

Mind the gap

The key to making a dent in the housing ‘gap market’ is a mix of public and private-sector participation – and clever planning, suggests Trevor Crighton

THE BENEFITS OF HOUSING GO WELL BEYOND THE SHELTER ARGUMENT AND HAVE BROADER IMPLICATIONS FOR THE MACRO-ECONOMY AND SOCIAL GRANTS.

Millions of South Africans have fallen through the cracks of the government's development plans in the space of the last 20 years – and none more so than those deemed “not poor enough” to qualify for RDP housing, but who also don't earn enough to qualify for loans for starter homes.

This “gap market” – characterised by those earning more than the R3 500 per month threshold for social housing, but unable to afford a bond on a typical R350 000 bottom-end home – was identified as far back as 2007, leading to the introduction of the Finance Linked Individual Subsidy Programme (FLISP). The purpose of FLISP was to provide a subsidy to reduce the loan amount that such households required to make the step up, into ownership of homes at the bottom end of the bonded market. The programme seems to have stalled because the subsidies haven't kept pace with inflation, the government has been unable

to increase the number of available subsidies due to a focus on free housing provision, and the Department of Human Settlements has capped the purchase price of a “gap market” home at R300 000, which is, in effect, below the cost of the average starter home.

Human Settlements Minister Lindiwe Sisulu is attempting to deal with the shortfall in her “100 Days” plan, part of which addresses the need for the provision of up to 1.5 million homes in the “gap market” segment, which should be delivered over the course of the next five years. The hope is that all parties will emerge from the Human Settlements Indaba, in October, with a “Social Contract” that outlines a partnership between government and the private sector, to address the problem.

Francois Viruly, associate professor in the Department of Construction Economics and Management at the University of Cape Town, believes the provision of housing in the “gap market” is set to become the country's biggest housing problem. “There is already a shortfall in the gap housing





B LOW-COST HOUSING

Redevelopment is a vital step in providing enough housing in South Africa.

market, and pressure is rising in the public sector to find mechanisms which solve that problem,” he says. Viruly’s research indicates that the shortfall could already be nearer the two million mark – and is only set to grow. “Government does have a role to play in servicing this market, but it’s becoming increasingly clear that the housing story in South Africa can never be completely delivered by the public sector,” says Viruly. “The demand is such that people will have to start building their own homes, and the private sector will have to play a part in this. Policy needs to be put in place for the private sector to be incentivised. We need to target developers.”

Viruly defines the South African housing problem in terms of a “40x40x40x40” measurement. “We’ve been building 40m² homes, 40km from where people work, where they spend 40% of their income on transport and probably live in communities where 40% of people are unemployed,” he says. “A large institutional investor like a pension fund won’t go and buy units in

that kind of market. The type of housing we’ve been producing doesn’t lend itself to intervention by private-sector investments. You have to create the right climate to convince the private sector to invest. Things like the Prevention of Illegal Eviction (PIE) Act make it very difficult for certain players to enter into the market. An enabling environment needs to be created.”

The Gauteng Partnership Fund (GPF) is one entity established to help to resuscitate the social housing market and the affordable housing chain in Gauteng – something Viruly believes is vital in transforming the market. Since 2002, the GPF has broadened its scope, but still has, as a core function, the leveraging of strategic private partnerships to develop affordable housing opportunities. “It’s important that the state has a broader role to play, to ensure that the housing ladder functions and that the escalator moves up, allowing people to move with it,” says Viruly. “At the moment, we have problems in that there are certain rungs missing in the ladder. There is no single solution – each gap has

its own characteristics. The ladder is also not just an ownership ladder – it’s a bit of a helix, with rental woven into it. People don’t move straight from an RDP home and look to buy – they rent, before moving up to purchasing a home. This means we also need to have a focus on rental policy, which is a way of bridging the gap. We need to find a mechanism to help people move out and move up.”

The Trust for Urban Housing Finance (TUHF) has made a huge contribution to the financing of rental housing in South Africa. TUHF supports previously disadvantaged entrepreneurs who are interested in securing finance to develop inner-city properties and make them available for rental. TUHF also supports refurbishment projects and assists with bridging loans to help entrepreneurs – all with a focus on inner-city development. Its focus is on financing projects between R100 000 and R30 million, covering a wide spectrum of housing opportunities.

