Access to Affordable Land for Housing

Initial Regulatory Impact Assessment

Incorporating proposal to establish a Housing Development Agency

11 May 2006

PREPARED BY SBP

FOR

URBAN LANDMARK

working with the Department of Housing

Sub-contractors to SBP

Palmer Development Group
Theunis Roux

Glossary

ARPM	ABSA Residential Property Market (database)
DLA	Department of Land Affairs
HDA	Housing Development Agency
IDP	Integrated Development Plan
IHP	Inclusionary Housing Policy
MIG	Municipal Infrastructure Grant
MTEF	Medium-Term Expenditure Framework
NDoH	Department of Housing
PHD	Provincial Housing Department
RIA	Regulatory Impact Analysis
SAPOA	South African Property Owners' Association
SMME	Small Micro and Medium Enterprises

1. Title of proposed measure

Housing Development Agency Bill (to be introduced by the National Department of Housing)

2. Purpose and intended effect of measure

2.1 Background to the problem

The provision of affordable housing in South Africa on well-located sites close to existing services and places of employment has been hampered by the high cost and scarcity of such land. In consequence, most new low-income housing projects have been developed on the urban periphery. This has tended to entrench the spatial differentiation of residential areas by race and class characteristics of the apartheid era. It has also increased the cost of providing services to the inhabitants of low-income housing projects.

There is currently no policy mechanism in place in terms of which the state can proactively acquire high-value land for affordable housing projects. One of the acknowledged problems with the current approach to the acquisition of land for housing is that it is reactive and demand-driven. Although well-located land does come onto the market, aligning the acquisition of this land with government approval for low-income housing projects has proven difficult. In any event, the current housing subsidy is not sufficient to meet the difference between the cost of well-located land and the end-price that those in need of affordable housing are able to pay.

Parastatals, such as Transnet, own a significant amount of land and are willing to dispose of it. Parastatal-owned land tends, however, not to be well-located. Where it is well-located, the disposal of such land at less than market value constitutes a cost to the state in the form of income forgone. The lack of affordable housing on well-located land can therefore not be addressed through the sale of parastatal land alone.

2.2 The objective

The objective of the Housing Development Agency Bill is to enable the state to identify, acquire, manage and dispose of land for affordable housing. It is likely that the primary targeted land will be high-value land for integrated developments at medium to high density, with a mix of market-priced and affordable units.

3. Risk assessment

3.1 Risk of not regulating

As noted above, there is currently no policy mechanism in place in terms of which the state can proactively acquire high-value land for affordable housing projects.

3.2 Risks associated with proactive regulatory intervention

Co-ordination between different government departments and spheres of government

In order to function successfully, a supply-led approach requires coordination between several different government departments. This approach would need to be supported by the Department of Land Affairs (DLA), which is the main recipient of funds allocated by the National Treasury for land acquisition; the Department of Provincial and Local Government, which is responsible for facilitating cooperation between the three spheres of government; and the municipalities, whose role it is to identify land for housing development through the IDP process. One of the risks in a supply-led approach is that it could prove impossible for the NDoH to coordinate the work of these various departments and spheres of government, and that a more proactive role on the part of the NDoH will be challenged as being constitutionally inappropriate.

Undermining provincial housing departments and local government

Even if not legally challenged, there is a risk that the HDA will undermine the role of provincial housing departments (PHDs) and local government in respect of housing delivery. While the NDoH proposes that the HDA could usefully step in where skills are lacking at municipal level and potentially run programmes on behalf of municipalities, there is a strong counter-argument that the NDoH should be looking for ways to build capacity at municipal level rather than making capacity available through an external agency.

HDA capacity

The supply-led approach assumes that the HDA itself will be well-capacitated and able to bring to bear sophisticated skills, currently lacking at local and provincial level, n identifying appropriate land for purchase, negotiating with developers, fast-tracking approval processes and so on. The extent to which the HDA will in fact have such capacity is unclear, given the general context of skills shortages as evidenced by severe capacity constraints at local government level.

