**	**7 531 018**	**12 500 611**	**100.0%**	**42.6%**	**17.7%**	**60.2%**

Source: Stats SA: Community Survey, 2007

Demand for housing is not static. The 2007 Community Survey demonstrates that a growing proportion of the population live in large urban areas, with urban growth arising from both in-migration and natural population growth. Moreover, the average size of urban households has declined, which means that there are a growing number of households relative to the population. Both of these factors result in strong growth in the demand for housing in large urban areas. Indications from city level surveys conducted since the 2007 Community Survey are that this basic trend is accelerating.

Demand for housing stock continues to grow with average household sizes declining in urban areas

The need for public housing programmes

High levels of poverty, unemployment, low average household income levels and demographic shifts all contribute to a large number of South African households being unable to freely participate in the housing market. They are thus unable to access safe, affordable shelter. Government has made a long-standing and constitutionally-binding commitment to progressively realise the rights of all households to adequate housing. This commitment requires government to address failures in access to housing across a broad range of housing needs, from supporting individuals to obtain home loans, strengthening the market for rental accommodation, to providing fully-subsidised housing units to low income households.

Government has made commitment to addressing failures in access to housing

The ability of government to deal with access failures will have lasting impacts in redressing apartheid settlements patterns

The success or otherwise of these public interventions will have lasting impacts on the social, economic and spatial structure of South African cities and towns. They hold the prospect of reducing poverty through providing households with important economic assets, reducing the burden of disease and supporting growth through desegregating the racial character of South Africa's cities and improving the efficiency of urban economies. Moreover, public housing programmes also hold considerable potential to provide employment. Already, an estimated 45 676 job opportunities were provided both directly and indirectly by public housing programmes in 2006/07, associated with the construction of 271 219 housing units.

Deliberate efforts to open access to lower income groups in inner cities and in economically active areas are required to avoid locating poor people in peripheries

However, there is also a considerable risk that public housing interventions will not be bold enough. Housing stock may be of limited economic or social value to beneficiaries, and may also be located far from economic or social opportunities. Poorly located housing may result in the deepening of already high levels of inequality and inefficiency in South African towns and cities. This may impose long term costs on households and growing pressure on the public sector to fund access to basic infrastructure and transport services.

These risks make public intervention in the housing market complex to both design and implement. Once physical investments are made they cannot be moved, nor are sufficient resources available to simply abandon housing developments that fail to make positive contributions to a household's quality of life.

Housing responsibilities of the public sector

Constitutional, legal and policy framework

The Constitution sets out the obligations of the state for the delivery of housing

The Constitution sets out the obligation of the state towards the realisation of various rights, including the right to adequate housing. It requires government to progressively realise the right of all South Africans to adequate housing. The Constitution, in schedules 4A and 5A, assigns housing as a concurrent function of national and provincial government. It also provides that where the housing function can best be administered locally it can, by agreement, be assigned or delegated to a municipality provided that the municipality has the capacity and resources to perform the function.

The Housing Act (1997) outlines responsibilities of various spheres of government

The Housing Act (1997) obliges all spheres of government to give priority to the needs of the poor in relation to housing development. It provides for the facilitation of a sustainable housing development process through establishing general principles applicable to housing development in all spheres of government. It also outlines the responsibilities of the various spheres of government in relation to housing delivery, including providing for municipalities to be developers in the housing development process.

There is a wide range of other legislation that affects the housing sector and the housing development process, both directly and indirectly. These include, among others, the Housing Consumers Protection Measures Act (1998 as amended in 1999), the Rental Housing Act (1999), the Sectional Titles Act (1986, as amended in 2003), the Abolition of Certain Title Conditions Act, (1999), the Prevention of Illegal Eviction and Unlawful Occupation of Land Act (1998), the Home Loan and Mortgage Disclosure Act (2000), the National Building Regulations and Building Standards Act (1977), and the Construction Industry Development Board Act (2000).

