

# Housing subsidies in SA



**FINMARK TRUST**

MAKING FINANCIAL MARKETS WORK FOR THE POOR

# Background: 1994 housing challenge

- Low levels of income (1994 Housing White paper estimates)

Income category	Percentage	Number households
>R3501	13,9%	1,15m
R2500-R3500	5,6%	0,46m
R1500-R2500	11,8%	0,98m
R800-R1500	29,0%	2,42m
R0-R800	39,7%	3,30m
Total	100%	8,3m

- Duplicated and poorly targeted subsidies
- Lack of end-user finance
  - Lack of appropriate retail lending capacity
  - Reluctance of formal financial institutions to lend in certain areas and to certain groups

- Socio-political and environmental issues

- High expectations
- Lack of consumer protection
- Poor consumer education
- Low levels of household expenditure dedicated to housing (est. 9% - Mayo)
- Limited perceptions of housing: especially as an investment
- Non-payment
- Crime and violence
- Other issues, such as traditional tenure

# Background: Housing White Paper solutions

## Stabilising the housing environment

- Based on the Record of Understanding and New Deal agreed to between the government and the formal banking sector
- Focused on political risk
- Established:
  - **Masakhane Campaign**
  - **Mortgage Indemnity Fund**
  - **Servcon & Thubelisha Homes**
  - **NHBRC**
- Goals:
  - Resumption of lending by the banks: est. 100 000 loans per year
  - Normalized environment in which clients pay for services received

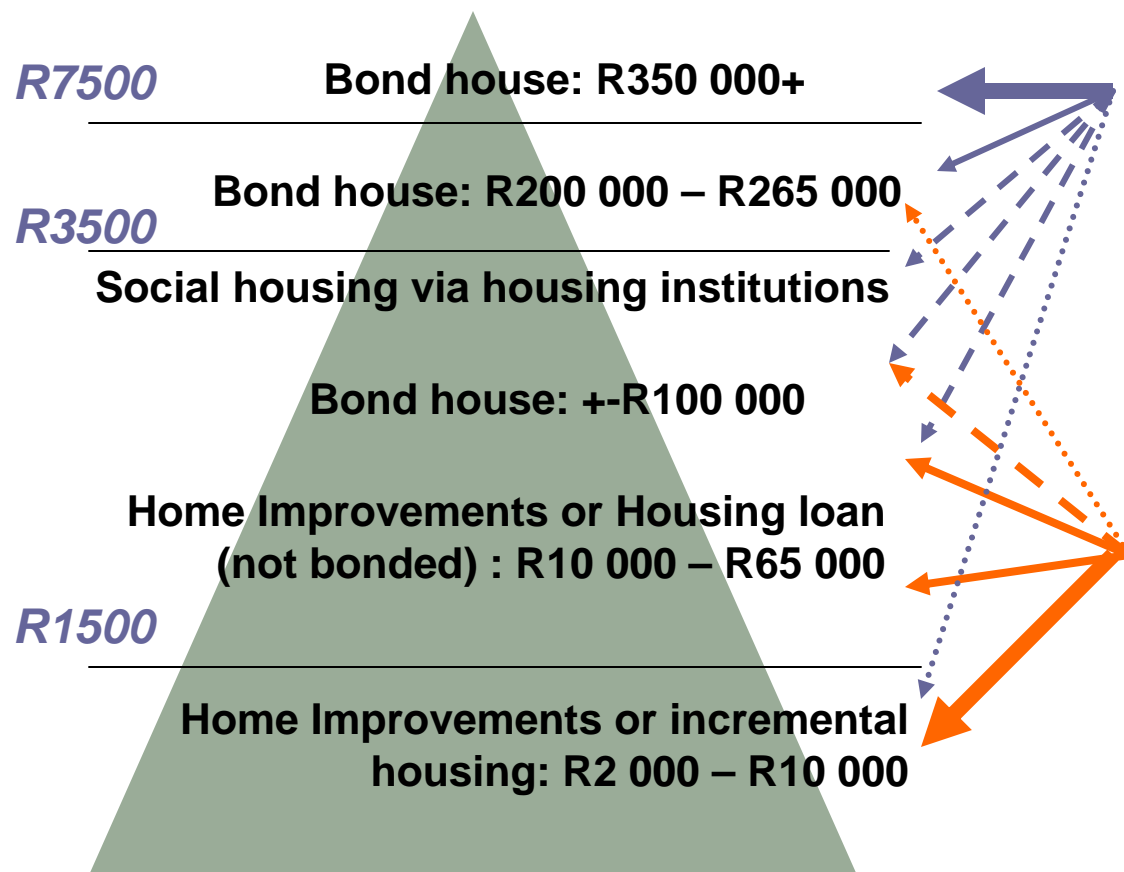
## Mobilising credit

- Focused on commercial risk
- Involves various risk sharing initiatives
- Established:
  - **NHFC and later RHLF**
  - **Nurcha**
  - **SHF**
- Goals:
  - Increased number of financial intermediaries to provide credit to low income households
  - Formal banks to come back 'down market'

