



Western Cape  
Government



## Living Cape: Establishing Sustainable Human Settlements FuturesCape Policy Research Paper

*A policy research paper produced by the Department of the Premier's Chief Directorate: Policy and Strategy as part of the FuturesCape Project in collaboration with:*



## About this project

The FuturesCape Project is a collaboration between the Western Cape Government and the African Futures Project, which is a partnership between the Institute for Security Studies and the Frederick S. Pardee Center for International Futures. The purpose of the FuturesCape Project is to provide key decision makers in the Western Cape Government with tools to inform their strategic decisions and shape reasonable expectations of long-term development policies. This brief is the fourth in a series to analyse trends and comparative policy options around the six transitions of the One Cape 2040.

OneCape 2040 sets out a vision of the Western Cape that is liveable and inclusive, a province where all residents are able to live in sustainable human settlements. This Living Cape policy brief looks at how demand for housing opportunities may change, and how different demographic and economic trends and policy interventions might affect that demand, thereby enabling or hindering the formation of sustainable human settlements.

This policy research paper is the fourth<sup>1</sup> in a series produced by the Western Cape Government's FuturesCape Project - in collaboration with the Institute for Security Studies and the Frederick S. Pardee Center for International Futures at the University of Denver - to analyse trends and comparative policy options around the six transitions of the One Cape 2040.<sup>2</sup> This policy paper focuses on the Living Cape transition of the One Cape 2040 document with a focus on low- and gap-income housing provision and potential policy options around this.

**While this paper explores policy options it does not constitute official policy of the Western Cape Government.**

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<sup>1</sup> The previous papers have focused on the Educating Cape, Enterprising Cape and Green Cape transitions.

<sup>2</sup> Can be retrieved at: [https://www.capetown.gov.za/en/IDP/Documents/OneCape\\_2040.pdf](https://www.capetown.gov.za/en/IDP/Documents/OneCape_2040.pdf)

# Contents

<b>About this project</b>	<b>i</b>
<b>Table of Contents</b>	<b>ii</b>
<b>Acronyms</b>	<b>iii</b>
<b>Executive Summary</b>	<b>1</b>
<b>Introduction</b>	<b>2</b>
The Transition to a Living Cape: housing policies and practice	3
Current housing situation	5
<b>Housing Futures</b>	<b>6</b>
Drivers of housing demand	6
Existing forecasts	6
Building an IFs-based housing model	7
<b>IFs Base Case Results</b>	<b>8</b>
Demographic trends	8
Economic trends	9
Housing demand forecasts	10
The impact of economic growth	12
<b>Alternative Scenarios of Housing Demand</b>	<b>14</b>
<b>Meeting Current and Future Housing Demand</b>	<b>18</b>
<b>Conclusions</b>	<b>22</b>
Summary of results	22
Policy implications	23
Collective effort	23
Supporting a young population in need	23
Diversify the product offering and manage costs	24
More efficient and effective land use is critical	24
Building partnerships	24
<b>Sources</b>	<b>25</b>

# Acronyms

<b>BNG</b>	Breaking New Ground
<b>FLISP</b>	Finance Linked Individual Subsidy Programme
<b>HSCP</b>	Human Settlement Coordination Project
<b>IRDP</b>	Integrated Residential Development Programme
<b>NDP</b>	National Development Plan
<b>PERO</b>	Provincial Economic Review and Outlook
<b>PHP</b>	People's Housing Process
<b>RDP</b>	Reconstruction and Development Programme
<b>UISP</b>	Upgrading Informal Settlements Programme
<b>WCDHS</b>	Western Cape Department of Human Settlements

# Executive Summary

The provision of fully subsidised housing remains the standard form of housing assistance in the Western Cape for low-income households. Recent experience, unfortunately, has been one of fast-growing demand for subsidised housing outstripping resource-limited supply, with ever-larger informal settlements the result. Despite this history, as the Western Cape continues to develop, many of the primary drivers of housing demand are beginning to weaken: birth rates are declining (potentially falling below replacement levels by the 2030s), the population is aging (with the median age rising from 28 to 34), urban population growth is slowing, and personal incomes are rising across the income spectrum. These changes could substantially reduce future demand for subsidised housing. This policy brief looks at how the number of households qualifying for housing opportunities under the current housing regime has changed over time and may continue to change into the future.

Under a Base Case future, which assumes no major policy changes or significant disruptions to current trends, the number of households qualifying for fully subsidised housing peaks in the mid-2030s – even if no new housing is built – at 415 000, only 11% more than in 2011 (compared to an 80% increase between 1996 and 2011) before declining slightly to 410 000 in 2040.<sup>3</sup> Unlike the demand for fully subsidised housing, the number of households in the lower housing gap is set to increase by 70% over the same period, reaching 183 000 by 2040.

Providing housing opportunities to all qualifying households, present and future, by 2040 would require the province to build at least 14 135 housing units each year for the next 25 years – a rate equivalent to the annual average built between 2004 and 2014; however, in the past five years, the province has only averaged 12 884 units per year. The province will also need to distribute at least 2 600 lower housing gap subsidies per year over the same period. Together, the required housing units and subsidies will cost the province R3.6 billion per year – equivalent to 8% of the province's total revenue in 2013 or roughly 90% more than the province's 2013/14 budget for housing construction (R1.9 billion).

However, the reality of limited budgets and increasing building costs, among other constraints, will make it difficult for the province to maintain the required pace of housing provision, even in a Base Case of slowing demand. Under such constraints – a housing budget capped at R1.9 billion in real 2013 rand and an annual increase in the real cost of housing construction – the province will only be able to build some 292 000 houses by 2040, leaving some 119 000 qualifying households unaddressed.

This policy brief, therefore, explores several sets of policy interventions,<sup>4</sup> each designed to reduce future need for subsidised housing opportunities by spurring faster and more inclusive economic growth, with each targeting a specific policy area: governance, education, infrastructure, and health. On their own, the education and governance interventions have the most significant impact – in terms of accelerating economic growth and improving income distribution in the province – increasing average annual economic growth to 4.8% and 4.6%, respectively (compared to 4.4% in the Base Case), and reducing the number of households in need of fully subsidised housing in 2040 by 11% and 8%.

Taken together, these various interventions reduce the number of households qualifying for fully subsidised housing to 304 000 in 2040, 19% (70 000) less than there were in 2011, largely because of an average annual GDP growth rate of 5.4%. Even in this Combined Intervention scenario, however, meeting total demand by 2040 will still require R2.6 billion per year (6% of 2013 provincial revenue) and potentially significantly more than that as the province faces increasing quality requirements and growing scarcity of land. The financial and logistical requirements for building several hundred thousand housing units under the current policy regime may prove insurmountable, even under this optimal scenario.

Thus, the macro-level interventions explored in this brief must be coupled with reforms to current housing policies that lessen the resource strain on the government, from promoting public-private partnerships, to stimulating contributions by households – reforms that will enable the province to not only provide housing opportunities to all of its residents, but also to move the province on a path towards sustainable human settlements. The concluding section of this brief provides an overview of these potential reforms.

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<sup>3</sup> Under the current housing regime, households must earn less than R3 500 per month and live in inadequate – informal or overcrowded – housing to qualify for fully subsidised housing.

<sup>4</sup> These interventions to decrease the future need for subsidised housing have their roots in the policy interventions of the previous FuturesCape Policy Briefs/Research Papers.

# Introduction

The form that housing provision would take in post-apartheid South Africa was the result of a negotiated settlement that was consolidated in the white paper on housing and the political undertakings identified in the Reconstruction and Development Programme (RDP). In this conception, each qualifying household – those earning less than R3 500 per month and living in inadequate housing<sup>5</sup> – was to receive a fully subsidised ‘RDP house’ that would be subsidised by the state and built by the private sector. Today, the provision of fully subsidised homes remains the standard form of housing assistance for those at the lowest levels of income, in the Western Cape and around the country. Unfortunately, the province’s recent experience with fully subsidised housing has been one of fast-growing demand outstripping resource-limited supply, resulting in an ever longer waiting list and ever-more households living in informal settlements. The increasing scarcity of well-located land, stricter housing standards and rising construction costs all point to the need for additional, and more sustainable, housing opportunities for the lowest-income households.

Despite government’s past travails, changing demographic and socioeconomic factors in the province may significantly reduce the growth in demand for fully subsidised housing in the future compared to what the recent past might suggest. These changes, coupled with more realistic and sustainable housing programmes, could enable the province to finally eliminate the current housing backlog and keep pace with future demand over several decades.

This policy brief looks at how the number of households qualifying for fully subsidised housing under the current housing regime has changed over time and may continue to change into the future; first, under a Base Case or business-as-usual future, where current policies continue and no major disruptions to current trends occur (see Box 1); and then under different sets of policy interventions designed to spur more inclusive development and thereby lower demand for housing. It also explores the growing need for lower housing gap market support as the growing provincial economy lifts more people out of the below-R3 500 income group.<sup>6</sup> While the exact mechanisms of support are likely to change over time, these two types of interventions provide a useful framework for evaluating housing demand in the future.

## *Box 1 The International Futures Base Case*

The International Futures System (IFs) Base Case is the baseline output of the full, integrated IFs system. It is an internally consistent, dynamic and non-linear forecast of the future and is not an extrapolation. The Base Case depicts a future that appears to be reasonable given no major systemic disruptions, such as radical shifts in technology (e.g. the development of fusion power) or sudden, discrete events such as a global pandemic.

This brief also goes two steps further: 1) it gives an overview of the recent history of how housing opportunities at national and provincial levels have changed over time and outlines some potential future policy directions; and 2) it explores the potential for different policy interventions designed to spur more inclusive development to manage the demand for housing opportunities. We begin by looking at how housing policies and practices in the Western Cape have evolved since 1994.

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<sup>5</sup> The term inadequate housing refers to informal dwellings – whether located in a backyard or informal settlement – and overcrowded formal dwellings.

<sup>6</sup> Lower housing gap households are those living in inadequate housing earning between R3 501 and R10 000 per month. Support currently takes the form of partial subsidies used to purchase existing homes.

# The Transition to a Living Cape: housing policies and practice

Access to safe, affordable housing in well-planned and well-situated communities is vital to the wellbeing of individual families and to society as a whole. For individual families, such housing provides more than just shelter; it provides a healthier, cleaner environment, a significant financial asset, and security of self, possessions and tenure.<sup>7</sup> For society, such communities can act as a catalyst for widespread economic empowerment and greater social cohesion, lessening racial and income inequality.

These societal and familial benefits are at the heart of the Western Cape's efforts to move the province's housing sector out from under the lingering shadow of apartheid, which saw many people relegated to informal settlements on the outskirts of society, and towards a Living Cape, where all of the province's residents to live in vibrant, safe, sustainable, and integrated human settlements, regardless of race or income.

While South Africa has employed a range of housing policies and instruments since 1994, the government's provision of a basic 'RDP house' – including purchasing land, securing tenure, and developing infrastructure, along with the basic top structure – remains the primary practice. RDP houses were intended to act as starter houses for low-income households, which the households would improve over time. However, by the late 1990s, the lack of upgrading and the inconsistent quality of the building of RDP houses persuaded the state to institute a set of standardised basic criteria in terms of construction, location, and social impact.