Changes in the legal and policy environment

A related risk is the changing legal and policy environment. The DLA's draft Land Use Management Bill, the precise content of which is still uncertain, may, when enacted, fundamentally change the legal and policy context for low-income housing development. In the absence of this Bill, the existing legal framework is quite confused. The Development Facilitation Act tends to be poorly implemented and the old-order local government land use planning ordinances are still being relied on to varying degrees. National Treasury has noted that provision of funding for a new initiative in such a fluid policy environment would be risky.

NDoH competing with private sector developers

Another risk associated with the adoption of a supply-led model is that the NDoH will be seen to be competing with private sector developers. This may lead to a slow-down in private sector housing development as smaller developers withdraw from the market. There is a related risk that the private sector will refuse to engage with the

HDA, making it impossible for the HDA to dispose of the land it acquires. Any land not expeditiously disposed of would both reduce the overall amount of land available for housing development and impose considerable land management costs on the HDA.

Subsidies not passed through to the intended beneficiaries

There is the risk that land subsidies will not be passed through to the intended beneficiaries by developers. If the process of land release is not well structured there is the potential that in the context of high demand and low supply developers, by keeping prices as high as the market can bear, will reap some of the benefits of the land subsidy and not fully pass these through to the final beneficiaries. Similarly, there is a risk that the HDA itself might be seen to be accruing benefits through access to low-cost land rather than passing these savings on to intended beneficiaries.

Unsustainable long-run costs

A further risk is that the cost of subsidising the acquisition of high-value land for affordable housing would be massive and unsustainable in the long-run. Unless the state continues to subsidise the beneficiaries of affordable housing projects on high-value land for some considerable time, there is a risk of downward raiding, i.e. that wealthier housing consumers will buy out poorer consumers unable to maintain their properties. If this were to happen, state subsidisation of affordable housing on well-located land would ultimately redound to the benefit of the middle class.

A proportion of economic benefits due to transport reductions could be lost

As is seen from the cost-benefit assessment below, the most significant quantifiable economic benefits from the HDA intervention would accrue from decreased transport and other infrastructure costs. These benefits are primarily due to decreased travel distances where housing is located closer to employment opportunities and, to a lesser extent, decreased connector infrastructure costs of servicing better located land. The matching of housing beneficiaries with local employment opportunities is difficult at the outset and even more difficult to maintain over time. There is the risk, therefore, that a proportion of the economic benefits due to transport reductions would be lost.

This risk could be mitigated to some extent through the availability of affordable rental stock as an alternative to ownership. The rental option gives beneficiaries the flexibility to move as and when necessary to maximise the benefits of proximity to employment. It also has the potential to limit perverse consequences resulting from restrictions on sale for a specified period of time, which may encourage illegal selling and sub-letting of owned units. The rental option does, however, fail to achieve the wealth creation objective of the Comprehensive Plan.

Insufficient research prior to land purchase

There is also the risk of presuming that certain land is ‘well-located’ without sufficient research and social assessments prior to land purchase. Availability of appropriate social infrastructure, including public transport links, must be taken into account in order to adequately realise the social and economic benefits of improved integration.

Risk of social instability

Finally, since the proposed regulation entails the provision of affordable housing on well-located land at below market value, there is a risk of social instability over perceptions of inequality in the provision of affordable housing. Such perceptions would be exacerbated by any additional subsidisation aimed at mitigating the risk of downward raiding. Providing rental tenure rather than ownership may again be useful in minimising this risk.

4. Options

This RIA compares the costs and benefits of three options:

- **Option 1: Creation of Housing Development Agency (HDA).**
- **Option 2: Creation of Land Acquisition Fund (no HDA).**
- **Option 3: Fine-tuning existing demand-driven model.**

Each of these options is described in more detail below.

Option 1: Creation of Housing Development Agency (HDA)

This option entails a merger of two existing state-owned companies, Servcon Housing Solutions (Pty) Ltd and Thubelisha.[1] Servcon will contribute its existing functions in respect of land acquisition, land management and the provision of bulk infrastructure, and Thubelisha its property management and property development functions. The merged entity will be a public company with a share capital and will have the legal capacity to acquire, hold, manage and dispose of land for affordable housing.