## Housing subsidies

- Focused on affordability
- Established:
  - **Project-linked (Individual)**
  - **Rental (institutional)**
  - **Self-build (PHP)**
  - **2005: FLISP**
- Goals:
  - 1 million in 5 years
  - Linkage with credit to enhance affordability and improve quality (size) of housing product

# Players & Products: Market focus



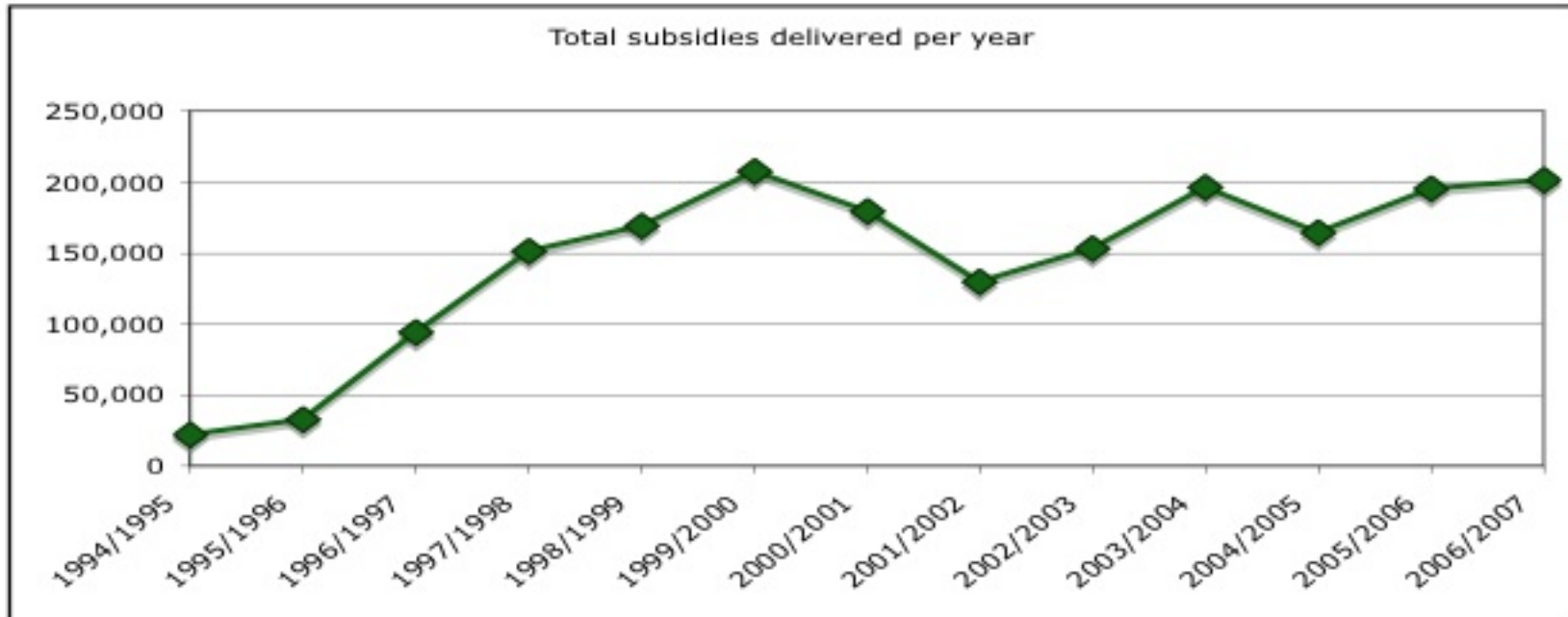
## Bank focus:

- Moderate income
- Payroll deductible
- Preferred debit order
- Pension-provident secured
- Mortgage
- New housing & secondary (PIPs)
- Social housing

## Housing lender focus:

- Low-moderate income
- Payroll deductible / pension
- Debit order (not preferred)
- Some mortgage / PP
- Unsecured
- Incremental housing
- New housing & secondary (PIPs)

**Figure 3 Total subsidies completed or under construction, 1994-2007**



According to the Community Survey (2007), “today is better than yesterday”

