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Gordhan's R1bn for housing is just a band-aid

JABULANI SIKHAKHANE PUBLISHED: 2010/02/22 06:28:23 A

THE R1bn that Finance Minister Pravin Gordhan has set aside for the establishment of a housing finance guarantee scheme for people earning between R3000 and R9000 a month is unlikely to crack the problem of affordable housing in SA.

Jabulani Sikhakhane

mabheki65@mweb.co.za

This is because access to finance for this market is not the key problem; the availability and cost of housing units is. The government has yet to explain how it intends dealing with these two critical challenges.

Gordhan said in his budget speech last Wednesday there was a key gap in the housing market where middle-income people were finding it difficult to get mortgage finance. The government had therefore set aside R1bn to create a guarantee scheme to reduce the risk to banks for lending to people who earn between R3000 and R9000 a month. People in this income band often found that they earned too much to qualify for a state housing subsidy, but not enough to meet the criteria set by banks.

Gordhan's announcement misses the crux of the problem in the affordable housing market, where banks have been lending successfully over the past six years in terms of their financial sector charter commitments.

The experience of banks during this period shows access to finance is not the major problem. Banks committed in terms of the financial sector charter to finance R42bn worth of affordable housing between 2004 and 2008. They exceeded the target, pumping R53bn into the housing market, an investment that benefited 1,4-million families, Banking Association of SA statistics show.

But only a small portion of the R53bn went to finance new homes; the bulk went to alterations and improvements to existing homes. The reason banks financed only 110000 new homes was a shortage in the supply of suitable, affordable housing stock.

The report, commissioned by the association from Matthew Nell & Associates, points out that the affordable housing market is constrained by processes that are complex and high-risk, resulting in time delays, increased costs, uncertainty and limited supply of housing units.

The most significant constraints relate to the proclamation of land for housing development, transfers of land ownership, as well as the transfer of properties in the secondary market.

The report, which was published in 2005, explains that the blockage in the proclamation and servicing of land is caused by a lack of access to well-located and reasonably priced land, serious delays in the land proclamation and servicing process generally due to lack of capacity in municipalities, a transparent and consultative processes (especially in terms of environmental provisions), and lack of bulk services capacity.

The delays and the high risks associated with affordable housing have resulted in many developers withdrawing from this market. A whole range of other problems cited by Nell & Associates relate to government process and regulations.

The Banking Association of SA's 2008 annual report also cites the high cost of labour and building materials as contributory factors. "Given the acute primary market housing shortage, the association commissioned three research studies in 2008 to determine the drivers of building costs (escalating well ahead of inflation) and to evaluate market distortions created by the government's capital subsidy programme. The outcome of these findings is expected to be a useful tool in engaging with the Department of Housing to review some areas of government's subsidy policy," wrote Cas Coovadia, the association's CEO.

The blockages in the affordable housing market have serious implications for government housing initiatives, especially in the so-called RDP housing area.

The association estimates that only 5% of the 700000 families who meet the criteria of the affordable housing market definition qualify for a new home priced at an average R240000 in 2008.

To qualify for a bank loan, these families would need to earn more than R11000 a month, also based on 2008 statistics.

Having been priced out of the affordable housing market, these families have no option but to move lower, where they are likely to squeeze the poor out of the RDP housing segment. There is evidence of this happening across the country, where what is billed as an RDP housing development is suddenly taken over by families who, based on their income and lifestyle, should not be there. They get into these developments because they can afford to pay bribes.

So, if access to finance — as the financial sector charter experience shows — isn't the key blockage, I doubt that putting R1bn on the table is the solution.

The problem and the solution lie with the government and its processes.

n Sikhakhane is editor-in-chief of Destiny Man and a freelance writer.