The national Department of Human Settlements is responsible for establishing and maintaining sustainable developments

In 2004, government introduced a comprehensive plan for the creation of sustainable human settlements, known as Breaking New Ground. Its key objective is to eradicate all informal settlements by 2014. The plan addresses the challenge of creating valuable assets in sustainable settlements by providing better quality houses on suitably located land, with all social infrastructure and amenities. It commits government to accelerating housing delivery, promoting social cohesion and supporting the functioning of the entire residential market. A key innovation of the plan is the introduction of a broader range of subsidy options, to better reflect variations in housing needs within communities.

The Breaking New Ground, a plan to deal with complex housing challenge

Government faces a number of challenges in meeting these targets. At the macro level, the growing demand for subsidised housing, rising construction costs, and limits to available public resources create strong pressure to develop large numbers of freestanding housing units on peripherally located land, which would require lower upfront costs. However, experience has shown that this reduces the economic value of these houses, and imposes significant long term costs on both beneficiary households and on government.

Growing demand for housing places pressure to locate settlements in peripheries

In addition, a number of implementation issues also require resolution. Technical skills shortages and cumbersome approval procedures with regards to planning and proclamation of land for development impose significant time delays on the delivery process. This adds to the cost burden. The need to ensure that well located land, often held within the public sector, is released for housing development at reasonable cost is another key concern. The actual housing delivery process can also be undermined by other factors. Weak contract management practices that result in poor quality houses being constructed further exacerbates the problem.

The sector faces myriad of challenges requiring strategies that optimises on limited resources

Institutional arrangements

The public housing sector includes a wide-range of stakeholders, all with critical roles to play in ensuring the effective delivery of housing products that support the development of sustainable human settlements. Effectively managing these complex institutional arrangements remains an ongoing challenge for the sector, and for other actors in the built environment.

Wide range of stakeholders responsible for the delivery of housing products

Intergovernmental roles in housing delivery

The different levels of government must ensure that housing development provides a wide choice of housing and tenure options as is reasonably possible; is economically, fiscally, socially and financially affordable and sustainable; is based on integrated development planning; is administered in a transparent, accountable and equitable manner; and upholds the practice of good governance.

The national Department of Human Settlements is responsible for establishing and maintaining a sustainable housing development process. It achieves this by developing policy and strategy, determining delivery goals, monitoring and evaluating the housing sector's performance, establishing a national funding framework for housing development and allocating the housing subsidy budget to provincial governments and public entities.

Legislation sets out responsibilities across spheres for the housing sector

It is the responsibility of the provincial governments to promote, coordinate and implement housing programmes within the framework of the national housing policy. They approve housing subsidies and projects and provide support to municipalities for housing development. They also evaluate municipal applications for accreditation as housing delivery agents, although very little progress has been made in this regard.

Municipalities have the most critical role in the housing delivery process, as they are responsible for the provision and ongoing operation of associated bulk and distribution infrastructure and services, such as water, sanitation, roads and (in many cases) electricity. Municipalities also share responsibilities with provinces for the release of land for housing development, land use planning, and land use and building control. They also often act as housing developers. They are required to take all reasonable and necessary steps within the framework of national and provincial housing legislation and policy to ensure that the right to have access to adequate housing is realised on a progressive basis, by creating an enabling environment for housing development in its area of jurisdiction.

Complex intergovernmental systems tend to ignore municipal roles and undermine housing delivery

Complex arrangements for, and weak coordination of housing delivery across the three spheres of government are often cited as a constraint to scaled-up and sustainable human settlement development. The root cause of this problem is the relatively limited powers given to municipalities in housing delivery, despite the significant responsibilities they hold for the provision of infrastructure and the long term management of settlements. This has been seen to result in fragmented delivery processes and misalignment in the timing and scale of various investments across sectors. Municipalities regularly complain of inadequate notice of housing projects, which often conflict with the priorities identified and financed in their own plans.

Public entities in the housing sector

In addition to the roles played by the three spheres of government, a range of public housing agencies and partnerships have also been established. Some of these agencies are scheduled to be disestablished or refocused once the National Housing Development Agency and the Social Housing Regulatory Authority have been fully established. At present these agencies perform an often overlapping set of regulatory and financial intermediary roles in the sector.