New criteria in hand, the programme went on to deliver thousands of RDP houses. But as subsequent evaluations in the early 2000s made clear, the effect of the housing programme had been to reinforce existing apartheid-era settlement patterns by increasing the number of low-density, low-cost suburbs on the periphery of cities, which often lacked the economic and social opportunities needed most by the low-income people who received the houses. This prompted a fundamental rethink of state-driven housing delivery.

In 2004 the national government outlined a new approach: *Breaking New Ground: A Conceptual Plan for the Development of Sustainable Human Settlements (BNG)*. The BNG was designed to spur the development of sustainable human settlements and the urban transformation of South African cities. It did so by: 1) expanding the scope of the housing mandate to deal with human settlements more generally; 2) embracing a 'demand responsive' approach to housing development; 3) enhancing the role of the public sector, including expanding the provision of housing finance; and 4) by strengthening links between the primary and secondary residential property markets.<sup>8</sup>

Implementing the BNG has proved difficult, however. Since 2004, a succession of housing policy frameworks and statements, such as the National Development Plan, have set specific targets and refined and recommitted the government's approach to achieving the BNG's general goals.

The Western Cape Government's own policy statements over the past few years have aligned strongly with the national view, particularly as it relates to the shift in focus from housing to human settlements. The Western Cape Department of Human Settlements' latest five-year plan – a strategic plan guiding the department's delivery agenda – emphasises the need to improve the co-ordination and integration of planning processes, the upgrading of informal settlements and the provision of serviced sites, and to increase the supply of affordable (gap) housing, and densities on well-located land.

Making the shift to human settlements has been easier said than done. A review of the department's most recent annual report suggests that target-setting continues to focus on the delivery of housing units and serviced sites, while key policies, such as the Upgrading of Informal Settlements Programme (UISP) and the People's Housing Process (PHP) programme, which call for in-situ upgrades and community involvement, continue to be met by historic methods such as relocation and developer-driven housing projects. This reality reflects the challenge of changing the systems and processes that have underpinned the approach to housing delivery for more than a decade.

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<sup>7</sup> Whether housing acts as a financial asset depends on ownership or having a mortgage, and this, in turn, will depend on the nature of the housing assistance provided.

<sup>8</sup> The dysfunctionality of the low end of the secondary market is addressed by: 1) reintroducing demand-side subsidies to enable individual households to use their subsidy in the secondary market; 2) reducing the prohibition on the sale of state-subsidised housing from eight to five years; 3) a more pronounced role for municipalities to ensure that housing typologies respond to demand and contribute to spatial restructuring; and 4) enhancing tenure security by giving households access to title deeds.



The succession of policies focused on sustainable human settlements shows a real vision and desire for a Living Cape, but the reality continues to be hindered by poor implementation. In addition, the changing nature of the Western Cape over the next 25 years and its implications for housing demand and supply, outlined in this brief, raise a range of questions about how the state should shift its policies and subsidies to respond to future opportunities and challenges.

*Box 2 Important definitions*

### **Inadequate housing and informal settlements**

The term inadequate housing in this brief refers to two specific types of dwellings: 1) an informal dwelling, defined as a structure built from rudimentary materials that is most often temporary in nature and often built on land not owned by the builder, located either in an informal settlement or backyard of an existing formal dwelling; and 2) an overcrowded dwelling – a formal building that houses more than 2 persons per habitable room (excluding bathrooms) (HDA 2013; DHS 2010; UNHABITAT 2009). The term informal settlement refers to any number of informal or formal dwellings built on land not owned by the builders and often not zoned for residential settlement by authorities (HAD 2013).

### **Housing demand**

This policy brief uses the term housing demand to refer to the total number of formal housing units required in a given year to supply all households earning less than R3 500 per month and currently living in inadequate housing. The unmet housing demand, therefore, is the total number of formal housing units still needed after taking into account new household formation and the number of subsidised formal housing units built each year.

### **Housing opportunity**

The term housing opportunity refers to any of a number of forms of government support provided to help households secure formal housing. In this brief we look at the three main programmes designed to provide housing opportunities to households at the lowest-income levels: the Integrated Residential Development Programme (IRDP), the People’s Housing Process (PHP), and the Upgrading Informal Settlements Programme (UISP) – see the next section for details on each.

### **The housing gap**

The term housing gap encompasses those households earning more than the maximum allowable income to qualify for fully subsidised housing, but less than R15 000 per month – an income level below which many households may have trouble securing a private loan for housing. Households making between R3 501 and R10 000 are considered to fall within the lower housing gap and are seen as especially in need of housing opportunities because they often suffer from an inability to secure mortgage credit and are thus forced to remain in inadequate housing. These lower housing gap households are beginning to receive increased attention from policymakers.

Gap housing need is defined as the number of subsidies needed to enable all households in the lower housing gap that live in inadequate housing to secure formal housing, by owning or renting a home. Unlike fully subsidised housing, the supply of such subsidies is considered to be unlimited in this study, so only the cost of providing them is tracked. In reality, the number of subsidies granted may be constrained by lack of qualifying demand.



## Current housing situation

Demand for state-supported housing opportunities has accelerated over the past two decades. In 1996 196 000 households in the Western Cape would have been likely to qualify for fully subsidised housing under current policies. By the 2001 census, that number had increased to 230 000 – an average annual growth rate of 3.3%. From the 2001 to the 2011 census, the number of qualifying households grew at 4.2% per year to 347 000. Demand for lower housing gap support followed a similar pattern, with the number of qualifying households growing from 46 000 in 1996 to 89 000 in 2011, the most rapid growth occurring between 2001 and 2011. In total, it appears some 27% of all households in 2011 qualified for some form of housing opportunity.<sup>9</sup>

This surge in demand was due to a combination of a high rate of household formation, driven by relatively high fertility rates, significant in-migration, rapid urbanisation, an increasingly expensive housing market, and a decade-long shortfall in the building of subsidised housing units. Over the 1996 to 2011 period the province added some 650 000 new households, but only built 450 000 additional formal housing units (public and private), suggesting a cumulative shortfall of 200 000 units – an average annual rate of 13 000 units (Census 2011, FHC 2014).

The Western Cape Department of Human Settlements (WCDHS) built some 141 000 RDP-type houses and 127 000 serviced sites between 2004/05 and 2013/14, at an annual rate of 14 134 and 12 770, respectively. More recently, however, the track record of the WCDHS has been mixed. Officially, the department budgets enough funds to build 14 360 housing units each year, but has fallen short of this each year since 2009 because of a combination of cost overruns, delays, and community unrest in and around upgrade sites, particularly in the metro area (WCDHS 2013). The accreditation of the Metro as a housing developer is a potential opportunity to streamline the financing framework and improve efficiencies. Accreditation talks are currently under way. If accredited, the City of Cape Town will directly receive funding and manage the delivery of housing within the metro area.<sup>10</sup> This is likely to have a significant impact on the extent and pattern of housing delivery in the province.

The cost of providing these fully subsidised houses has gone up over time because of rising standards in quality, as well as increasing construction costs. In 2004/05 the total subsidy for a single housing unit stood at R45 000. By 2013/14 it had grown to R160 573 per unit, with R100 000 being the average cost over the full period.<sup>11</sup>

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<sup>9</sup> Based on the income and inadequate housing requirements for the IRDP, PHP, and UISP. Because of other requirements, not all households that meet these two conditions would necessarily qualify for these programmes.

<sup>10</sup> WCDHS Budget Speech 2014, 25 March 2014.

<sup>11</sup> R110 947 for the house itself, R43 626 for services, and R6 000 for the cost of land. Housing numbers are from a personal communiqué from the Department of Human Settlements, budget speech inputs.

# Housing Futures

## Drivers of housing demand

A number of demographic and economic factors – macro and micro – drive new household formation. Whether a person chooses to form a new household or remain in an existing multi-family or multi-generational home depends, at the micro or individual level, on their age, gender, race, economic status, whether they are a newly arrived migrant, the availability of employment within their home region, and changes in prevailing social norms. At the macro, or societal level, population growth – whether natural or due to net positive in-migration – is often cited as the most important driver, but as the above factors make clear, it is quite possible to see additional households appear, even in the absence of population growth, as existing households fracture.

The age of the population also matters: populations with a large percentage of people between the ages of 20 and 35 are likely to see higher rates of household formation than those with significantly younger or older populations – with older populations more likely to see a decline in new household formation as the oldest age groups either move in with their children or enter assisted living homes. Urbanisation can also lead to additional households, because rural households tend to be larger than urban ones and the movement to cities can see a single rural household split into several urban ones. The economy is another important driver. A fast-growing economy with ample available jobs is likely to see higher rates of household formation because more people can afford their own homes, move to regions with better jobs, and even buy a second or third home.

## Existing forecasts<sup>12</sup>

Attempts have been made to model the housing system in South Africa to forecast housing needs and the best policies to address them. The most extensive of these in the Western Cape was the Human Settlement Coordination Project (HSCP) carried out for the City of Cape Town. The project provided a quantitative analysis of demographic futures, land availability, and state funding and capacity, and included a number of supply- and demand-side interventions for use in alternative scenarios. This policy brief uses the HSCP's estimates of the breakdown of households by housing type and income level to calculate the number of formal, informal, crowded, and other households in each income group.

Another example is the 2013 Western Cape Infrastructure Framework report, which provided population and household projections for the Western Cape from 2012 to 2040 in a high- and low-growth scenarios. In the high growth scenario, the population of the province will nearly double to 11.1 million by 2040 and the number of households will reach close to 4 million. In the low-growth scenario, the population will reach just under 10 million and households 3 million. The International Futures (IFs) housing model projects that population in the province will reach 8.1 million under its Base Case, with households reaching 2.6 million by 2040. The report also provides a baseline forecast of economic growth up to 2040 of 4.3% per year, very close to the IFs forecast of 4.4%.

A 2007 report by the Western Cape Department of Local Government and Housing included a forecast of housing demand up to 2040 and the rate of housing formation in high- and low-growth scenarios. The two scenarios projected total housing demand in 2040 to be 804 570 and 611 606. For comparison, the IFs housing model projected a total housing demand (additional houses added since 2011) of 966 474 in 2040. The 2007 report also estimated the funding required to close the current housing shortfall. It found that an annual expenditure of R2 billion would be enough to eliminate the shortfall by 2030 in the high-growth scenario and R1.6 billion in the low-growth one. The department's budget for housing provision in 2010/11 was estimated at R1.6 billion.<sup>13</sup>

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<sup>12</sup> When comparing IFs results to existing forecasts, it is important to keep in mind that the forecasts described here use simple extrapolation of growth rates. The IFs results are based on the entire non-linear and dynamic model.

<sup>13</sup> The WCSHSS uses the previous cost of R70 000 per housing unit; in 2014, the WCDHS increased this cost to R160 573 per unit

## Building an IFs-based housing model

This policy brief uses a hybrid model of housing demand based on the IFs forecasting system. IFs provided the foundation for the housing model by supplying the underlying forecasts of population, average household size, income distribution and GDP for the Western Cape. The IFs outputs were then combined with historic provincial data on household size by income level, the number of households by type (formal, informal, overcrowded), province specific unit costs, and historic rates of housing construction, for a more granular view of the province's housing sector.

