

To Self-build or not to Self-build?

EXECUTIVE SUMMARY

Self-build housing encourages households to improve their housing conditions (thereby reducing housing backlogs), lessens the burden on the fiscus (government finances) and enables state resources to be directed towards the most disadvantaged households. However, compared to other countries such as Brazil, households in South Africa are not very active in addressing their own housing needs. Research by the Financial and Fiscal Commission (the Commission) highlighted some key levers for self-build initiatives and identified poor households that are able to use the assisted self-build option. The two most vulnerable groups (and likely to need government to provide fully subsidised housing) are households earning less than R2,500 per month who: are headed by females with children under the age of 20 years, or contain adults above the age of 40 years who are likely to remain unemployed. Government could achieve remarkable progress in housing delivery if resources were targeted at the most vulnerable, while other households were encouraged to participate in self-build initiatives. The Commission therefore recommends that government should prioritise subsidised housing for the two most vulnerable groups, as well as land ownership registration processes in appropriately located informal settlements, and provide infrastructure in areas with the potential for self-build housing.



BACKGROUND

South African government policy acknowledges and emphasises the importance of active citizenry, by encouraging households to be involved in meeting their own housing needs. Promoting (and removing key impediments to) self-build housing encourages households to improve their housing conditions (thereby reducing housing backlogs), lessens the burden on the fiscus (government finances) and enables state resources to be directed towards the most disadvantaged households. Furthermore, social cohesion is maintained (and possibly improved), as in most cases self-build housing occurs in areas chosen by households themselves. However, compared to other countries such as Brazil, households in South Africa are not very active in addressing their own housing needs. For example, in Brazil households take about five years to improve their housing conditions, and to move from informal settlements to decent formal housing. In contrast, in South Africa informal settlements remain in the same state for years, until government intervenes or provides free RDP housing. Against this background, the Financial and Fiscal Commission (the Commission) sought to evaluate the key levers of self-build housing initiatives and to define households in most need of assistance, through surveying self-build housing initiatives at four sites (two in Gauteng and one each in Limpopo and Mpumalanga).¹ The survey found that the key levers for self-build initiatives include the availability and access to

FINDINGS

uncontested land, agreements for upgrading the settlement, allocation of housing numbers and recording of occupiers, provision (or upgrading) of infrastructure, and formal registration of land.

In areas of rapid development, the survey suggests that self-build housing and subsidy housing are interdependent, as self-build housing takes place around a nucleus of subsidy housing. The owner-build begins when a shack community occupying public land receives upgrading, through infrastructure and subsidy housing development. Finance for initial informal home-building is sourced mainly from household savings, stokvel loans and credit from businesses, while finance for purchases of over R100,000 is provided by formal financial services, mainly as unsecured loans to borrowers in formal employment. High-value, self-build development is found on the periphery of cities, where land is available and affordable.

Certain groups of households living in inappropriate housing structures are likely to have more difficulty than others in mobilising the necessary resources to build new, decent quality housing. Therefore, it is important to distinguish between poor households that are able to use the assisted self-build option, and poor households that need subsidy housing provided free of charge because of poverty and structural handicaps. The survey identified two groups of households earning less than R2,500 per month that are likely to remain in inappropriate housing conditions until government provides fully subsidised housing: female-headed households with children under the age of 20 years and households containing adults above the age of 40 years who are likely to remain unemployed.²

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¹ See Chapter 10: Reforming housing policies for better human settlements. In FFC (Financial and Fiscal Commission), 2013. Submission for the Division of Revenue 2015/16. Midrand: FFC.

² In most cases adults who are out of the labour market and unable to improve their own housing situation.

Figure 1: Estimates of replacement housing value and appropriate public support level