A range of public entities have been established to contribute to housing provision

Financial intermediaries include: the National Housing Finance Corporation, which mobilises private finance and disburses this to other intermediaries, as well as directly funding to social housing initiatives; the National Urban Reconstruction and Housing Agency, which finances building contractors in the subsidised housing industry; the Rural Housing Loan Fund, which provides wholesale finance to lenders targeting the low income rural housing market and directly provides micro-finance to households; and Servcon Housing Solutions, which manages the normalisation of non-performing housing loans in the low income segment of the market, including direct investments in rehabilitating associated housing stock.

Current regulatory agencies include: the National Home Builders Registration Council, which oversees the home building industry, provides warranty protection to new home owners, and undertakes some research and development functions; and the Social Housing Foundation, which manages social housing grants at present, but also plays a direct developer role and undertakes research and development activities.

Public expenditure on housing delivery

Government's commitment to eradicating the housing backlog is evident in sharp increases in funding

Government has sharply increased funding for low income housing in response to both rising demand and rising construction costs. The bulk of this funding comes from national government, with small additions by provinces, and in some cases fairly substantial additions by municipalities, particularly for infrastructure services.

The flagship housing programme, the integrated housing and human settlement development grant, has disbursed approximately R49 billion between 1995 and July 2008. This has provided a total of 2.6 million housing opportunities, at a gross average cost of R18 850 per unit and an average annual delivery rate of 200 000 units a year.

The grant has now been increased by R7 billion (or 15.6 per cent) over its 2008/09 baseline allocation in the current MTEF period. The total allocation for this grant over the next three years (the MTEF period) is R44.6 billion. Expenditure is expected to increase from R12.4 billion in 2009/10 to R17.2 billion in 2011/12, an average annual increase of 18.5 per cent.

Table 6.2 Integrated housing and human settlement development grant expenditure, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Pre-audited outcome		Medium-term estimates	
Eastern Cape	607	637	337	981	1 313	1 599	1 803
Free State	370	528	467	859	963	1 301	1 380
Gauteng	1 357	1 760	2 614	2 778	3 187	3 772	4 323
KwaZulu-Natal	816	1 075	1 311	1 627	2 180	2 714	3 150
Limpopo	383	605	633	825	997	1 235	1 415
Mpumalanga	269	330	652	797	795	976	1 118
Northern Cape	103	105	231	219	325	273	313
North West	615	697	786	952	1 100	1 289	1 578
Western Cape	552	769	1 122	1 306	1 581	1 869	2 142
Total	**5 072**	**6 506**	**8 152**	**10 343**	**12 442**	**15 027**	**17 222**

Percentage growth (average annual)[1]	2005/06 – 2008/09	2008/09 – 2011/12
Eastern Cape	17.3%	22.5%
Free State	32.4%	17.1%
Gauteng	27.0%	15.9%
KwaZulu-Natal	25.9%	24.6%
Limpopo	29.2%	19.7%
Mpumalanga	43.6%	12.0%
Northern Cape	28.8%	12.6%
North West	15.7%	18.3%
Western Cape	33.3%	17.9%
Total	**26.8%**	**18.5%**

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

Source: National Treasury provincial database

Project-linked subsidies provide the bulk of spending of grant financing

The grant finances the provision of housing subsidies through a number of mechanisms that all ultimately benefit low income households. Although accurate data is not readily available, the bulk of this spending occurs through project-linked subsidies, where developers implement housing projects at scale and a qualifying household obtains ownership of a complete residential unit.

Other forms of subsidy available through the grant programme include:

- Individual subsidies that provide qualifying beneficiaries with access to housing subsidies to acquire ownership of serviced stands. It also allows the beneficiary to enter into house-building contracts, or to purchase an existing, improved residential property that is not part of an approved housing-subsidy project. This mechanism helps qualifying beneficiaries who wish to increase their subsidies by accessing credit, as well as beneficiaries who do not qualify for credit.
- Institutional subsidies that are available to qualifying housing institutions (group of individuals who form a legal entity) that provide subsidised housing on deed of sale, rental or rent-to-buy options, on condition that the beneficiaries may not be compelled to pay the full purchase price and to take transfer within the first

four years of receiving the subsidy. Institutions must also invest capital from their own resources in the project.