The result is a housing model that, unlike other existing models, uses the internally consistent, dynamic, and non-linear nature of the IFs model to take into account the impact of changing demographic and economic trends on the housing sector. The IFs model also enables us to explore the impact of alternative policy interventions on the demand for housing opportunities in the province. The IFs Base Case used in this brief has been amended to account for recent [2014] projections of an annual net in-migration rate of 30 000 and maintains that rate throughout the 2014–40 period.<sup>14</sup>

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<sup>14</sup>. The 2014 PERO report projects that the Western Cape will receive an estimated net 150 000 in migrants between 2011 and 2016 (345 000 total in-migrants and 195 000 out-migrants) or 30 000 per year.

# IFs Base Case Results

The primary socioeconomic and demographic drivers of household formation and income distribution in the Western Cape are set to change significantly as the province continues to develop. This is likely to reduce growth in demand for housing assistance relative to what might have been expected based on recent trends. This section looks at how these factors are likely to change up to 2040 and the impact on the demand for housing opportunities.

## Demographic trends

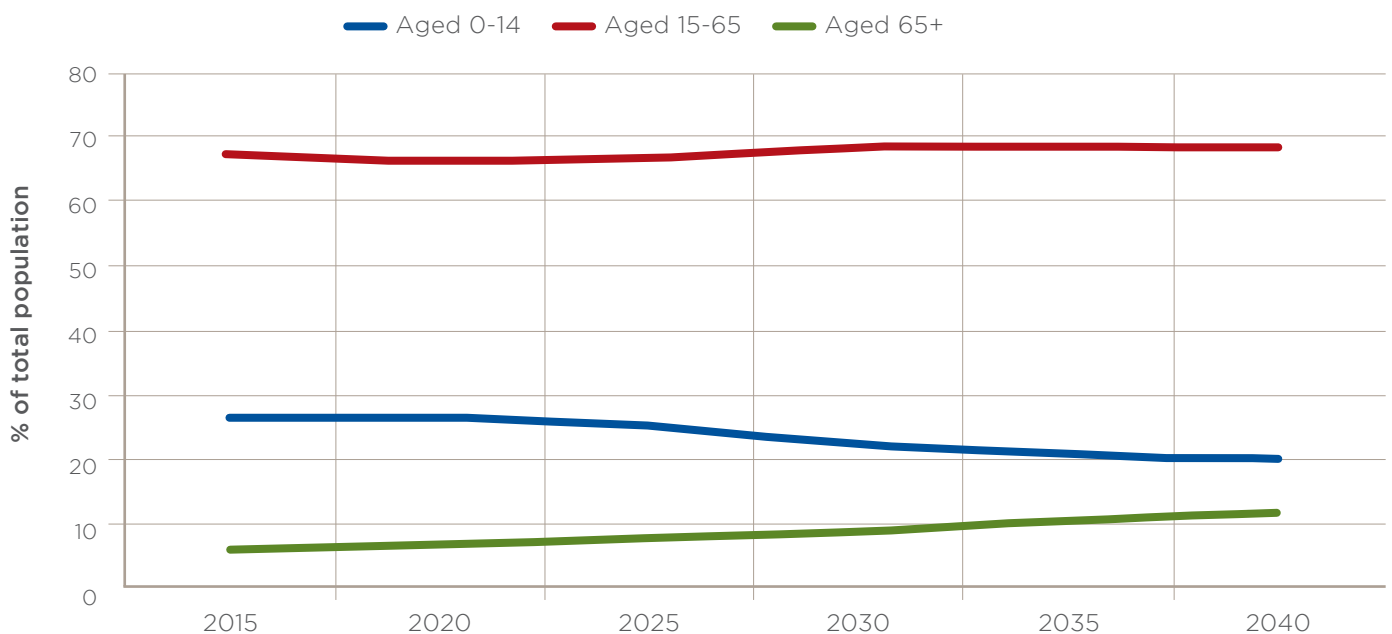
The Western Cape's population grew by 28% between 2001 and 2011, at an average annual rate of 2.3%, reaching 5.8 million in 2011. Over the coming decades this rate is likely to decline by more than half, averaging only 1.1% per year between 2014 and 2040, given continued declines in the province's total fertility rate, which is projected to reach 1.9 children per woman – a rate one might find in a developed country – by the early 2030s. Under the IFs Base Case, total population in the province reaches 8.1 million by 2040, a 39% increase on the population in 2011.

The Western Cape's population was youthful in 2011, with a median age of 26; 62% of people were below the age of 35 and just 6% above the age of 65. But over the 2014-40 period, declining fertility rates and lengthening lifespans are likely to cause significant population aging. By 2040, under the Base Case the median age of the population will reach 34 and the percentage of people aged 65 and older will double (see Figure 1). The extent of population aging will depend in part on changes in the rate of net in-migration, because migrants tend to be younger.

The province's changing age structure will have important ramifications for the housing sector. The 20- to 35-year-old age group, which has historically seen the highest rate of new household formation, is set to increase by 5 percentage points by 2020, to 32% of the total population and will remain above 20% even by 2040. The 30- to 35-year-old subgroup – representing the average age of first home ownership in South Africa – is also set to increase by 2020 and will then retain a fairly stable share of the population, at around 15%, up to 2040.

This suggests that, all else being equal, the rate of new household formation and the demand for home ownership, regardless of income level, will remain strong throughout the period. Whether this holds true, however, will depend on how economic conditions in the province evolve. For example, the province's current high level of youth unemployment, should it continue, might act as a significant damper for new household formation (Klasen and Woolard 2000) or it might spur more single-person households, as young workers move to find better job prospects – such households are not currently eligible for housing subsidies, however.

Figure 1 Population by age group, percentage of total, 2014-40

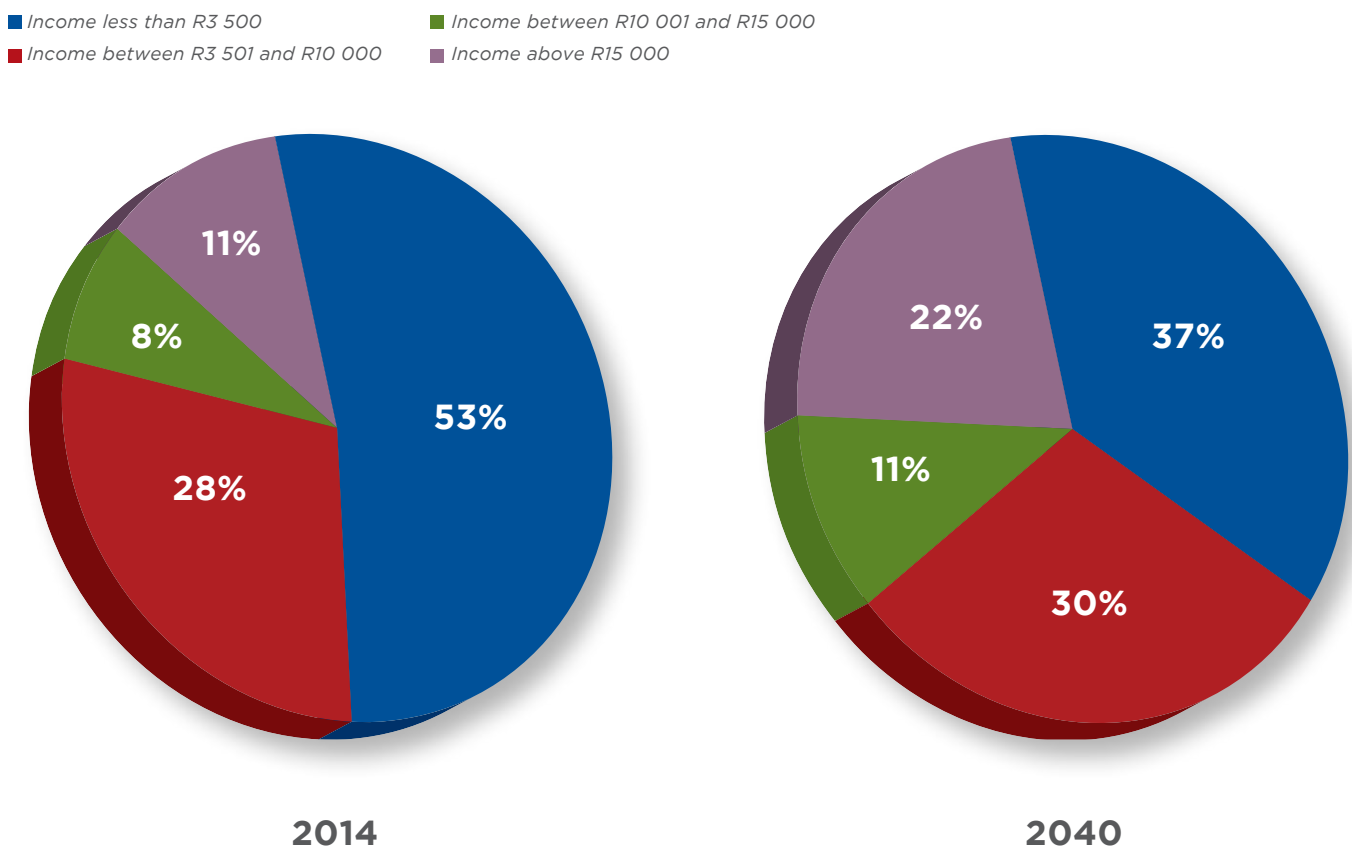


Source: IFs Base Case version 7.11 with migration increase, Extended Housing Model version 3

## Economic trends

The Western Cape's GDP grew at an average annual rate of 3.5% between 2003 and 2013, though its growth slowed in the second half of the period, averaging only 2.6% since 2007 (PERO<sup>15</sup> 2014). Under the IFs Base Case, however, growth in the province picks up after 2014, with GDP growth averaging 4.4% over the 2014–40 period. This more rapid growth is reflected positively in terms of the distribution of income in the province. In 2014, 50% of households in the Western Cape earned less than R3 500 per month, 31% earned between R3 501 and R10 000 (the lower housing gap), 8% earned between R10 001 and R15 000 (the upper-housing-gap), and 11% earned more than R15 000 – too much to qualify for any housing assistance (see Figure 2).<sup>16</sup> By 2040, the percentage of households in the lowest-income group is projected to fall by 16 percentage points to 37%, while the highest income doubles to 21%. By 2040, the growing economy helps some 380 000 more households join the highest income category, but even at 4.4% growth, 960 000 households remain in the lowest income category. The improvement in overall income growth is also reflected in GDP per capita, which under the Base Case increases from R119 000 per person in 2011 to R215 000 in 2040.

Figure 2 Households in the Western Cape by income category, percentage of total, 2014–40



Source: IFs Base Case version 7.11 with migration increase, Extended Housing Model version 3

<sup>15</sup>. Western Cape Provincial Treasury's Provincial Economic Review and Outlook.