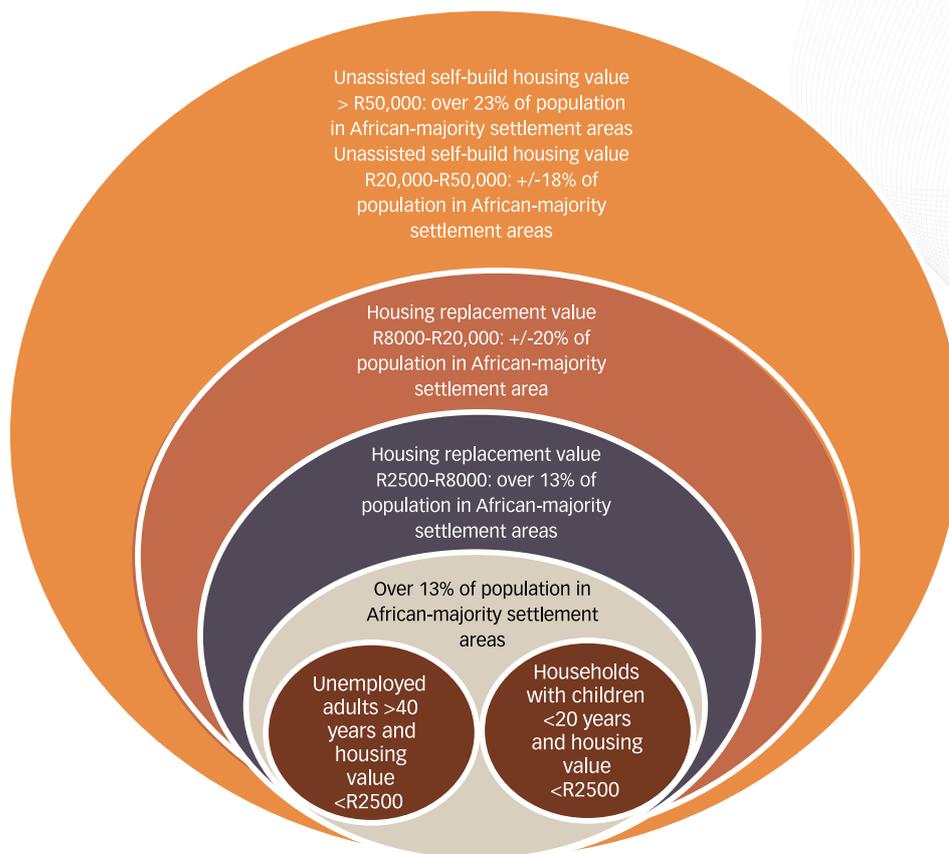


Figure 1 divides the population into categories based on housing replacement value.³

In Figure 1, the light grey circle with two red circles contains households with a housing replacement value of less than R2,500, representing just over 13% of the population in African-majority settlement areas. (The total African-majority population consists of approximately 20 million people.) These households are the two most vulnerable groups, as identified above: female-headed households with children under the age of 20 years and households containing adults over the age of 40, who have been passed over by the labour market and are not normally eligible for social grants. At a minimum, providing subsidy housing to these two groups would cost R120-billion, based on about 650 000 households and a cost of R180,000 per housing unit. These two groups are unlikely to be able to contribute towards attaining adequate housing needs, so they are entirely dependent on government's full housing provision. Including households with a housing replacement value of up to R8,000 in the subsidy net would mean 1.3 million more households (or 27% of the population in African-majority settlement areas), which would increase costs to approximately R230-billion and be unaffordable from a fiscus point of view.

The group in the replacement value category of R8,000–R20,000 (representing over 20% of the population in African-majority settlement areas) live in relatively poor-quality housing but would, based on the experience of Swedenville and Block 18,⁴ be likely to have the resources and competences needed to build good-quality houses for themselves. Providing this group with a serviced site would cost about R19-billion.⁵

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³ Survey respondents were asked how much it would cost to build a similar house to theirs. These answers were used to calculate the housing replacement values used.

⁴ These are some of the areas where surveys on self-build housing initiatives were undertaken.

⁵ At an estimated cost of R33,000 per household which includes R18,000 on average per site for acquiring the land on which these settlements are to be upgraded in situ, R10,000 for bulk services and R5,000 for electricity supply.

Government will need to shift from RDP-type housing on a separate stand to flats and townhouses for low-income rental.



CONCLUSION

Encouraging self-build housing can help reduce backlogs, lessen the burden on the fiscus, enable the government to direct resources towards the most disadvantaged (and vulnerable) households, and maintain social cohesion. A study of self-build initiatives in Gauteng, Limpopo and Mpumalanga found that the key levers for self-build are land registration and the provision of basic infrastructure services. The population living in African-majority settlement areas were divided into categories based on the housing replacement value. The subsidy-eligible households most likely to succeed with self-build construction are those with housing replacement values of R2,500–R8,000 and R8,000–R20,000. However, households with a housing replacement value of under R2,500 will require subsidy housing from government. These are the most vulnerable groups and comprise female-headed households and households with adults over 40 years old who have no chance of finding employment and are not eligible for social grants. If government encouraged households (that are able to contribute to their own housing needs) to participate in self-build housing initiatives, more resources would be available to provide government-subsidised housing for the two most vulnerable groups of households. In so doing, government could achieve remarkable progress in housing delivery. The Commission therefore recommends that government should prioritise:

- Subsidised housing for the most vulnerable groups, which include poor female-headed households with children below the age of 20 years and households containing adults who are permanently out of the labour market.
- Land ownership registration processes in municipalities, where informal settlements are located in developable areas.
- The provision of infrastructure in areas with the potential for self-build housing

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