Table 6.3 The South African housing subsidy scheme quantum amounts for a 40 m² house, 2009/10

Subsidy programme Rands	Top structure funding	Own contribution	Product price
Project linked subsidies			
R0 – R1 500	55 706	None	55 706
R1 501 – R3 500	53 227	2 479	55 706
Indigent: Aged, disabled and health stricken R0 – R3 500	55 706	None	55 706
Individual subsidies			
R0 – R1 500	55 706	None	55 706
R1 501 – R3 500	53 227	2 479	55 706
Indigent: Aged, disabled and health stricken R0 – R3 500	55 706	None	55 706
Institutional subsidies			
R0 – R3 500	53 227	Institution must add capital	At least - 55 706
Consolidated subsidies			
R0 – R1 500	54 650	None	54 650
R1 501 – R3 500	52 171	2 479	54 650
Indigent: Aged, disabled and health stricken R0 – R3 500	54 650	None	54 650
People's housing process			
R0 – R3 500	55 706	None	55 706

Source: National Department of Human Settlements

- Consolidation subsidies that give former beneficiaries of serviced stands, financed by the previous housing dispensation, the opportunity to acquire houses.
- The Peoples Housing Process, which provides funding to groups of beneficiaries to pool their resources and contribute their labour so as to make the most of their subsidies.
- The finance-linked subsidy programme, which assists first-time home buyers who earn between R3 501 and R7 000 per month to obtain a home loan.

The integrated housing and human settlement development grant provides funding for housing units and associated internal infrastructure (infrastructure that is on the associated plot or within the associated development), as well as planning activities and land acquisition. In the case of institutional subsidies, funds may also be used for setting up housing support centres. In general, about 15 per cent of the subsidy may be used for internal services, with additional amounts possible in adverse geotechnical conditions.

Approximately 70 per cent of the housing challenge is concentrated in cities reflecting the urban nature of the housing demand

Reflecting the largely urban character of housing demand, nearly 56 per cent of the total allocation is provided to the metropolitan provinces of Gauteng, Kwazulu-Natal and the Western Cape. This rises to over 66 per cent once Eastern Cape, home to Nelson Mandela

Metro and Buffalo City municipality, is included. Table 6.2 provide details of provincial spending. Detailed records of spending or subsidy instruments per municipality are not readily available on a national basis. These data weaknesses are a problem for the sector and reflect the ongoing coordination problems being experienced. It also severely undermines any detailed analysis, oversight and accountability.

Credit-linked subsidies are intended to complement private financing for housing, obtained through home loans, for lower and middle income families. This is an area where private sector lending activity has been traditionally limited, with some evidence that lenders were historically unwilling to enter township property markets that were, in any event, not conducive to the emergence of a vibrant property market.

Banking sector progress makes in low cost housing finance but below its target

Following extensive negotiations in 2003, the banking sector was initially confident that it would exceed the target of lending R42 billion for low cost housing finance over a five-year period to the end of December 2008. While there were early indications that R52 billion in housing finance would have been originated by South Africa's four major banks by this time, the figure in fact was only R38 billion. Of this amount, R5.4 billion rand was provided in the form of home loans and R12.6 billion rand in non-mortgages with as many as 810 000 families having benefited from this initiative. The failure to reach the targeted level of financing reflects sharply weaker market conditions and the impact of regulatory changes such as the introduction of the National Credit Act

External funding is to aid the provision of affordable housing in South Africa

In 2008, partially in response to this situation, the American-based housing funding organisation International Housing Solutions (IHS) raised R1.3 billion (US$175 million) for the development of 30 000 affordable units in South Africa for households in the R3500 to R18000 monthly household income category, to be located in areas where gaps or backlogs in economic development and job creation have not been adequately addressed by financial institutions. IHS expects several more investors to commit further capital to the South African fund, increasing its size to about R1.8 billion. To date, a further R210 million has been raised from the DBSA, and R150 million from CitiBank.