<sup>16</sup>. The IFs model represents income distribution within a country by the Gini coefficient. It uses the most recent historic value for the Gini and then forecasts it based on the changing share of population and income held by skilled and unskilled households. Provincial data suggest that 48–51% of the province's population lived on less than R3 500 in 2011 (Human Settlement Coordination Project; Census 2011). The IFs method calculated 50% for the same year.

## Housing demand forecasts

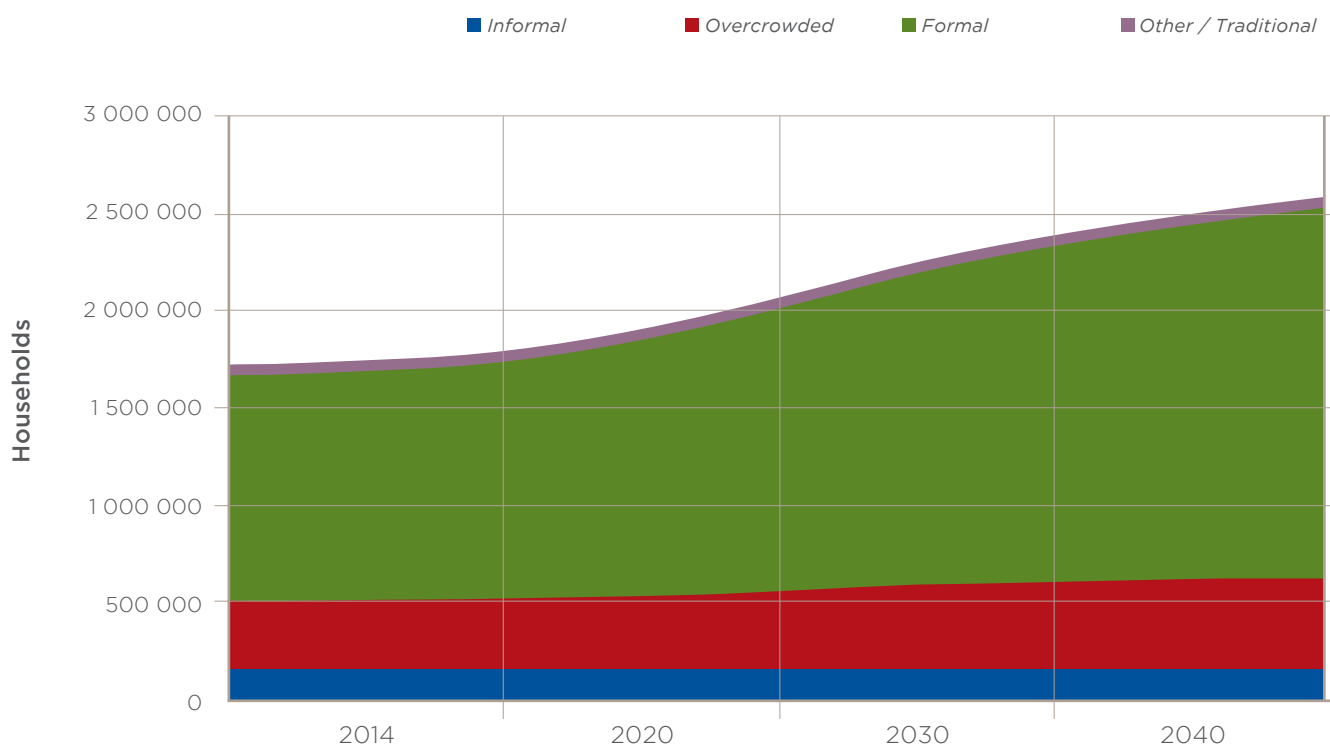
The rate of household formation in the province has outpaced population growth since 1996 – averaging 3.2% growth per year compared to 2.4% for population – as changing social norms, rising incomes, and in-migration push the average household size down. In 1996 the average household size was 4.03 persons, but by 2011 the average had fallen to 3.56. Under the Base Case, by 2040 the average falls even further, to 3.15 persons. The result is that the total number of households in the province increases by 58%, from 1.65 million in 2011 to 2.6 million in 2040.

This large increase in the number of households means that even as the percentage of lowest-income households falls (see above), the overall number of households continues to grow, from 878 000 households in 2011 to 960 000 in 2040. Similarly, while the percentage of households in the lower housing gap increases by only 2 percentage points over the 2011-40 period, the absolute number of households in the category grows by 70%, from 456 000 to 778 000.

The question is, how many households in the lowest-income and lower housing gap categories will qualify for current housing opportunities in the future? Perhaps surprisingly, a majority of households earning less than R3 500 per month already live in formal, non-overcrowded housing. In 2011, an estimated 43% (375 000) of lowest-income households lived in inadequate housing. Under the Base Case, by 2040 the number of such households, after peaking in the 2030s, will begin to decrease, even before taking into account any government provision of new formal housing units, as rising incomes help lift more households into the lower housing gap market and beyond. In 2040, assuming no additional housing is built, some 410 000 would still qualify for fully subsidised housing. While that seems like a large number, it is only a 9.5% increase from the number of qualifying households in 2011 – compared with a roughly 54% increase in the number of informal households between 1996 and 2011.

It would be worth the Western Cape Government carrying out further analysis, to gain a more nuanced understanding of how households actually spend and allocate their income. Having a more comprehensive understanding of consumption patterns would allow the government to consider whether households can make a contribution to their housing needs. Such contributions by households could dramatically change the government’s policy response – not only as it pertains to housing, but also related sectors such as public transport and social development – and open up a host of new housing opportunities.

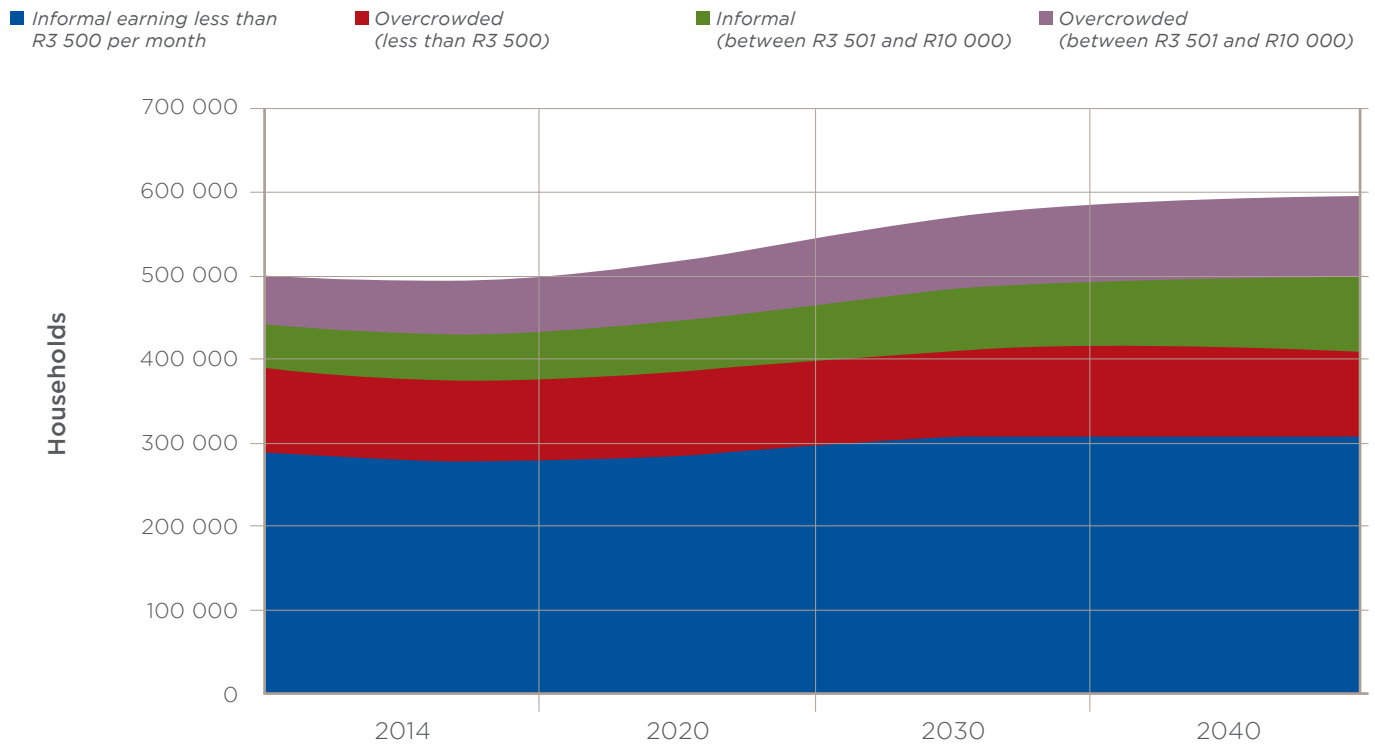
Figure 3 Total households by housing type under the Base Case, 2014-40



Source: IFs Base Case version 7.11 with migration increase, Extended Housing Model version 3

When it comes to the lower housing gap market, 23% (107 000) of lower-gap households lived in inadequate housing in 2011. By 2040, assuming no support is given, the number reaches 183 000 (23%). Altogether, 594 000 households would qualify for housing opportunities under the existing housing regime if current constraints to accessing private-sector financing continue.

Figure 4 Households in the Western Cape qualifying for housing opportunities, 2014-40



Source: IFs Base Case version 7.11 with migration increase, Extended Housing Model version 3

**Note:** the slight decrease in household numbers projected from 2014 to the early 2020s and then significant rise thereafter is due largely to the province’s increasing success in combating HIV/AIDs and other communicable diseases. Initially, as more infants survive, the youngest cohorts grow larger, increasing average household size. Eventually, as these now larger cohorts grow older, they go on to found households of their own, significantly reducing household size.

