



Summary of the Housing Finance Public Hearings

For an Equitable Sharing of National Revenue

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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 2300
Fax: +27 86 589 1038

1.1 Introduction

On 13 and 14 October 2011, the Financial and Fiscal Commission (FFC) hosted public hearings at the Ekurhuleni Civic Centre, Ekurhuleni, Gauteng Province, on the challenges and opportunities in housing finance in South Africa. A draft problem statement document was released by the FFC for stakeholder discussion at the hearings in order to strengthen analysis of the challenges at hand. This discussion, complemented by the FFC's international and domestic research, will be extended into a draft technical report, with an initial set of recommendations and policy options which will be considered at a second public hearing. Thereafter, the FFC will finalise the technical report. This will inform a structured research agenda going forward and will provide policy options to the issues raised via sound research, thereby making a contribution to the debate on housing finance policy.

The Housing Finance problem statement, along with stakeholder submissions and group feedback presentations, can be found on the FFC website (<http://www.ffc.co.za/index.php/media-a-events-interactive/public-hearings.html>), as well as on the FFC Facebook page ([Financial and Fiscal Commission \(South Africa\)](#)) and Twitter pages ([@FFC_SA](#)). This document summarises some of the key emergent themes arising from submissions and group discussions of 83 stakeholders represented at the first public hearing, and **not those of the FFC**. It includes consolidated views on the problem statement, identifying principles that could drive solutions and knowledge gaps. The Commission will in due course release a more comprehensive document outlining in more detail stakeholder perspectives articulated at the hearings.

1.2 Unintended consequences of the housing finance policy

Stakeholders described the current housing finance policy as having created perverse incentives. Despite more than three million houses having been built since 1994, this delivery has been insufficient. Dependency on the state persists with 60% of households presently qualifying as beneficiaries for a housing subsidy and waiting for government to deliver. As costs increase over time, more and bigger subsidies are required to deliver on promises made, and the gap market, which is essentially an affordability gap extending between those households eligible for subsidies and the cost of housing on the market, continues to grow. Stakeholders argued that the current subsidy system is fragmented, distorts prices in the gap market and crowds out investment by the private sector and households. Further, with an estimated 50% of government subsidy-beneficiaries living in their houses without title deeds, the potential for subsidised houses to be used to reduce asset poverty is undermined.

1.3 Understanding the demand for housing

Stakeholders perceived the demand for housing in South Africa to be poorly understood. Backlogs were not clearly defined, may be overstated, and were interpreted as representing demand. An emergent theme was the lack of data on the real demand for housing which would be informed by, amongst others, population growth, household formation and size, urbanisation, movement between rural and urban areas, movement between outlying areas and city centres, life stage, and the need for social and economic integration with the city.

Formalisation was considered by some stakeholders to be essential in the process of housing delivery. However, alternative views were held by other stakeholders who regarded informality both as a reality, given the lack of job and income security in the current economic climate, and an opportunity for entry into the housing market. The need for

household mobility and tradability of houses was emphasised, as were multiple pathways to land and housing moving from informal to formal settlements. Informal settlements continue to grow and it was suggested that public spending should focus on their upgrading, rather than the delivery of state-funded top structures, which individual households could rather contribute to themselves, over time. Targeting state support geographically (area based) rather than at eligible beneficiaries was proposed in this regard and would support a human settlements approach whereby public funds are used to purchase public goods. However, it was mentioned that informal settlement upgrading is human resource intensive, can take between 10 – 15 years, and is therefore often avoided by provincial and local governments.

Stakeholders argued that the demand for mortgage finance in the current economic context cannot be assumed. A macroeconomic perspective was highlighted, where mortgage loans as a significant percentage of GDP show the important role that housing plays in the economy. Current unemployment and household debt levels which impact on household's ability to save and raise finance for housing were highlighted.

1.4 Housing supply issues

The main housing supply constraints mentioned by stakeholders were the access to well-located land and bulk infrastructure. As much as 70000 hectares of state owned land had been identified for housing developments, however none of this had been made available for this purpose. Further, stakeholders said that reducing specifications of houses and improving efficiencies in the housing delivery chain would assist in improving the supply of affordable housing which was seen by some to be a greater constraint than finance itself.

While national policy allows provincial and local governments the flexibility to adapt according to their context, stakeholders perceived national government to dictate a “one size fits all” approach in terms of the practical design and operations of housing grants. Stakeholders argued that current policy focuses too heavily on ownership, and the delivery of the subsidised housing product in this approach had a great impact on the gap market. Rather, all forms of tenure and modes of supply need to be considered, including how they impact each other, with incentives and regulations evaluated accordingly. In addition, grant design is not suited to settlement level planning and staged project delivery. Stakeholders mentioned that incremental housing development and improvements, enabled through microfinance mechanisms, has not yet been sufficiently recognised at local level, even though national policy does make provision. In rural areas in particular, the informal housing sector in terms of owners building quality houses themselves is very prevalent.