The initiative was a response to the difficulties that South African property developers had found in raising capital for large scale housing developments. This help from IHS was directed to developers to finance affordable housing projects in the form of equity. The equity allowed developers to obtain larger loans from banks at a reduced borrowing cost. This in turn allowed them to build bigger developments without having to phase them or conduct a large number of pre-construction sales. The developers subsequently are able to pass the lower costs on to middle income families in the form of lower rentals and selling prices, which, in the current economic climate, is a huge benefit to South African families.

Infrastructure delivery in support of the housing programme

In addition to direct expenditures on the housing programme, significant public expenditures are also directed to complementary investments in the built environment. These investments are of particular importance to ensuring that housing form part of safe, healthy communities. Of particular importance are municipal infrastructure expenditures that provide bulk and connector infrastructure for housing projects, and in some cases provide top-up funding for internal infrastructure associated with subsidised housing. The vast majority of municipal infrastructure spending in large urban areas is self-financed, although national government does contribute through the Municipal Infrastructure Grant (MIG). For large cities, where the bulk of the housing programme occurs, these contributions will amount to R28.7 billion over the next three years.

The provision of housing stock is closely linked to the provision of infrastructure

Provincial governments also continue to manage investments associated with the national housing programme, some urban roads, school infrastructure, libraries and clinic building. In some cases (such as libraries and primary health care) municipalities continue to play a residual role in ensuring adequate infrastructure is available for the delivery of services.

Housing subsidies and public housing delivery

Since the housing subsidy scheme was introduced in 1994/95, approximately 3.3 million subsidies have been approved. The number of approved subsidies annually has been volatile, ranging from between 137 746 in 2005/06 and 252 064 in 2007/08.

Table 6.4 Number of subsidies approved per financial year, 1994/95 – 2007/08

	1994/95 – 2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Total
Eastern Cape	243 315	20 811	13 882	2 189	22 532	27 700	**330 429**
Free State	113 394	16 084	16 768	8 770	14 334	28 129	**197 479**
Gauteng	989 016	39 086	54 045	56 373	53 234	72 644	**1 264 398**
KwaZulu-Natal	265 452	43 397	42 776	13 766	21 906	20 032	**407 329**
Limpopo	128 303	32 681	17 503	27 456	2 138	17 435	**225 516**
Mpumalanga	153 493	14 378	2 407	1 153	14 281	7 858	**193 570**
Northern Cape	39 251	7 452	1 763	812	5 671	2 268	**57 217**
North West	146 718	7 570	23 543	14 778	19 440	47 698	**259 747**
Western Cape	221 046	8 143	77 354	12 449	12 987	28 300	**360 279**
Total	**2 299 988**	**189 602**	**250 041**	**137 746**	**166 523**	**252 064**	**3 295 964**

Source: National Department of Human Settlements

Gauteng has had the highest number of approved subsidies (1.3 million), approximately three times more than the 407 000 in KwaZulu-Natal, which has the second highest number. Northern Cape has had the least amount of subsidies approved for the same period at approximately 1.7 per cent of the total (57 217). Table 6.4 confirms that in 2007/08 the bulk of subsidy approvals occurred in Gauteng, North West, Free State and Western Cape, while Northern Cape and Mpumalanga show declining subsidy approval figures.

Government has approved around 3.3 million subsidies even though delivery has been slower

Yet, despite both the growth in resources and in subsidy approvals, the delivery of subsidised housing units has been slower than anticipated. Between 2001/02 and 2007/08, the delivery of subsidised housing units declined in most provinces. Table 6.5 shows that the highest rate of decline in delivery was evident in Eastern Cape, North West, and Limpopo (between 2006/07 and 2007/08). During the same period Gauteng, Mpumalanga and Northern Cape recorded increases.