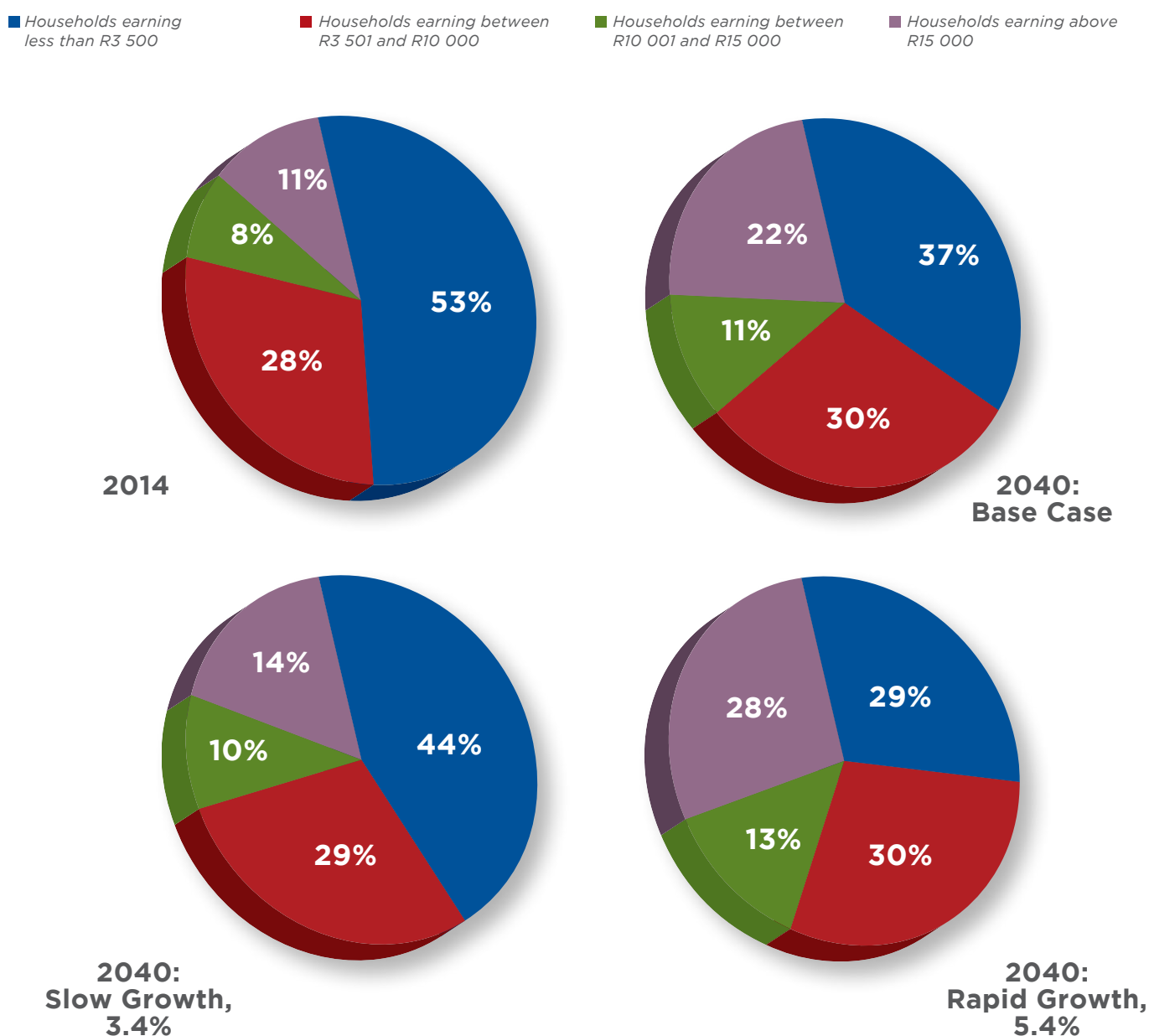


## The impact of economic growth

How the demand for fully subsidised housing changes will depend in large part on how income distribution in the province evolves over time. Income distribution, in turn, is significantly affected by the rate of economic growth in the province. In the Base Case, the Western Cape's GDP grows at an average annual rate of 4.4% between 2014 and 2040. To illustrate the impact of GDP growth, we looked at two alternative growth scenarios, one in which the growth rate was set exogenously at 1 percentage point less per year than in the Base Case (the Slow Growth scenario) and one in which growth was set at 1 percentage point more than in the Base Case (the Rapid Growth scenario). No other interventions were made.

Figure 5 shows the impact of fast and reduced growth on income distribution in the province in 2040. With Slow Growth, the percentage of households qualifying for fully subsidised housing is 18% (76 000) higher than in the Base Case, while Rapid Growth reduces the number by 21% (86 000) below the Base Case – a 161 000 difference between faster and slower economic growth.

Figure 5 Income distribution in the Western Cape under different growth assumptions, % of total households, 2014-40



Source: IFs version 7.11, Base Case and alternative scenarios, Extended Housing Model version 3

It is important to keep in mind that this 160 000 household difference is the result of 5.4% average annual growth versus 3.4%, not flat or negative growth. Furthermore, Rapid Growth by itself still sees 325 000 households qualifying for fully subsidised housing in 2040. Achieving a 5.4% growth rate and further reducing the number of qualifying households is likely to require major improvements in governance, education, health, and economic development infrastructure – see the following section on Alternative Scenarios of Housing Demand.

Moreover, given the South African economy's history of slow job creation, it is important that any efforts to support economic development in the Western Cape focus on generating more employment opportunities, particularly for those households at the lowest-income levels and in the lower housing gap. Improved employment rates within these income groups will significantly affect the level of need and type of government support required.

# Alternative Scenarios of Housing Demand

The stark differences between the Rapid Growth and Slow Growth scenarios, as seen in the previous section, suggest that it is possible to significantly reduce the number of households in need of housing assistance. This would not only benefit those households raised out of the lowest-income categories, but also help ease the burden and resource strain on the government.

This policy brief therefore takes advantage of the IFs model's integrated nature to explore the impact of different policy interventions designed to reduce housing demand. IFs was used as part of the FuturesCape project to produce a series of province-level scenarios, each exploring different interventions in the province's economy, health, education, and energy sectors designed to bring about a more prosperous, better-educated and healthier Western Cape. The brief draws on these earlier efforts to explore alternative scenarios of housing demand over the next few decades.

The alternative scenarios described in Box 3 produce a range of housing demand futures. They do so by affecting, directly and indirectly, income distribution in the province and the rate of new household formation.

## *Box 3. Alternative scenarios of housing demand*

**Educated Cape** (combination of Universal Education scenario from Educating Cape policy brief and Vibrant Economy scenario from Enterprising Cape policy brief): net intake and survival rates<sup>17</sup> for primary, lower and upper secondary, and tertiary education levels are all improved. Support for vocational education at the secondary level and science and engineering graduates at the tertiary level are also improved.

**Better Health** (combination of the Longevity scenario in the Western Cape Human Development Index policy brief and Inclusive Growth scenario from the Enterprising Cape policy brief): HIV/AIDS death and transmission rates are reduced, deaths from traffic accidents are also reduced, and the rate of contraception use is improved. The use of solid fuels in cook stoves is eliminated, and universal access to improved water and sanitation is achieved.

**Improved Infrastructure** (combination of Vibrant Economy and Inclusive Growth scenarios from the Enterprising Cape brief): universal access to electricity, water and sanitation infrastructure are achieved. Near-universal access to mobile broadband and public transport is provided.

**Strengthened Governance** (Vibrant Economy scenario from the Enterprising Cape brief): government regulatory quality and effectiveness is improved, red tape for businesses is reduced, and government to household transfers are increased.

**Combined Intervention:** represents the combination of all of the above interventions into one comprehensive policy package.

**Low Growth:** the IFs Base Case sees significant economic growth in the Western Cape, with GDP growth averaging 4.4% per year between 2014 and 2040. The PERO 2014 report forecasts GDP growth in the province to be only 3.1% during the 2014-19 period. The Low Growth scenario applies this 3.1% growth rate to the whole 2014-40 period. It also slightly reduces the number of in-migrants to reflect a less attractive economy.

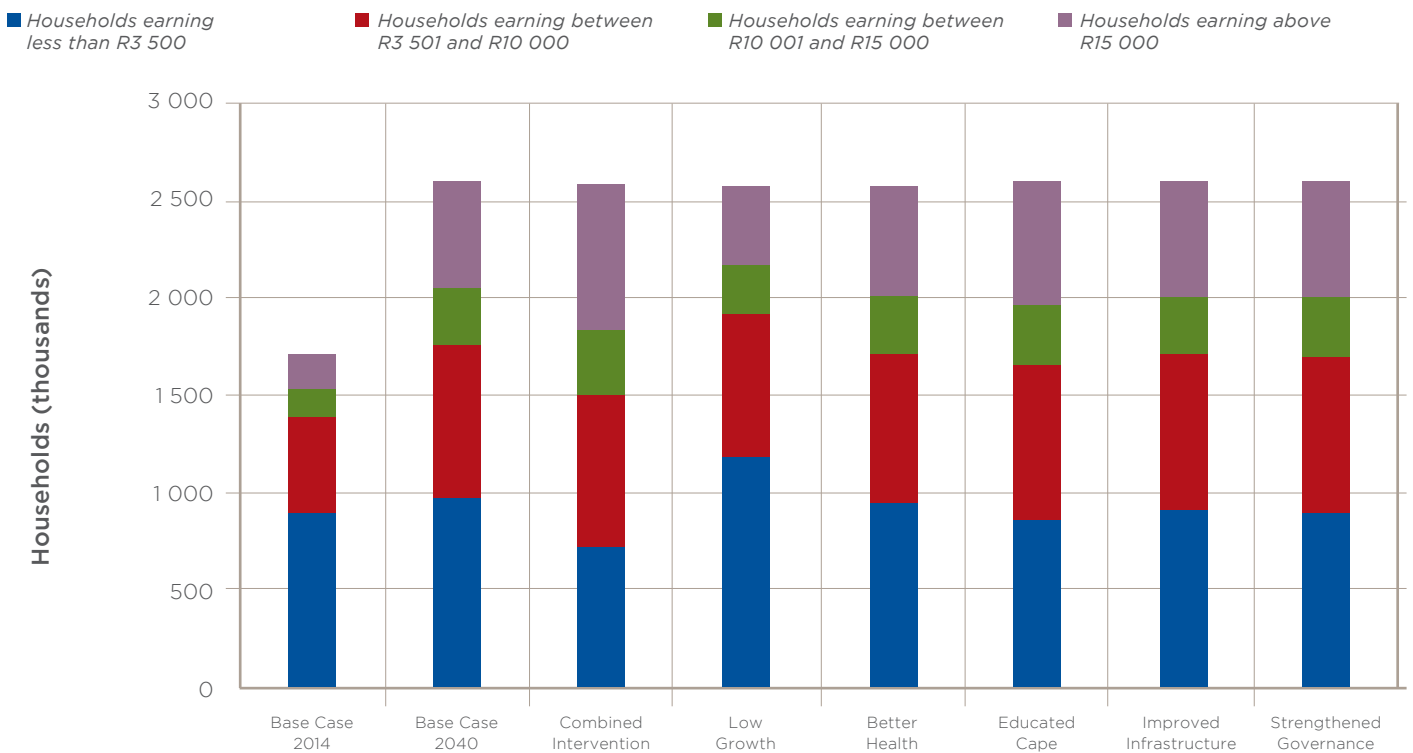
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<sup>17</sup> Survival rate is the percentage of learners entering an education level who are expected to persist to the end of the level without dropping out.

Figure 6 shows the income distribution in 2040 in each scenario. Under the Base Case, 37% of the province's households in 2040 earn less than R3 500. The Educated Cape and Strengthened Governance interventions have the most significant impact of the individual scenarios, reducing this percentage by just over 4 percentage points and just under 3 percentage points, respectively. When combined, the interventions reduce the percentage of households earning less than R3 500 to 26%, an 11 percentage point reduction from the Base Case. On the other end of the spectrum, the Low Growth scenario (described above) results in an 8 percentage point increase above the Base Case.

The percentage of households in the lower-housing-gap, by comparison, stays quite similar across the scenarios, at around 29–30%, primarily because of the movement of households out of the lowest-income category. In the Combined Intervention and Strengthened Governance scenarios the lower housing gap is largest, and in the Low Growth scenario it is smallest. This suggests that significant lower housing gap support may be needed regardless of interventions that impact income distribution.