Viruly sees redevelopment as a vital step in providing enough affordable ▶



homes for South Africans – possibly more so than building new developments. “You can argue that one of the most successful delivery areas in the country has been Hillbrow in Johannesburg. In housing economics it’s called filtering, where one income group moves out and another moves in,” he says. “The success of this area has been determined by the presence of an appropriate social infrastructure. Different groups have different needs and it’s important to facilitate these, alongside developing the residential structures themselves.”

While he advocates the “retro-fitting” of certain suburbs, Viruly is also realistic about new developments. “Take the Selby area in Johannesburg as an example – there’s a case for saying that the area alongside the M2 highway could be completely razed and redeveloped with affordable housing in mind,” he says.

“We need to see the bigger picture – taking office nodes and changing them to residential nodes only becomes successful if you build schools and the infrastructure that people need.”

Viruly dismisses the role of “red tape” elements such as the Financial Intelligence Centre Act (FICA) and the National Credit Act (NCA) in dissuading ordinary South Africans from entering the housing market. “None of my research has indicated that people struggle with the concept of securing finance for a home,” he says. “Some of them may not fully understand the terms or the fine print, but since the NCA has made provision for simplicity and clarity, the bigger picture is far clearer.”

He cautions against oversimplifying or dumbing-down of loans – on both sides of the fence. “The sub-prime problem in the US came about as a result of NINJA loans

– No Income, No Job and Assetless. It’s vital to maintain the balance,” he says. While the public and private sectors grapple with ways to supply and fund the “gap market”, there are alternative ways of funding which have found success in other countries. In some parts of Asia, Housing Provident Funds are mandatory. From the day citizens earn their first pay cheque, a portion is deducted and put towards saving for housing. The Housing Provident Fund, in effect, delivers a deposit on a first home. In the US, the banks guarantee mortgages. In Brazil, 15% of companies’ wage bills are taxed, and that money is put straight into providing housing.

In South Africa, the Financial Sector Code saw R50 billion put aside by the banking sector to get involved in the affordable housing sector, at the request of government. “The banking sector will argue that they want to get involved – it’s in their interests to be able to service home loans – but there are very



GOVERNMENT DOES HAVE A ROLE TO PLAY IN SERVICING THIS MARKET, BUT IT'S BECOMING INCREASINGLY CLEAR THAT THE HOUSING STORY IN SOUTH AFRICA CAN NEVER BE COMPLETELY DELIVERED BY THE PUBLIC SECTOR.



few appropriate projects coming their way," says Viruly.

FNB Housing Finance CEO Marius Marais told Moneyweb there are very few housing units available for under R300 000, all-inclusive of cost. "If some-thing can be done to provide these households with housing, it would have a tremendous effect on the economy," says Marais. "It would have huge implications, especially around job creation."

He says that for every 45m² unit that is built, there's a direct economic job creation impact of 200 workdays. "On top of that, there is also indirect job creation through the suppliers of the materials. The developers are also trying to use more and more local labour," he says, adding that skills transfer is encouraged.

Viruly says the benefits of housing go beyond even that. "An IHS study proved that the biggest benefit of people moving

to social housing is an improvement in overall health," he says. "The benefits of housing go well beyond the shelter argument and have broader implications for the macro-economy and social grants."

Housing plays three roles in society, according to Viruly. "The first is shelter – providing a roof over your head, and for your family. The second is economic – people live in an area because they can generate an income there, whether they travel to work every day or work from home. The third is the 'house as a financial asset'. For many households, their sole asset is their home," he says. "That said, for some households at the lower end of the market, a house is just a shelter. If you don't have your title deed, it's not an asset and you can't use it as collateral. The important thing is creating housing which tries to meet all three objectives." So what's the answer? Viruly says freeing up access

to land and getting the private sector involved in high-density developments will go a long way towards easing access to the home-ownership market. "While we need the private sector to invest in mixed-use areas to establish communities, we also need the state to come to the party with land."

"If we're looking beyond the 40x40x40 rule in areas far from where people work, we don't need high-density housing. But maybe we should be looking to shift that to 20x20 – building 20m² apartments, 20km from where people work, so that they can avoid spending as much as 40% of their income on transport," he says.

"To make that happen, we need a level of intervention from the government in terms of making land available. We're stuck with complex, difficult processes in the public and private sectors, and I don't think we're handling that very well at the moment." ■