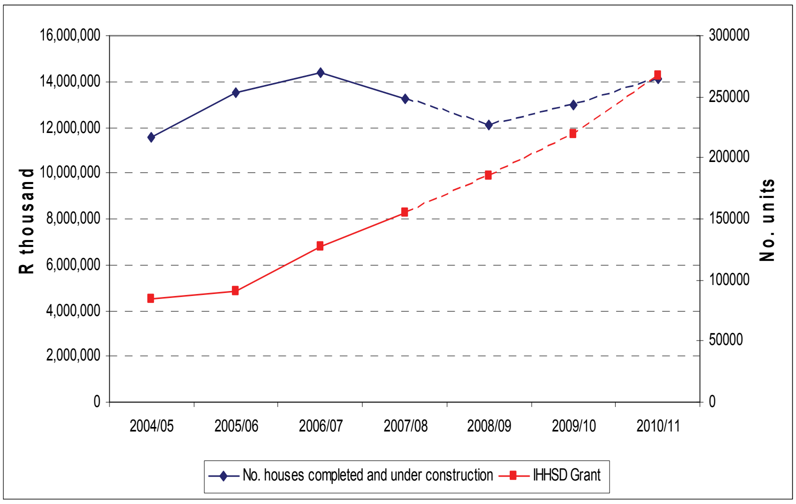
Table 6.5 Housing units completed and in process of completion, 1994/95 – 2007/08

Number	1994/95 – 2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Total
Eastern Cape	187 237	27 119	37 524	19 825	16 526	12 684	**300 915**
Free State	87 859	16 746	16 447	20 536	19 662	12 482	**173 732**
Gauteng	340 331	49 034	66 738	59 310	77 044	90 886	**683 343**
KwaZulu-Natal	245 534	33 668	36 734	35 872	38 290	34 471	**424 569**
Limpopo	114 767	15 810	16 514	46 813	23 609	18 970	**236 483**
Mpumalanga	105 093	21 232	18 000	14 986	10 651	16 569	**186 531**
Northern Cape	29 213	3 787	3 598	8 667	3 880	8 686	**57 831**
North West	125 353	10 484	10 037	35 515	46 972	19 945	**248 306**
Western Cape	185 510	15 735	11 756	11 310	34 585	34 157	**293 053**
Total	**1 420 897**	**193 615**	**217 348**	**252 834**	**271 219**	**248 850**	**2 604 763**

Source: National Department of Human Settlements

This trend is of considerable concern, as demand for publicly subsidised housing remains high and continues to grow. Figure 2 shows the growth in the housing grant and actual housing delivery between 2004/05 and 2010/11.

Figure 2: IHHSD Grant allocations and actual housing delivery (2004/05 to 2010/11)



Source: National Department of Human Settlements

There are a number of reasons for the slower than anticipated pace of spending. These include:

- Under spending by provinces due to poor programme management arrangements. Table 6.6 shows that the Free State, Mpumalanga and North West provinces performed the worst in spending their housing allocations in 2007/08, while the Eastern Cape had R500 million withheld and reallocated in this year.

Table 6.6 Integrated housing and human settlement development grant expenditure, 2007/08 and 2008/09

	2007/08				2008/09				Spending growth
R million	Adjusted appro-priation[1]	Outcome	Over(-)/under expenditure	%	Adjusted appro-priation[1]	Pre-audited outcome	Over(-)/under expenditure	%	2007/08–2008/09
Eastern Cape	509	337	172	33.8%	981	981	–	0.0%	190.7%
Free State	554	467	87	15.7%	859	859	–	0.0%	84.1%
Gauteng	2 547	2 614	-66	-2.6%	2 807	2 778	29	1.0%	6.3%
KwaZulu-Natal	1 311	1 311	-0	0.0%	1 622	1 627	-5	-0.3%	24.1%
Limpopo	652	633	19	2.8%	825	825	–	0.0%	30.3%
Mpumalanga	676	652	24	3.6%	797	797	–	0.0%	22.2%
Northern Cape	231	231	0	0.0%	219	219	–	0.0%	-5.1%
North West	875	786	90	10.2%	952	952	–	0.0%	21.2%
Western Cape	1 178	1 122	56	4.8%	1 306	1 306	–	0.0%	16.4%
Total	**8 533**	**8 152**	**381**	**4.5%**	**10 368**	**10 343**	**24**	**0.2%**	**26.9%**

1. Includes transfers received from national and provincial rollovers.

Source: National Treasury provincial database

- Poor coordination between spheres and arms of government in the housing delivery process, leading to delays in project initiation, approval, implementation and completion. Most often these problems are experienced in obtaining development approvals, securing the release of land, and coordinating housing construction with the installation of the necessary bulk and connector infrastructure by municipalities. To date, coordination between infrastructure and housing investments has been poor, with a very wide variation in the ratio of housing and MIG allocations between cities, as shown in table 6.7 below.