It is envisaged that the identification of land for proactive acquisition by the HDA will occur through the existing IDP process, with the HDA providing support to, and co-operating with, PHDs and municipalities. Both public and private land will be acquired. In the case of private land, land will either be acquired on a willing seller/willing buyer basis or expropriated at market value. In the case of public land, it is anticipated that some land held by parastatals will be made available free of charge, whilst other land will need to be purchased at nominal, book or market value. The HDA will, in addition, have the power to manage land that it does not own on behalf of municipalities or PHDs.

The NDoH proposes that the HDA's initial capital budget will be drawn from the existing MTEF allocation to Servcon[2]. In the 2006/7 financial year this allocation stood at R60 million, rising to R71 million in 2009/10. Additional capital and operating costs for the first five years of the HDA's life will be requested from Treasury. The

[1] Thubelisha was established for the purpose of procuring and developing housing stock appropriate for rightsizing purposes, financing relevant stock, evaluating clients, granting credit and selling houses to approved clients. Servcon was mandated to provide management services for 'Properties in Possession' and 'Non-Performing Loans'.

[2] The National Treasury has indicated that the MTEF allocation is already earmarked for allocation, and may not be re-allocated as proposed.

HDA will also be able to use its initial capital base to raise funds privately on the market. To the extent that the HDA becomes involved in infrastructural development, funds for these activities will be drawn from the relevant Municipal Infrastructure Grant (MIG).

After acquisition, the role of the HDA will be to manage the land whilst facilitating private sector housing development. In so doing, the HDA will effectively subsidise the cost of providing high-value land to affordable housing beneficiaries (currently defined as households earning between R2500 and R7500 per month). Appropriate legal mechanisms will need to be devised to ensure that these subsidies are passed on by housing developers to housing beneficiaries, and thereafter to subsequent purchasers or tenants.

Given government's commitment to local government as the platform for housing delivery, the HDA will need to avoid usurping the functions of local government in respect of housing delivery. Rather, the goal of the HDA must be to capacitate and assist weaker municipalities to perform their functions more effectively. This goal can be achieved by including an appropriate provision in the municipal accreditation process, under which stronger municipalities will be allowed to continue to operate without the assistance of the HDA.

Option 2: Creation of Land Acquisition Fund

In terms of this option, a special fund - a conditional grant - will be created to finance the purchase of high-value land for affordable housing. This fund could be financed from the levies charged on high-value housing developments (for example, as envisaged in the inclusionary housing proposal), together with other sources. There is no dedicated HDA to hold and manage land, but municipalities either acquire land or subsidise its purchase by private developers for affordable housing projects.

Option 3: Fine-tune existing demand-driven model

This option entails the fine-tuning of the existing demand-driven model in terms of which municipalities acquire land for low-income housing on a project-by-project basis. Since the policy decision to move to a more supply-led model has already been taken, this is not a realistic option. It is nevertheless useful to assess the costs and benefits of this option for purposes of comparison.

A key element of this option is the reduction in barriers to affordable housing supply aside from land costs. In particular, these would include reduction of the time taken for rezoning and other town-planning requirements in order to reduce uncertainty and holding costs of land for developers.

5. Costs

5.1 Overview of HDA costs

The costs of the proposed HDA arise from the direct implementation costs incurred in purchasing and releasing land, and from the administrative costs of the Agency itself. The private sector should not incur additional compliance costs as a result of the

HDA's establishment, although there may be some risk of market distortion as a result of the HDA's activities. From an economic perspective, the majority of government costs related to the release of land at a lower price will be balanced by equivalent benefits to developers and beneficiaries.

Sectors affected

The HDA is targeted at releasing high-value land for integrated developments at medium to high density. This will be a national programme but, given the housing demand, is likely to be focused on the Metros and other large urban municipalities. The main economic sector affected is the construction and housing sector.

