Affordable housing backlog: What else can be done?

By Oupa Masilela

26 Sep 2016

Providing dignified housing is one of South Africa's greatest challenges, but it's being made harder by a slow economy. The problem is also aggravated by unemployment levels and inflation hikes, which threaten the disposable income levels of consumers.

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The abovementioned conditions make it difficult to fund the 1.5-million new housing opportunities targeted by the Department of Human Settlements for delivery by 2019. According to the latest information from Statistics SA, the percentage of households living in informal dwellings only marginally decreased from 13.6% to 13.1% between 2002 and 2014.

This delivery target follows the National Human Settlements Indaba held in October 2014 where a Social Contract for the Development of Sustainable Human Settlements was signed with Human Settlements stakeholders, which included banks, major employers, private affordable housing developers and government agencies.

The contribution of all stakeholders was estimated to be over R250bn by 2019, but other numbers paint a bleaker picture; Africa Check reports "a Financial and Fiscal Commission investigation into the housing situation estimated it would cost government about R800bn to eradicate the housing backlog by 2020".

Increasing urbanisation has put a strain on the demand for and rate of housing delivery, with an estimated annual housing backlog of 140,000. This figure increased to 178,000 units a year following 1994, however delivery levels have fluctuated with some as high as 235,000 in 1998 and 1999, according to Africa Check's research.

What else can be done?

Minister of Human Settlements Lindiwe Sisulu has suggested myriad solutions to eradicate the backlog, including serviced sites, guarantees by employers for workers to access housing finance and employers buying start-up houses for employees. As good as these are, the biggest challenge facing financiers and government entities is the capital required to create capacity for demand. The government itself is taking immense strain to keep its budget afloat as the slow economic conditions continue to bite.

Looking at past trends, it is evident that mortgage financing cannot be relied on as the only solution in terms of raising the capital needed by consumers to purchase houses or deal with the housing backlogs. Alternative housing solutions should be explored.

Gap housing

The "gap market" describes the shortfall between residential units supplied by the state and houses delivered by the private sector. It comprises people who earn between R3,500 and R15,000 per month - not enough to participate in the private market, yet too much to qualify for state subsidised houses. This problem needs to be addressed, and it requires collaboration between all stakeholders.

Rental model: multi-properties ownership

In the affordable market sector, most consumers do not qualify for mortgage financing due to reasons such as affordability and impaired credit record, so there is a need for improved access to rental space or broader social housing initiatives. According to the General Household Survey Data, renting in informal dwellings increased from 18.5% in 2012 to 32.6% in 2014.

Essentially, a joint solution is needed to achieve more dignified housing for those who still remain without a place to call home, however this would not always entail home ownership. A joint private-public partnership solution can be explored, which could include a product model supported by the banks and tax benefits. This will promote a multi-properties ownership, improving the capacity required to meet housing demands, but it would need to be supported by all stakeholders and underpinned by the national housing policy. The product could include education, regulation and a savings arm (i.e. tax/vat rebates if savings are achieved).

Affordability

Buyer's subsidy and/or incentive

Following consultation with banks and other financial institutions, FLISP was introduced in 2012 to assist households earning between R3,501 and R15,000 a month. Positive traction has been achieved, however there is still an opportunity to reach the broader consumers in the affordable housing market.

Given the execution challenges banks experience when taking into account the FLISP amount as a deposit to reduce the capital required and improve affordability, a different subsidy model should be considered to augment the existing one. One of those is the introduction of a VAT-free incentive subsidy to all new home owners/applicants meeting gap-market criteria. This will reduce the cost of capital, incentivise first-time home ownership, and improve house financing and affordability as the required capital to fund the loan will be reduced.

Customer credit rehabilitation

One of the key challenges that hinder progress in the delivery of mortgage financing is the fact that half of the five million people in the country who can borrow money to buy a house have impaired credit records. Furthermore, up to 60% of the other half does not meet affordability criteria. As a result, approval rate for loans only ranges between 30-35%.

It is in the bank's interest to create an environment for people who can afford homes to be able to take the step. More so, the bank will drive the development of alternative mortgage lending solutions in partnership with other stakeholders. Various mediums will be explored - be it through consumer education or support of an incentivised product.

The success of alternatives is reliant on all stakeholders working together towards a more immediate solution to the current crisis. The solution will be a multi-faceted one that would, for example, consider how debt could be consolidated, how the indebted would be rehabilitated and how savings will be encouraged.

The challenge at hand is huge, the tasks are vast, yet partnering is the best solution.

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