Although mass delivery of housing was government's objective, stakeholders urged the state to appreciate the value of smaller multilevel, mixed-use developments in urban infill areas, where cross-subsidisation was possible, and infrastructure already exists. These would typically be in the city centre, where rental demand in particular is growing (at a rate of 250000 per annum). While the state can provide catalytic amounts of investment in such developments, it should also be aware of the return on investment as the rates base increases with densification. It was argued that property rates must be charged across the board for municipal viability as well as to ensure that the culture of paying rates is established for the long term. A concern was raised regarding conflicting policies in terms of densification and secure tenure. In addition, stakeholders cautioned about the frequent demolishing of units which could be renovated instead of rebuilt at a high cost. However, the challenges that

verticalisation brings in terms of overcrowding, urban management and maintenance, amongst others, were also recognised.

1.5 Administration of housing finance

Administrative challenges identified by stakeholders included over ambitious targets and number of objectives per project, accreditation of municipalities (which impacted upon finance flows to municipalities and their capacity to act), and the inability to use bridging finance provided by development finance institutions (DFIs) due to restrictions in the Municipal Finance Management Act (MFMA). In the case of the MFMA, a legislative change is required for a more empowering mandate of DFIs and the financial backing to support metros significantly. Another issue raised was the cost of administration and regulation which drives up house prices by 30% on average, and poor intergovernmental relations can further time delays and related costs.

Stakeholders explained that while many municipalities traditionally financed bulk infrastructure through imposing development charges, the internal reticulation has always been for the account of the developer which recoups it from sales to the end user. In mixed developments, the costs of subsidised low end units are cross-subsidised by bonded units (including affordable housing), which contribute to driving up the costs of affordable housing, in ways unrelated to the cost of construction. From a lifecycle cost of asset perspective, it is cheaper for municipalities to provide tarred roads than dirt roads and internal sewers etc, however they are prevented from doing this as the MFMA implies that they cannot use public resources of ratepayers on private land.

Stakeholders urged government to secure efficiencies in the housing development value chain, in a manner which facilitates and does not hinder participation by other role players. Delays in land availability agreements and other procedures could add substantial amounts to the cost of development, ultimately impacting on the affordability of the product price. Uncertainty in the development process also militated against the participation of any other than the largest and most robust developers. While there were reports of successful partnerships coming together for certain developments, some stakeholders stated that the public private partnerships which are regulated by National Treasury are so cumbersome that they are not worthwhile for either party.

The lack of long term planning and problems in land use were persistent. Stakeholders emphasised city compaction as a strategy for spatial planning. However, an alternative view was also presented where it was argued that instead of focussing on the central core, if demand was sufficient transport subsidies could be justified in a manner which allows the city to expand.

Stakeholders voiced their frustration at the disjuncture between integrated planning systems and the outcomes approach which would require a pooling of resources to ensure government's strategic objectives were achieved versus accountability for compliance in individual departments' budgets.

1.6 Principles to drive solutions and knowledge gaps

Stakeholder perceptions of principles to drive solutions in housing finance included that private sector and household involvement should be enabled, the role of the state should be to invest public money in public goods and create an enabling environment for sustainable human settlements, a basic offering should be established which can be improved over time,

planning and grant allocations should be demand based, the cost of housing units should include the value of the land over time, metro autonomy should be recognised through accreditation, there should be no unfunded mandates, and housing opportunities for all segments of the market should be considered along with alternative financing arrangements.

Research gaps identified by stakeholders included improved design in human settlements and infrastructure grants; understanding the shifting nature of demand for housing including migration patterns, household formation and mobility; how to enable and facilitate incremental development and secondary markets; scenarios for phasing out the current subsidy scheme; regulatory impact assessment of all legislation impacting on housing and financing; establishing a common database; implications of the new spatial planning legislation; understanding short-term accommodation arrangements and the relationship between densification and overcrowding; and appropriate land use management options.

1.7 Conclusion

Whilst reviewing housing finance policy, the role of the state was questioned by stakeholders. As the national government shifts its mandate from providing housing to establishing human settlements, there will be a need to deal with political and community expectations including whether the state has progressively realised rights. However, there was consensus by all stakeholders that increased participation by households and the private sector was desirable and should enable a renewed sense of urgency regarding adequate housing provision. There was also consensus among stakeholders that this engagement process was constructive and important, and should be continued. The Financial and Fiscal Commission will explore this further in the full workshop report, as well as in its further engagements with stakeholders. A draft technical report, with an initial set of recommendations and policy options, will be released for further consideration by stakeholders at a second public hearing.