- Over 70% of households now live in formal dwellings. This reflects a steady increase, from 64,4% in 1996 to 68,5% in 2001, and now 70,5% in 2007.
- Between 1996 and 2007, the percentage of households living in informal dwellings decreased from 16% to 14,5% (a slight increase was seen in 2001, when the percentage was 16,4%).
- The proportion of households living in traditional dwellings has decreased steadily from 18,2% in 1996 to 14,8% in 2001 and 11,7% in 2007.
- Use of electricity as the main energy source for lighting increased substantially between 1996 and 2007 (from 57,6% in 1996 to 80,0% in 2007).
- The percentage of households with access to piped water increased from 84,5% in 2001 to 88,6% in 2007, and this increase was spread across all nine provinces.

# Evolution of the subsidy: RDP to BNG



## ■ House

- 30m<sup>2</sup> single room, separate toilet, single washbasin in kitchen, no ceiling, steel door
- 250m<sup>2</sup> property, graded gravel roads, high mast lighting

## ■ Settlement

- Fully subsidised development of 500+ houses
- Generally on outskirts

## ■ Cost & financing

- House awarded to subsidy beneficiaries for free
- Housing subsidy amount R15 000 in 1994; R38 940 in 2007
- Some municipal contribution to settlements

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## ■ House

- 40m<sup>2</sup> house with 2 bedrooms, toilet with own washbasin, kitchen with washbasin, wooden front door, roof tiles and fascia boards
- 250m<sup>2</sup> property, paved roads, underground electrical connection