Poor coordination between spheres and programmes continues to create complication and failures in the delivery value chain

Table 6.7 Published municipal infrastructure grant and housing subsidy allocations by large municipalities, 2009/10[1]

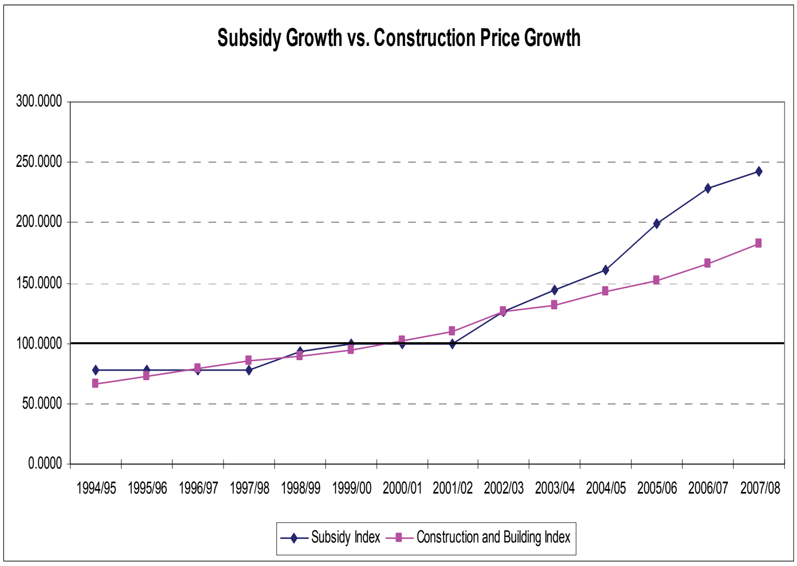
R thousand	MIG	Housing	Total	MIG as % of housing allocation
Cape Town (incl. N2)	327 790	663 499	991 289	49.4%
Nelson Mandela (est.)	156 016	365 000	521 016	42.7%
Ethekwini	508 950	385 300	894 250	132.1%
Ekurhuleni Metro	428 253	139 826	568 079	306.3%
City of Johannesburg	475 257	537 323	1 012 580	88.4%
City of Tshwane	328 083	365 164	693 247	89.8%
Msunduzi	89 943	40 300	130 243	223.2%
George	20 107	34 021	54 128	59.1%
Total	**2 334 399**	**2 530 433**	**4 864 832**	**92.3%**

1. Excludes self-financed contributions by municipalities which are significantly larger than these amounts in most cases.

Source: Division of Revenue Act, 2009

- Construction cost escalation that derails planned housing projects through reducing the value of the subsidy to below that required to complete a project. This has been particularly severe since 2007, and has required regular revisions to the subsidy level. The individual housing subsidy, for example, has increased from R23 100 in 2003/04 to R54 650 in 2008/09, at an average annual rate of 27 per cent a year (or 136 per cent in total).

Figure 3: Subsidy growth versus construction price growth



Source: National Treasury estimates

- Inappropriate subsidy mechanisms that initially failed to adjust to changes in housing need and market conditions. The past focus on project-linked subsidies restricted support to households earning less than R3 500 per month, on a sliding scale of benefits. This was based on the assumption that wealthier households in this bracket could partially self-finance their homes, while those earning over R3500 per month could access private financing for the full cost of home-ownership, albeit with some public support through the credit-linked subsidy scheme. Neither of these assumptions turned out to be valid and, despite the effects of inflation, the cut off point for subsidy access has not been changed. In particular, a gap in access to housing for households earning between R3500 and R7 500 per month emerged as house prices grew dramatically since 2004. The provision of credit-linked subsidies in particular, has remained small and declined from 1 015 in 2006/07 to 398 in 2007/08. The new housing strategy addresses these problems through removing the subsidy benefit bands that differentiate between households earning under R3 500 per month thus giving them all access to the full subsidy amount) and introducing a new subsidy to accommodate households in the R3 500 to R7 500 per month income band.