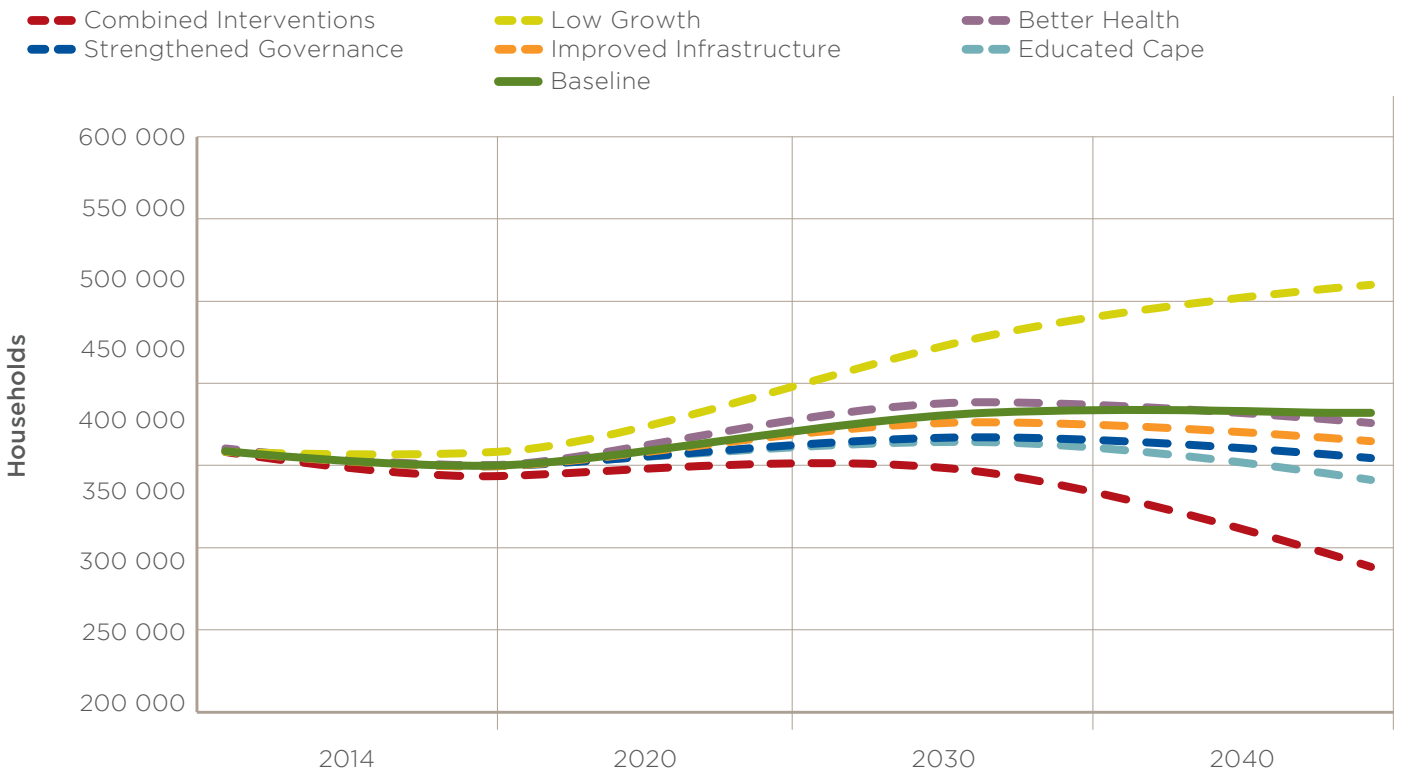
Figure 6 Households by income level, by scenario, 2040



Source: IFs version 7.11 Base Case and alternative scenarios

When it comes to the number of households qualifying for housing assistance, the greatest difference between the scenarios is around those in need of fully subsidised housing. Under the Combined Intervention scenario, the number of qualifying households in 2040 is 25% less than in the Base Case, while in the Slow Growth scenario it is 22% more. Of the individual interventions, the Educated Cape and Strengthened Governance scenarios again stand out, reducing the number of such households by 11% and 7% respectively - see Figure 7.

Figure 7 Households earning less than R3 500 and living in inadequate housing, by scenario, 2014-40

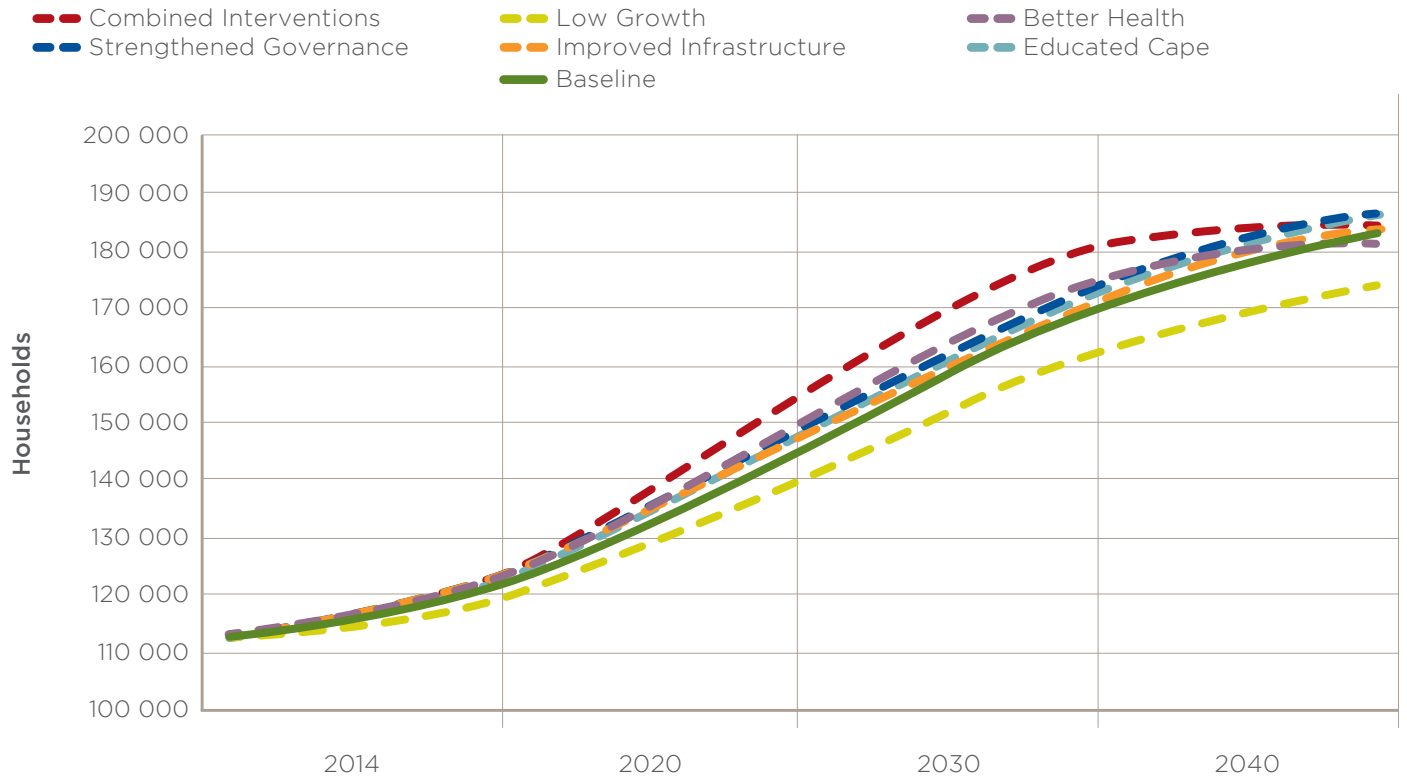


Source: IFs version 7.11 Base Case and alternative scenarios, Extended Housing Model version 3

**Note:** the decrease in household numbers from 2014 to the early 2020s and then significant rise thereafter is largely due to the province’s increasing success in combating HIV/AIDs and other communicable diseases. Initially, as more infants survive, the youngest cohorts grow larger, increasing average household size. Eventually, as these now larger cohorts grow older, they go on to found households of their own, significantly reducing household size.

Unlike the Base Case, the Combined Intervention, Educated Cape, and Strengthened Governance scenarios all see the number qualifying households reduced to below 2014 levels - this is before any new building is taken into account. All of the alternative scenarios show significant growth in the number of lower housing gap households qualifying for assistance, though the Combined Intervention scenario shows the least growth, at 5% less than in the Base Case - see Figure 8.

Figure 8 Households earning between R3 501 and R10 000 living in inadequate housing, by scenario, 2014-40



Source: IFs version 7.11 Base Case and alternative scenarios, Extended Housing Model version 3

## Meeting Current and Future Housing Demand

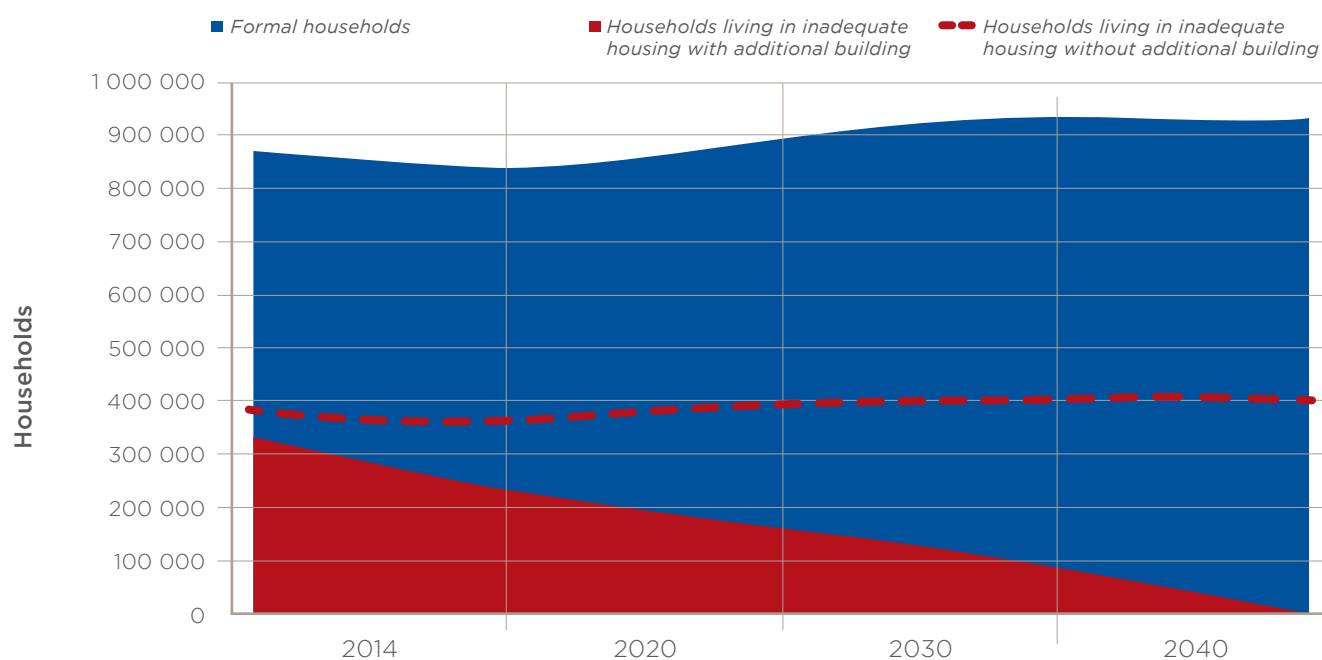
The above forecasts of households qualifying for housing opportunities do not take into account the construction of new housing units – RDP-style homes, densified rentals, social housing, etc. – or the provision of housing subsidies for the purchase of existing homes. Addressing the existing housing backlog while also meeting future demand for housing opportunities under current policies will require a significant amount of resources.

