

Incremental housing: The key to the housing challenge & a call for responsive housing finance instruments

Blog

Access to affordable housing is not a challenge limited to the poor, unemployed and households who depend on social grants for survival. It cuts across income groups - even working professionals such as nurses, teachers, police officers and the young professionals, who are potential new homeowners. Some might argue that, if one cannot afford to own a home - then there is plenty of rental stock in the market! There are also various government programmes such as the FLISP that are useful tools to assist low to middle income earners to purchase homes; and the RDP housing for those who can't afford to rent or buy... Problem solved!

It's not that simple! In this blog we use narratives of everyday low to middle income South Africans to highlight the challenges faced by these income groups in attempts to access affordable housing; briefly review normal solutions available to this market segment and finally we draw on this month's thought piece - and direct the conversation to financial institutions and property developments, calling for a response market. A market that takes hold of incremental housing, provides financial instruments for the present-day market.

The story of the low-income household

Let's start with housing for low income earners, these are individuals earning at or below the minimum wage of R3500 per month. They are likely to be migrant workers, dwelling in backyard rooms, hostels and informal settlements - all three of which are insecure housing in that the tenant doesn't have secure ownership of the space they live in; nor do they have enough liberty to alter it to suit their growing needs. It is very important to note that in the context of a developing country such as South Africa,

informal settlement dwellers are not entirely economically inactive individuals, but many are employed within casual labour earning between an informal to low income. For example, these include street hawkers, on the go handyman, domestic workers, construction workers etc. Some own the structure they live in, while others pay a nominal rent usually around ~R500. With the formal affordable housing supply coming out at the ranges between R400k – R799k, how do we go about ensuring that these segment of the market, secure tenure, a home with quality structure, that has potential to be developed with the household's growing needs? A McKensey 2014 report offered a blueprint toolkit that could offer a solution to the challenge of affordable housing delivery.

Box 1: Blueprint for Affordable Housing (Mckensey Global Institute, 2014)

Set policy at the city level. Clearly there are universal factors (and solutions) in the affordable housing challenge. But every city is a unique market, with its own land market characteristics, economic issues, demographics, housing stock, and regulations. Policy can succeed only if it is based on a detailed understanding of the city where it is to be implemented.

Funding follows function. Too often a narrow view of the options to provide housing leads to the assumption that funding gaps—due to insufficient public resources—preclude action. Thinking more broadly about what can be done across the housing ladder can help cities identify other sources of funding.

Focus on location. Nothing can overcome the problems caused by housing in the wrong location. There must be access to employment, education, and social resources.

Make employment and socioeconomic integration priorities. Providing a clean, decent place to live can relieve suffering and improve health. Creating housing where residents can connect to employment and social services enables poor citizens to climb the socioeconomic ladder

Enable housing for all. Housing policies that focus solely on building units to house the poorer segments of the population miss a larger opportunity. Making it more efficient to build and operate housing across the city can benefit all segments, including by making old stock available for different kinds of households.

Design an integrated approach. To achieve significant results, cities need an integrated approach that coordinates policy and initiatives in multiple areas: land, development, operations, and finance.

Encourage efficiencies across the housing value chain. The better the housing sector functions, the better the chances are that the city can close its affordable housing gap. Measures such as certifying builders and maintenance services can raise standards, increase transparency, and promote healthy competition.

Empower communities. Ultimately, successful housing policy is about building and strengthening communities. Involving community members in critical decision processes and generating grassroots demand and support for housing initiatives can lead to better outcomes.