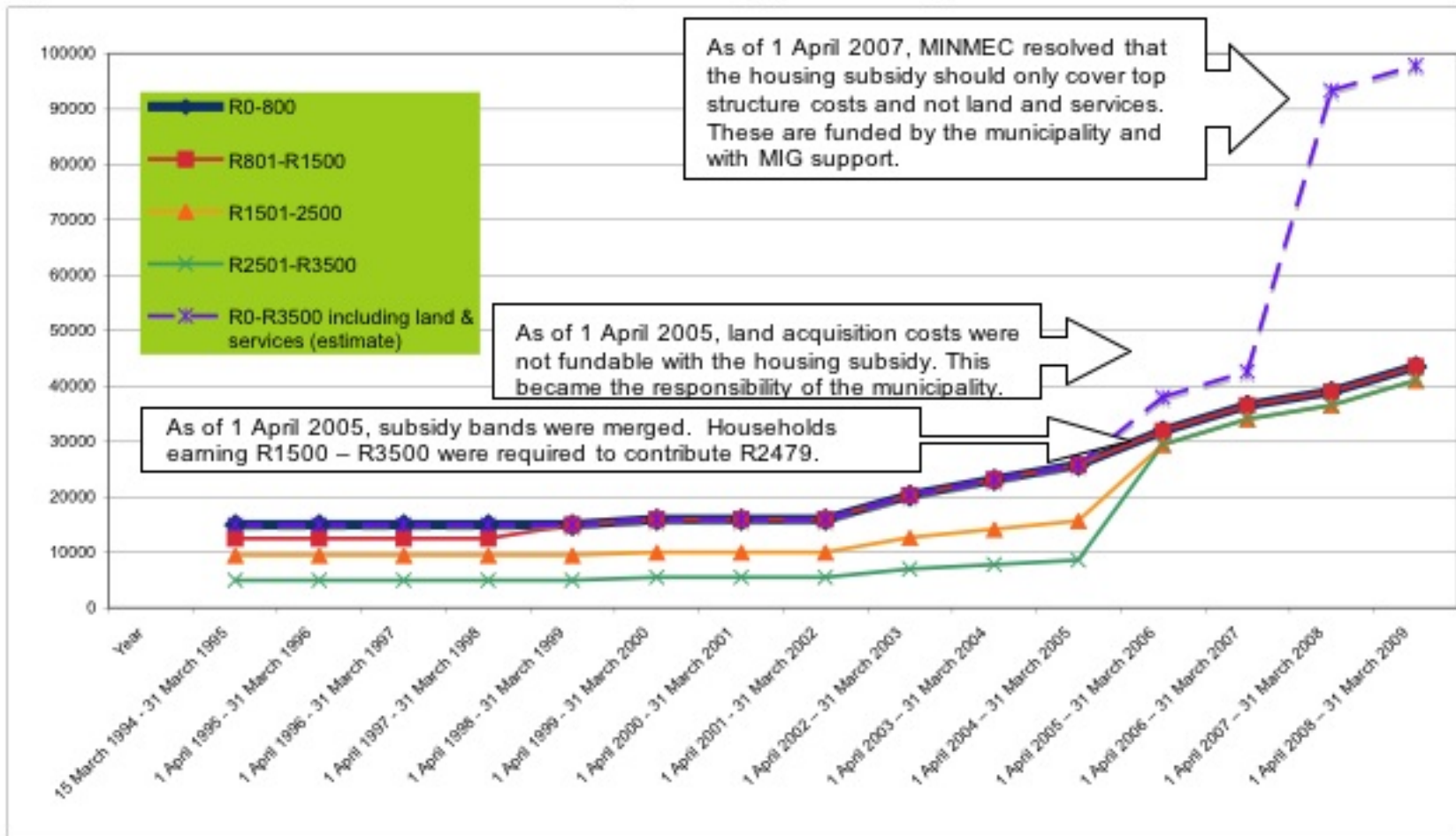
## ■ Settlement

- Socio-economic integration
- Well-located

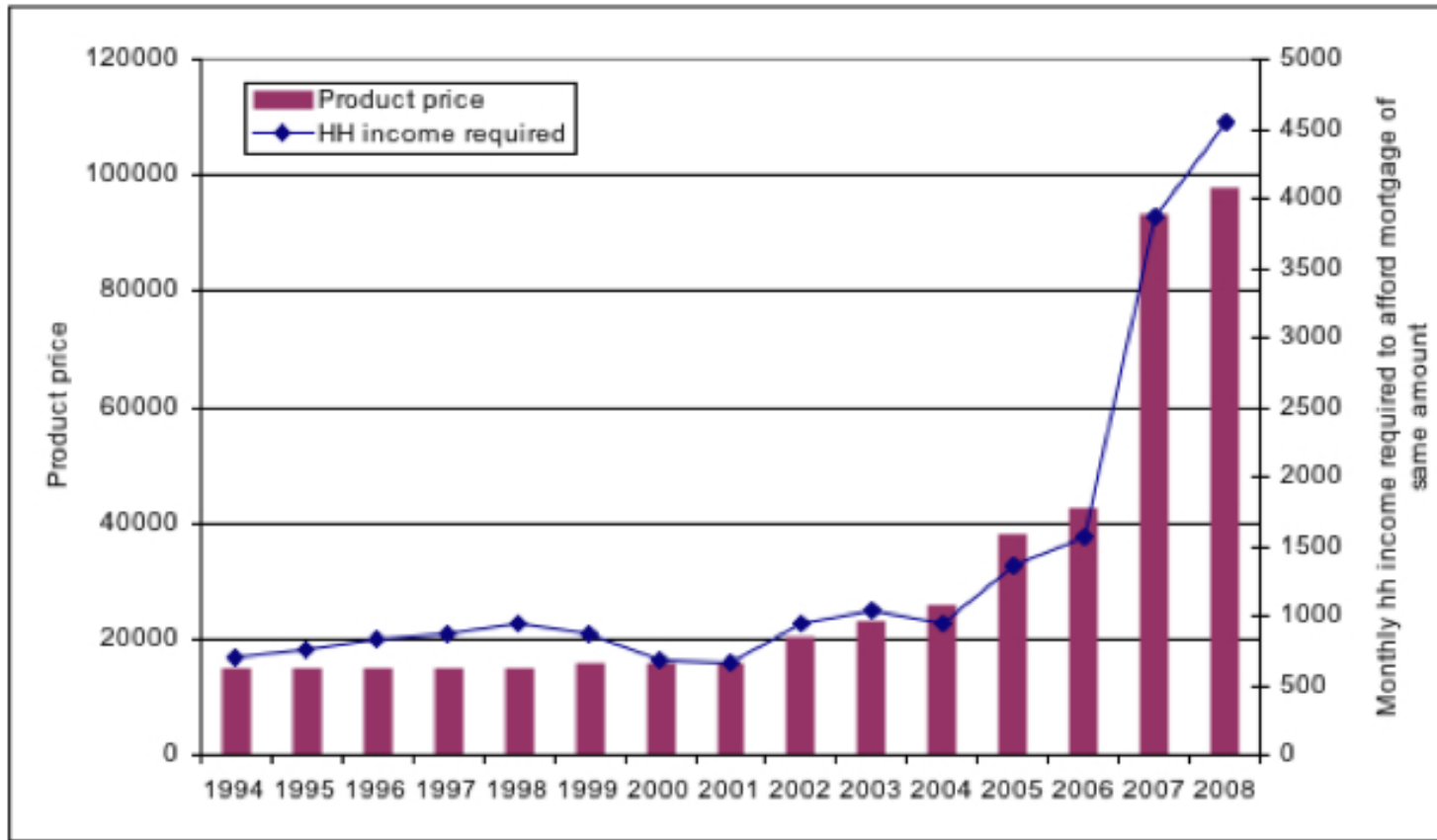
## ■ Cost & financing

- House awarded to subsidy beneficiaries for free.
- Housing subsidy amount R38 940 + land + services