This section looks at what it might cost to supply housing opportunities to all qualifying households, as well as highlighting some of the key constraints of doing so. It also looks at the impact of a constrained housing budget on the ability of and timeframe for meeting demand. The housing interventions modelled here are the current IRDP and PHP, which together provide low income households with fully subsidised standalone units in existing greenfield settlements, and the Finance Linked Individual Subsidy Programme (FLISP), which provides subsidies to help households in the lower housing gap market to secure the additional private funding to purchase an existing home.

The Western Cape government, under the IRDP, PHP and related programmes, built an average of 14 135 housing units per year between 2004/05 and 2013/14. If the government maintains this rate, it will finally catch up with demand by 2040 – see Figure 9. This, however, does not take into account any of the major constraints facing the provision of fully subsidised housing, including: budget constraints, increasing scarcity of well-located land, rising construction and labour costs, ever-higher quality standards, and even social unrest. It also assumes that the government remains the chief supplier of such housing.

For each of the scenarios described above, this section compares the cost and timing of achieving universal provision – assuming a building rate of 14 135 housing units per year – to a budget-constrained scenario, where the number of units built each year is capped, based on the province’s housing budget and the unit cost in each year. All costs reported here are in real 2013 rand.

Figure 9 Households in the Western Cape earning less than R3 500 by housing type, with and without the construction of additional formal housing units, no budget constraints



Source: IFs version 7.11 Base Case, Extended Housing Model version 3

<sup>18</sup>. There are a number of other current and proposed mechanisms for meeting housing demand, including building rental units and providing serviced sites, as opposed to standalone houses, each of which will have their own costs and resource restrictions. Other housing models, such as that in the Financial and Fiscal Commission’s 2012 study, provide a more in-depth look at the costs of these different interventions.

<sup>19</sup>. Personal communication, Department of Human Settlements



**Note:** New housing units convert inadequate housing to formal housing stock. Housing units built are considered to be generic units – no distinction is made between freestanding homes and rental units. Building of new units is assumed to have begun in 2011, using historical data.

How much will it cost the province to meet the demand for housing? In 2014 the National Government implemented a revised version of its National Norms and Standards that set the subsidy for the IRDP and PHP at R160 573 per housing unit: R110 000 for the top structure, R43 626 for infrastructure services – water, sewer, electricity, road, storm water – and R6 000 for land. The IFs Extended Housing Model uses the full R160 573 subsidy amount as the cost for providing one formal housing unit in the initial year and assumes that, once built, the house has no further cost to the province.<sup>20</sup> In reality, municipalities are likely to incur costs for maintenance and any additional bulk infrastructure that may be required. Furthermore, the model assumes that the province’s current housing budget of R1.9 billion in 2013/14 will remain constant, in real terms, over time, while the increasing cost of construction is represented by a real year-on-year increase in the unit cost of 2%.

Based on these assumptions, providing IRDP/PHP housing to all 411 000 qualifying households in the Base Case by 2040 (universal provision) would cost the province R79 billion between 2015 and 2040, an average annual cost of R3.2 billion – the equivalent of 7% of the province’s total revenue in 2013. Under the alternative scenarios, the cost of universal provision ranges from a low of R56 billion in the Combined Intervention scenario (R2.2 billion annually) to a high of R99 billion (R3.9 billion annually) under the Low Growth scenario (see Table 1). By maintaining a building rate of 14 135 units, every scenario but Low Growth achieves universal provision by 2040, with the Combined Intervention scenario doing so by 2036. Low Growth, on the other hand, does not reach universal provision until 2046, given the additional qualifying households in that scenario.

*Table 1 Provision and cost of IRDP/PHP housing under budget-constrained provision and universal provision assumptions in 2040, by scenario*

	BC	CI	LG	SG	BH	II	EC
<b>Households (HHs, thousands)</b>							
HHs qualifying for IRDP/PHP	411	305	499	379	399	389	364
Unaddressed HHs (budget constrained)	119	13	208	87	107	97	72
% of HHs remaining to be addressed	29%	4%	42%	23%	27%	25%	20%
<b>Cost of provision (2013 rand, billions)</b>							
Total cost of IRDP/PHP (budget constrained)	52.9	52.9	52.9	52.9	52.9	52.9	52.9
Additional cost of unaddressed HHs	26.4	2.9	46.1	19.4	23.9	21.6	16
Total cost of IRDP/PHP (universal provision)	79.3	55.8	99.1	72.3	76.8	74.5	68.9
Average annual cost of universal provision	3.2	2.2	3.9	2.9	3.1	3.0	2.8
% of 2013 provincial revenue	7%	5%	9%	7%	7%	7%	6%
<b>Year universal provision reached</b>							
Year universal provision reached (no budget constraint)	2040	2036	2039	2038	2040	2039	2038
Year universal provision reached (with budget constraint)	2060	2042	2056	2054	2057	2056	2051

Key: BC = Base Case; CI = Combined Intervention; LG = Low Growth; SG = Strengthened Governance; BH = ; Better Health; II = ; Improved Infrastructure; EC = Educated Cape

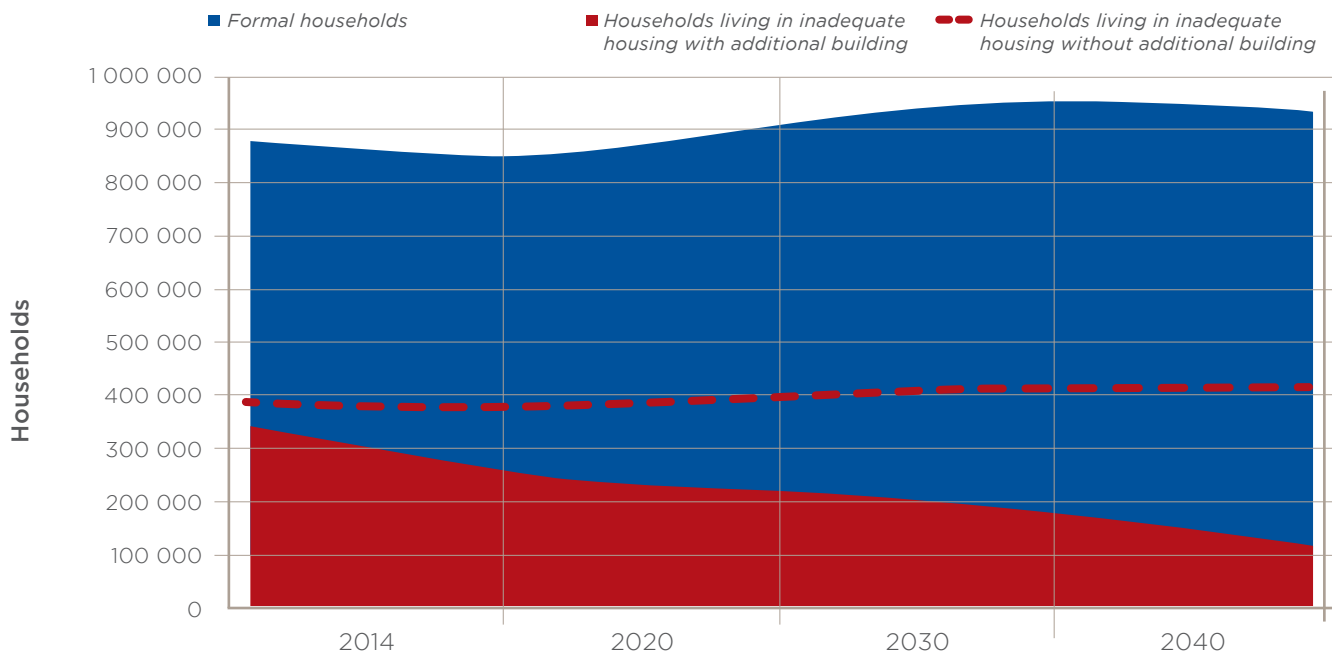
Source: IFs version 7,11 and Extended Housing Model version 3

<sup>20</sup> Despite the likelihood of continued increases in cost, the subsidy amount is likely to remain stable over the next few years. Land costs are location specific and difficult to calculate under the subsidy programmes, so we assume the R6 000 amount to be the default cost.

As highlighted above, there are many challenges to providing 14 135 housing units per year over the 2015–40 period. The constrained budget scenario explored here begins to get at this reality. The combination of a fixed budget – R1.9 billion per year – and building costs that increase each year reduces the number of households the province is able to build over time.<sup>21</sup> With these constraints, the province is only able to build 292 000 housing units by 2040 – at a total cost of R53 billion – leaving some 119 000 households unaddressed in the Base Case – see Figure 10)

The reduced rate of building means that the province does not achieve universal provision until 2060. None of the alternative scenarios reach universal provision by 2040 either. For them, the housing shortfall ranges from 13 000 in the Combined Intervention scenario to 209 000 under the Low Growth scenario, with the year universal provision is achieved ranging from 2042 to 2075.

Figure 10 Households in the Western Cape earning less than R3 500 by housing type, with and without the construction of additional formal housing units, with budget constraints



Source: IFs version 7.11, Extended Housing Model version 3

**Note:** New housing units convert inadequate housing to formal housing stock. Housing units built are considered to be generic units – no distinction is made between standard freestanding homes and medium- or high-density rental units, which can have considerably higher price points. Building of new units is assumed to have begun in 2011, using historic data.

For the cost of the FLISP, the model assumes an average income-linked subsidy of 53 000 per qualifying lower housing gap household. Providing FLISP support for all qualifying lower housing gap households would cost the province an additional R10 billion between 2015 and 2040 – R392 million annually. As seen in the above sections, the number of households qualifying for FLISP subsidies does not change much across scenarios, thus neither do the costs. The cost for universal FLISP support ranges from a low of R9.3 billion in the Low Growth scenario to a high of R10.0 billion under the Strengthened Governance scenario.

<sup>21</sup> With budget-constrained building, the number of households built each year declines by 30% between 2015 and 2040, from 11 802 units in 2014 (budget of R1.9 billion divided by the housing unit cost) to 8 220 in 2040.

The reality of constrained financial resources, rising costs, and increasing scarcity of land makes providing the 411 000 IRDP/PHP homes required in the Base Case unrealistic.<sup>22</sup> The availability and cost of land are particular constraints to meeting housing demand. Under the IFs Base Case, the amount of land needed for urban use increases by 32% between 2014 and 2040, pointing to the increasing significance of efficient land use. The government and its partners need to think strategically about how available land parcels are used throughout the province, both in terms of where housing opportunities are provided, as well as what government delivers in this space. Given current land shortages, especially within urban areas, urban densification should be a primary objective when responding to the need for housing opportunities.