Source: Mckensey Global Institute, 2014 (<https://www.mckinsey.com/featured-insights/urbanization/tackling-the-worlds-affordable-housing-challenge>)

Firstly, in the case of South Africa the blueprint could have played a significant role if our institutions had the capacity at the point of implementation of our housing policy. Focusing back on the options to the informal to low income household options, the first option would be the free government housing (RDP housing). However, the limitation is that it can take years from the time when one applies for the house to when they are receiving it (see Fig.1). There are a plethora of reasons for these delays, e.g. government tendering processes which rightfully need to go through a thorough process of due diligence, negotiations of resettlement in cases where the identified land for the housing is occupied, corruption, challenges in identifying rightful recipients of the house (as you know people also pay rent in informal settlements) as well as challenges of issuing and delivering title deeds once the houses are built. Lastly, the challenge of the household's proximity to amenities, areas of work and recreation. Historically, in South Africa, low income housing has always been located in the outskirts of urban areas - presenting inhabitants with an additional financial strain of commuting to areas of economic activity.

What then? - well servicing informal settlements and bring security of tenure for inhabitants of informal settlements is essential. There are group up movements involved in the re-blocking of informal settlements across the country, so that communities which live in informal settlement can also have access to services such as waste removal, electrification and sanitation. It's a slow process, but it allows people to live closer to areas of work and offers them the pride of establishing their neighbourhood as well as their homes in a manner that fits their budgets. We will provide more information on this in next month's blog, along with what role we can see SAHIF play in this space.

Box 2: Criteria for Accessing RDP Housing

NB: To qualify for an RDP house you must meet the National Housing Subsidy Scheme criteria:

1. A South African citizen
2. Over 21 and mentally competent to sign a contract
3. Married or living with a partner, or single and have dependants (single military veterans or aged people without dependents also qualify)
4. Earn less than R3,500 per month per household (so if two people in your family earn and these earnings amount to more than R3,500 per month you will not qualify)
5. A first time government subsidy recipient
6. A first time home owner

Source: GroundUp News, 2019 (<https://www.groundup.org.za/qanda/75/>)

The single mother of two – casual worker in retail

Next category would be those who qualify for the FLISP market - earning from R3,500 to R22,000 (or R25,000 in some provinces). We reflect on a case of a single mom with two children working as a casual worker at a retail store or a fast food restaurant, with a monthly earning of just above R3,500 per month, her budget consist of groceries, transport, school fees, clothing and sends money home to elderly parents - to supplement the pension and help pay a stipend for the youngster who helps them

around the plot at home. If one takes a frugal person approach to this budget and adheres to the general guide that housing ought to cost you no more than 30% of your total income, then at most one would be spending R1,050 on rental, leaving the household with a mere R2,450 to cover the long list of needs referred to earlier. So theoretically this worker should qualify for a FLISP subsidy to supplement their mortgage. The likelihood of the single mother qualifying for this is slim - what then? Did you know that you can also leverage the FLISP to purchase serviced land as a self-build? Our single mom, can then purchase the stand, use alternative building material to erect a temporal structure and build the home she dreams of in incremental stages.

What is the qualification criteria to apply for a FLISP subsidy?

FLISP stands for Finance Linked Individual Subsidy Programme, it is a subsidy programme which was designed to enable individuals earning between R3501 to R22 000 to access the housing market. Through the FLISP, qualifying individuals can access the housing market through three key mechanisms:

(a) Raising capital via the traditional housing finance institutions (a bond) to purchase a home in a new development or a house that is being resold, and thereafter leverage the FLISP for a deposit (UCT- Nedbank Urban Real Estate Research Unit 2019).

qualifying beneficiaries can leverage the FLISP to access up to R45, 985 of funding towards the cost of the development of the serviced stand. Here too, beneficiaries can further expect to pay R1300 for transfers and administration.

(b) There are A-grade serviced sites that have been developed through the National Housing Programme: Integrated residential Development Programme. Individuals can leverage the FLISP to purchase these serviced stands. The maximum value that can be disbursed is R45, 985. Beneficiaries can further expect to pay R1,300 for transfers and administration. Availability of sites varies across provinces and municipalities depending available subsidies, projects planned for and the municipal/ provincial policy on allocation ((UCT- Nedbank Urban Real Estate Research Unit 2019).