Table 6.8 Approved credit-linked individual housing subsidies, 1994/95 – 2007/08

	1994/95 – 2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Total
Eastern Cape	4 525	66	3	–	5	5	**4 604**
Free State	1 716	57	50	39	70	106	**2 038**
Gauteng	29 127	1 101	2 232	2 148	544	82	**35 234**
KwaZulu-Natal	4 056	164	85	42	35	30	**4 412**
Limpopo	168	–	–	–	1	36	**205**
Mpumalanga	1 035	69	68	6	4	35	**1 217**
Northern Cape	348	20	1	4	2	3	**378**
North West	1 510	37	46	60	5	53	**1 711**
Western Cape	6 658	153	911	498	349	48	**8 617**
Total	**49 143**	**1 667**	**3 396**	**2 797**	**1 015**	**398**	**58 416**

Source: National Department of Human Settlements

Key challenges in public housing delivery

The sector challenge has shifted to correcting housing market failures

Progressively realising the right of every citizen to a home involves far more than the delivery of a subsidised house. Safe, secure shelter in healthy and integrated settlements is more often an immediate objective for a household than full home-ownership. The key challenge facing national housing policy has therefore shifted from a focus on building houses, although many are required, to correcting failures in the housing market that keep so many South Africans from realising their rights. Indeed, the long term aim of housing policy must be to enable all households to participate in the housing market in ways that meet their own needs as they change over time.

Expanding the housing market to all

Two key challenges remain for housing policy in universalising access to the housing market.

Housing policy needs to allow for greater innovative use of subsidy mechanism to leverage private sector investment

Firstly, access to finance remains restricted to a small minority. High levels of poverty demand public support to enable most households to enter the housing market, whether for ownership or rental. Yet public resources alone will not be sufficient to meet the growing demand for housing finance. This is particularly the case if government attempts to provide a fully-subsidised unit to each household in need of a house. Housing policy must therefore ensure that public resources are able to leverage private investment at a far greater scale than has been achieved to date. In turn, this requires that subsidy mechanisms become flexible and innovative to achieve this leverage.

Secondly, providing housing is not a once-off event. Once households have achieved home-ownership, they are entitled to expect it to be a valuable asset that can be used to leverage finance for other needs or to trade for other housing opportunities that more closely suit their (changing) needs. This implies that the value of a subsidised housing unit should grow over time. However, poorly located and low quality housing stock often experiences a real decline in value once transferred to households, denying them any real prospect of entering the housing market.

Creating integrated human settlements

Integration and co-ordination are essential for housing developments

Location is often regarded as a key dimension of property value. A key challenge for housing policy is to ensure that houses become homes that are part of viable, safe communities. In policy terms this is known as creating "integrated human settlements", with ready access to public services, facilities and job opportunities. The key public policy instruments to achieve this "alignment" have been the integrated development planning and budget coordination processes that seek to ensure that socioeconomic infrastructure and services are aligned with housing development.

Weak coordination between spheres and programmes continues to disable progress in the sector

Housing subsidies are managed at national and provincial level, with only weak coordination with municipalities. There is little transparency and still less control over the location, timing and nature of housing programmes at the local government level, despite their own long term plans and responsibilities for ensuring ongoing service delivery. The period ahead will see government re-aligning its operational practices in the housing sector to provide for the necessary alignment between municipal infrastructure services and provincial and national infrastructure planning for services like schools, clinics and police stations.

Conclusion

South Africa faces a growing challenge in providing all citizens with access to suitable housing. Despite significant achievements in providing housing, significant challenges remain in broadening and sustaining access to the housing market, and ensuring that houses form part of integrated and sustainable human settlements.

Innovation is required to solve the current access to housing problem

Innovations in housing finance, subsidy mechanisms and institutional arrangements will be required to find appropriate responses to changing circumstances in the housing sector. Allowing some large municipalities to experiment with alternative approaches to housing policy implementation, even if only on a medium-term pilot basis, is likely to inform and stimulate the ongoing refinement of public housing policy to meet changing market conditions and household needs.