This analysis suggests that the cost of providing sufficient housing under the current regime is likely to be prohibitively high unless demand is significantly reduced through interventions such as those explored above. Only in the Combined Intervention scenario is the province able to maintain its current level of spending, R1.9–R2.0 billion per year and come within a few years of meeting demand. Under the Base Case, the province would need to spend an additional R1.2 billion per year – which would reduce the funding available for some of the necessary interventions and also be likely to affect the amount of funds available for housing. The challenge, of course, will prove that much greater should real costs increase at a more rapid rate or economic growth turn out to be lower than expected.

In short, the government simply cannot sustain its current delivery model. It should consider pairing interventions such as those explored above with decreasing the fiscal load associated with the current delivery approach. This could mean providing a lower-specification, cheaper housing product, as well as moving towards a more diverse offering of housing opportunities and products. However, the WCG remains constrained by national policy, particularly the Housing Code and grant frameworks, so a firm advocacy agenda will be needed to make some of these changes.

Building partnerships that support the financing of these opportunities will also be critical in the future. A key question the Western Cape government should ask itself is: how much of a contribution can households, communities, business and non-governmental agents make to meet the growing need for housing?

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<sup>22</sup> The type of housing considered can also act as a constraint. Building medium- or high-density rental housing can cost up to two to three times as much as standard, freestanding homes.

# Conclusions

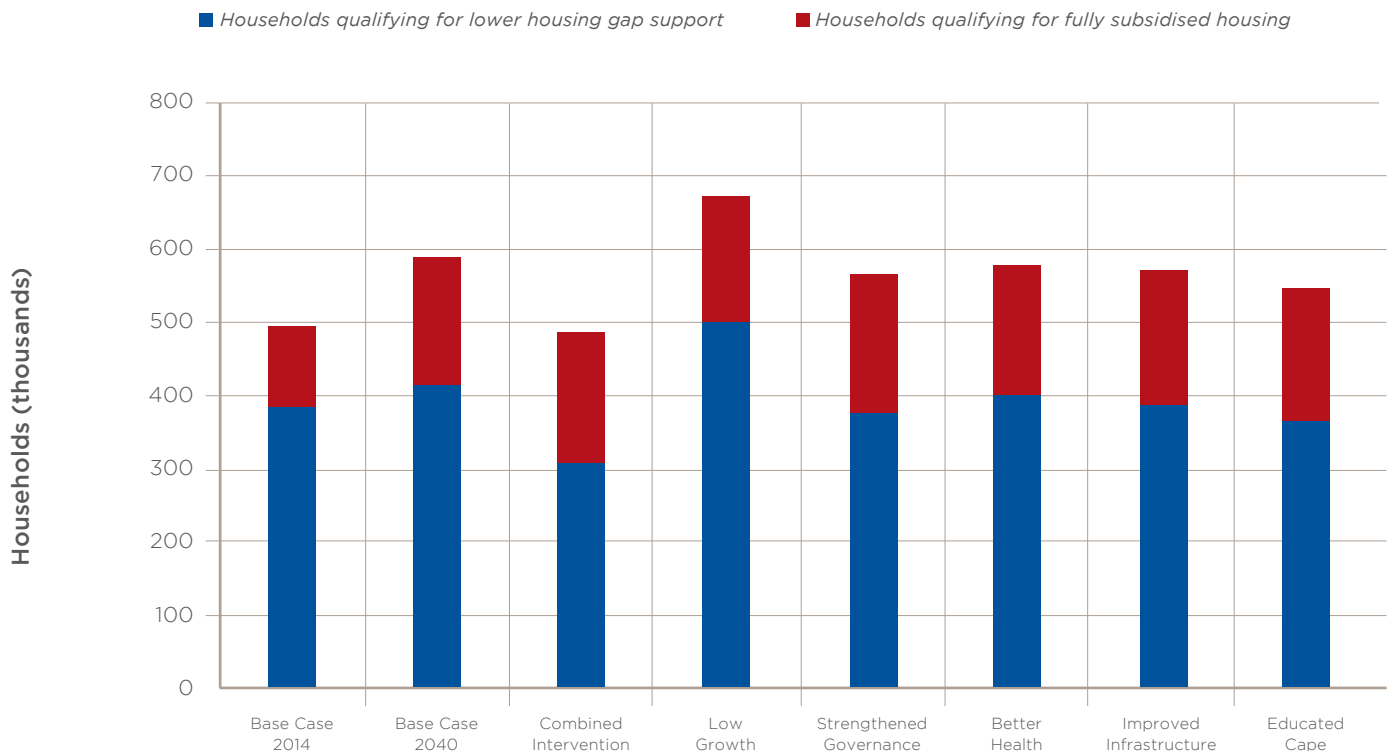
## Summary of results

The Western Cape is in the process of rethinking its approach to housing. While recent policies make clear the need to establish sustainable human settlements instead of continuing to expand informal and greenfield ones, old practices remain embedded. Assuming the Western Cape maintains its current policies and practices, and assuming current development trends continue, the province will need to provide 594 000 housing opportunities – 411 000 fully subsidised housing units under the IRDP and PHP, and 183 000 FLISP subsidies – between 2015 and 2040 to meet current and future Base Case demand.

Meeting total demand for fully subsidised housing and lower housing gap support by 2040 would cost the province R3.6 billion in real 2013 rand per year under the Base Case, equivalent to 7% of the province’s total 2013 revenue – a price tag that is likely to be prohibitive. Add to that the fact that construction costs and land prices are continuing to rise and the universal provision of fully subsidised housing seems increasingly unrealistic. Under a constrained scenario, where the housing budget remains constant in real rand terms and the cost of housing construction increases by 2% in real terms, some 119 000 households will remain in need of fully subsidised housing in 2040. The solution to this appears to be two-fold.

First, as the alternative scenarios explored in this brief show, interventions that can spur rapid, inclusive growth, such as strengthening governance and improving education, can significantly reduce overall demand for housing opportunities, particularly the number of households qualifying for fully subsidised housing. The Combined Intervention scenario reduces the number of households in need of fully subsidised housing by 106 000 by 2040 compared to the Base Case, even before taking into account new building. It also decreases the price tag for meeting total demand by R1 billion per year compared to the Base Case. Figure 11 shows the impact of each scenario on the number of households qualifying for housing opportunities in 2040.

Figure 11 Households qualifying for housing opportunities under current programmes, 2014 and 2040, by scenario



Source: IFs version 7.11 and Extended Housing Model version 3

Second, as detailed in the Policy implications section below, measures that can decrease the resource strain on the government – from promoting public private partnerships, to stimulating household contributions – can lower the price tag further. This could enable the province not only to provide housing opportunities to all of its residents, but also to move towards sustainable human settlements and away from today’s pattern of growing informal settlements and increasing urban sprawl. Without this second part, budget constraints and rising costs will leave significant numbers of households unaddressed.

This analysis of housing demand represents a very macro-level picture of the province. It would be worth the Western Cape carrying out further analysis to gain a more nuanced understanding of how individual households spend and allocate their income. Having a more comprehensive understanding of consumption patterns will allow the government to consider whether households can make a contribution to their housing needs. Their contribution could dramatically change the policy response of the government – not only as it pertains to housing, but also to related sectors such as public transport and social development – and open up a host of new housing opportunities.<sup>23</sup>

## Policy implications

This section reflects on the findings of this research and considers its policy implications.

### Collective effort

Housing needs to be addressed through the collective effort of government departments. As this brief makes clear, demand for housing opportunities is sensitive to economic growth. Thus, the attainment of other needs such as employment and education may directly affect the type of housing demanded, and the location and level of government support. Housing, therefore, cannot be seen in isolation from these factors and it is important that the Western Cape takes an integrated approach in responding to housing needs and strategising for the future. It is necessary to ask what role the various departments of the provincial government can play in addressing the housing challenge. This collective effort will become increasingly important over time.

### Supporting a young population in need

Demographic trends, particularly the population’s age structure, highlight an immediate need and a set of future needs. In the short term the province has a high proportion of young people in need – based on income levels – but in the long term, this young cohort will present a new set of policy challenges related to housing and caring for an increased number of older people.

In the short term the government cannot continue to provide RDP-type housing to this large and growing cohort of young people. The findings support the Western Cape government’s position of reducing current obligations and prioritising older people who have been waiting longer for housing opportunities. The current emphasis the province places on addressing living conditions and access to basic services – such as water, sanitation and electricity – is one feature of this response. These have the potential to support economic growth in the development of these young people and therefore may ultimately contribute to reducing demand for government-funded housing assistance in the medium to long term.

However, these responses alone are almost certainly incomplete and other complementary interventions need to be urgently implemented, especially as today’s large, youngest cohorts begin to reach working age and the age of prime household formation. There are two critical questions. What type of housing support should the government provide to this young population in need? And how do we empower young people to be resourceful contributors towards their own welfare and personal development?

Simultaneously, the province needs to plan for the long-term consequences of an aging population, putting in place the necessary support systems to cater for the needs of older people in 20 and 30 years’ time.

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<sup>23</sup> The type of housing considered can also act as a constraint. Building medium- or high-density rental housing can cost up to two to three times as much as standard, freestanding homes.

## **Diversify the product offering and manage costs**

The findings suggest that government needs to reduce the delivery of RDP-type housing, a policy programme that is costly and unsustainable. This may require limiting the number of such units provided and/or a reduction in their specification and therefore the unit costs of these housing opportunities. The government will also need to review novel approaches in providing support to the incremental improvement of houses and informal structures, particularly the provision of basic and social services. To effectively address this need, the state will have to develop more sophisticated responses to informality and more flexible partnerships with small-scale economic actors, civil society groups and community organisations.

In addition to the above, the government needs to diversify the suite of policy options on offer to households. There is clearly a policy gap for households in the lower housing gap market, in particular – a market segment that will continue to grow significantly, regardless of economic growth trends. Addressing this policy gap will require gaining a more nuanced understanding of the circumstances these households face, the level of contribution they can make and the type of housing support they need. This will mean placing renewed emphasis on rental and rent-to-buy options, and incremental settlement development. In addition, consumer education and debt rehabilitation may be critical in empowering these households to get the credit required to access housing.

## **More efficient and effective land use is critical**

Well-situated land is already scarce and increasingly expensive to secure. A growing population and continued urbanisation will require the government to pay close attention to the way that land is used when developing human settlements. The government has to revisit the typologies and settlement design aspects currently being rolled out, with a renewed focus on densification and the integration of settlements into systems that support their development, such as public transport and social services.

## **Building partnerships**

It is clear from the modelling that the government cannot continue to be the chief provider of low-income housing. It has to explore effective partnerships with the private and non-governmental sectors, communities and households to address future demand. Household contributions will go some way in addressing the financing and maintenance challenges faced by the government in the roll-out of its current housing model.

However, the shift from the starter house model to higher-specification houses, also, is a warning sign that household contributions are not guaranteed and that the state will need an explicit policy initiative to encourage households to make these investments. Overall, building these partnerships will require bold policy interventions and clear communication of the roles of all stakeholders in meeting the objectives of sustainable, integrated human settlements.

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