You qualify for this subsidy if:

- You earn between R3 501 to R22 000.
- You are a South African citizen or have permanent residency in South Africa.
- You have not received a government housing subsidy before.
- You have not owned fixed residential property before.
- You are competent to contract - over 18 years.
- You are married or cohabiting.
- You are single with financial dependents.

(c) Individuals can also purchase serviced land via the private sector companies similar to SAHIF. Similar to land accessed through the National Housing Programme: Integrated residential Development Programme,

NB: Beneficiaries of FLISP for serviced land do not qualify for any further funding towards the building of the top structures.

If an applicant qualifies for the FLISP subsidy – what can it be used for?

The FLISP subsidy assists you to:

- Purchase an existing residential property for the first time.
- Purchase a vacant serviced residential stand (ie. plot) which is linked to house-building contracts. Builders must be registered with the National Home Builders Registration Council (NHBRC) or
- Build a new house with the assistance of a builder registered with the NHBRC, on a serviced residential stand (ie. plot) that you already own.

The nurse and teacher, and their 3 daughters + live in Grandmother

While the household earnings of this family, are slightly higher than the earlier examples - they too face challenges in access to housing in neighbourhoods that are close to their area of work and which are affordable. Similar to the example of the single mom, currently the FLISP programme would be the best approach - either to purchase a property in a new development or a resale. In both of the above cases, the lower your income, the more FLISP funding you qualify for. The table below illustrates how this works.

Table 1: Examples of how the FLISP subsidy can be applied (based on a 20 year loan repayment, 11.25% interest)

Home Loan Amount	Monthly home loan repayments without FLISP	FLISP subsidy amount	Your home loan amount stays the same	But your monthly home loan repayments decrease with FLISP
R150 000	R1 574	R141 341	R150 000	R1 200
R250 000	R2 623	R88 323	R250 000	R927
R350 000	R3 672	R38 367	R350 000	R402

Source: Centre for Affordable Housing in Africa, 2019 (<http://housingfinanceafrica.org/documents/flisp-answering-your-questions/>)

We cannot speak about the demand side of housing without touching on supply side. How does the supply side respond to the need? Developers and housing financial institutions need to take into consideration the needs of the different market segments and develop programmes and financial instruments that enable individuals to build according to their own financial capability. *From the perspective of the developers, see this month's thought piece for examples of successful incremental housing and consider how you can begin to design housing that is aligned to the incremental housing approach.* Landowners who are socially aware, and desire to contribute to the delivery of housing - consider selling your piece of land in smaller serviced pockets allowing individuals to purchase them to build their homes or sell to housing cooperatives which can facilitate self-building.

The table below gives some highlights of affordable housing delivered using FLISP .

Table 2: Housing Delivery Models Related to All FLISP Projects

	Government led mixed income projects and upgrading projects	Public land release proposals to private sector developer	Market led
Site financing	Urban service Development Grant (USDG)/ Human Settlement Development Grant (HSDG) ⁴ funding used for site servicing. Serviced sites for FLISP mortgage beneficiaries and market housing sold to developer at cost. Sites transferred directly to the FLISP beneficiaries.	The developer raises project funding to service the sites and recoups costs via the purchase price.	The developer raises project funding to service the sites and recoups costs via purchase price.
Who undertakes the site servicing	The appointed turnkey developer/civil contractor.	Developer	Developer
Top structure financing	Recipient of the FLISP serviced subsidy raises own top structure finance. With regards to the mortgage-linked FLISP subsidy beneficiaries, the top structure contractor raises the project costs via the purchase price.	Developer raises the project finance necessary to develop the top structures and recoups costs via purchase price.	Developer raises the project finance necessary to develop the top structure and recoups costs via purchase price.
Top structure construction	Property owner (lower gaps serviced site recipient)/Appointed developer/implementing agent (FLISP mortgage beneficiaries).	Developer	Developer

Source: UCT – Nedbank Urban Real Estate Research Unit, 2019 (<http://www.ureru.uct.ac.za/ureru/publications>)