# Quantum of the subsidy

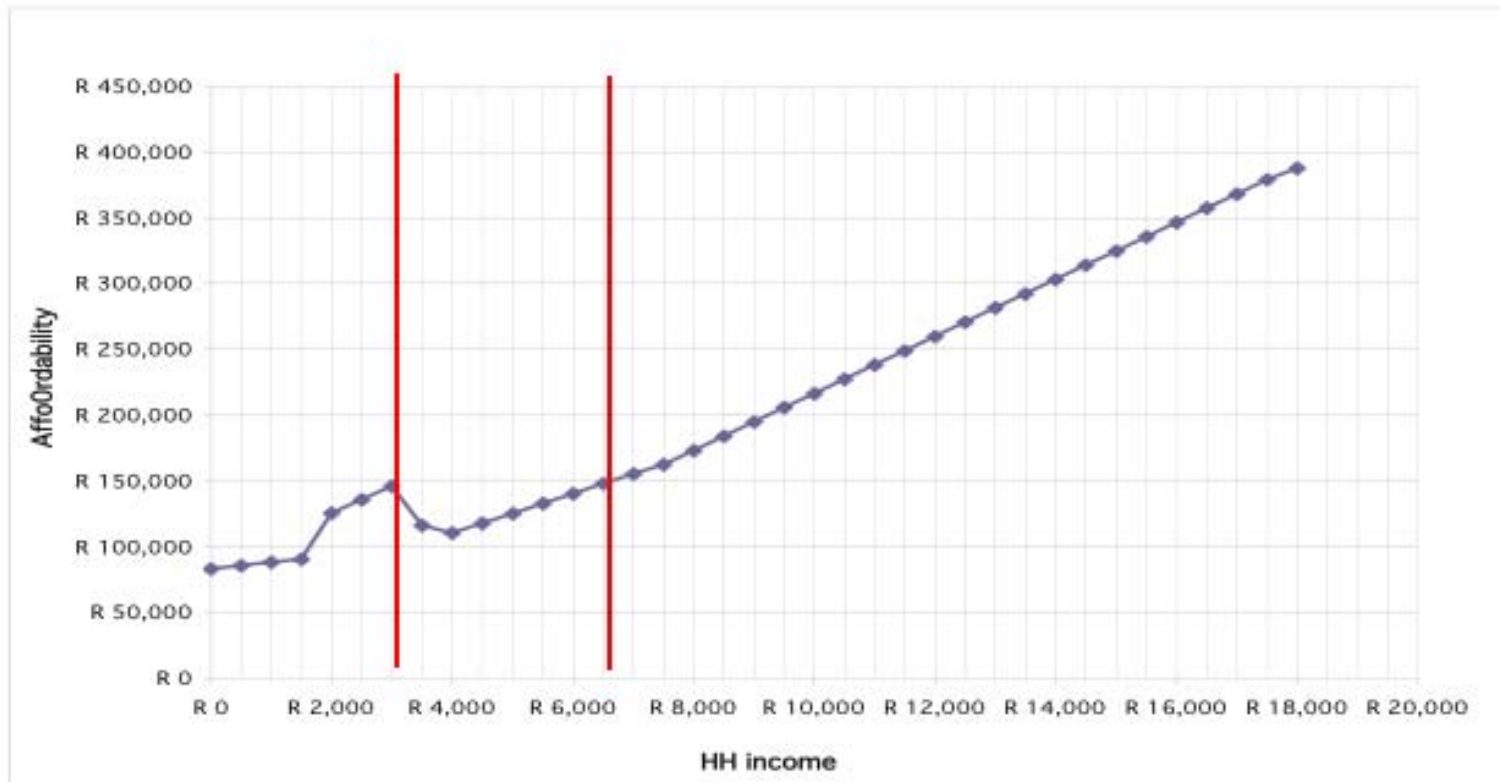


# HH income required to afford mortgages of the same amount



households earning between R3500 and about R4500 who are not eligible for the subsidy cannot afford to buy the same house that households earning less than R3500 receive for free

# Housing affordability vs. hh income



Households earning between R3500 and R6100 have a lower housing affordability than those earning between R1800 and R3500, given the availability of housing finance alongside the housing subsidy.

# Conclusion: outcomes of finance interventions