Cost categories

As outlined above, the costs of the proposal are all implementation costs. These costs have been categorised as follows:

Cost Category	Comment	Assumptions/Data
Loss on sale of land	This is the loss incurred by the HDA due to the difference in the cost of land purchased (better located, higher value land) and the cost of land sold (a cost which allows financially viable, affordable housing to be constructed). The same loss occurs to the public sector if land is transferred from other public entities, as there is an equivalent opportunity cost to not selling the land on the open market.	It is difficult to find good data in the public domain on land prices. Also, these are very variable depending on municipality and location within municipality. It is likely that further refinement of the cost benefit analysis could be done with improved access to certain land value databases, in particular the ABSA residential property market (ARPM) database. A rough evaluation of land value was made based on certain assumptions of the percentage of total development costs that land costs make up.
Holding costs	The costs of holding the land between the time it is purchased by the HDA and the time that it is sold over to a private or public developer.	From interviews, it was suggested that the HDA would be able to expedite the land rezoning and town-planning processes and a short time period of 9 months was used as a starting point.
Administrative Costs	The administrative costs are the additional operational costs of the HDA itself.	These costs are based on an extrapolation of the operational costs per unit released by Thubelisha
Transaction Costs	Transaction costs are the professional fees and related costs due to land rezoning, legal transfer and so forth.	A starting point of 6% of the land value was used as an estimate of transaction costs. This was based on discussions with property developers and economists.

General Assumptions

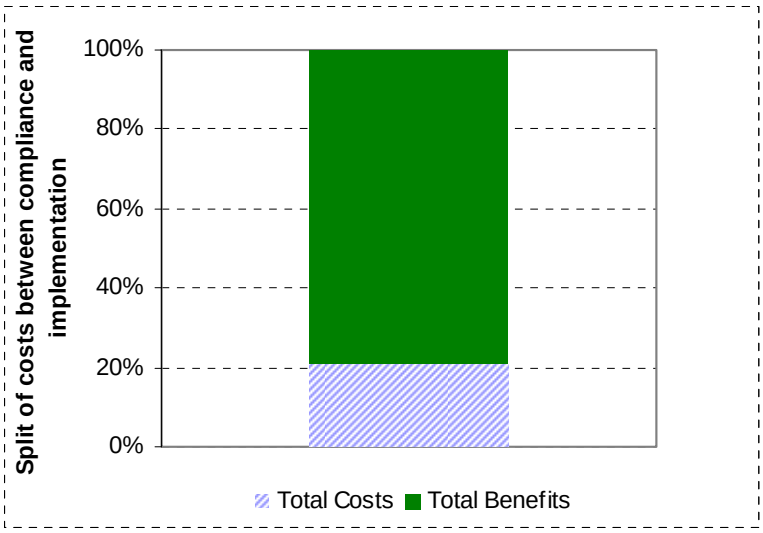
There are some general assumptions, aside from the cost issues discussed above, that need to be made to allow estimations of total costs and benefits. The key assumption is the amount of land to be purchased by the HDA. The starting point

used to determine this amount is the current supply of affordable housing (about 38 000 units in 2005). It is assumed that the HDA will release the equivalent number of units, but this parameter is adjustable. Certain assumptions about the density of development are made to estimate total land purchases.

A simple cost-benefit model has been used to make the relevant calculations. This has been made adjustable to allow various policy decisions and targets as well as basic assumptions to be adjusted, for example, the cost of capital to the HDA and to developers.

This is a very high level model with a high degree of abstraction, due to the fairly early stage of policy development, data limitations and time limitations for this initial RIA. The values noted below must be seen in this light.

A summary of the costs and benefits emerging from the Housing Development Agency (HDA) approach is illustrated below.



The net result is a benefit-cost ratio of 3.8 which implies that the proposed policy is an economically beneficial one. This conclusion is very dependent on a number of assumptions and on the effectiveness of the implementation of the policy. This is discussed further below. It is important to note that if some of the presumed benefits of the policy do not occur, such as urban densification and reductions in travel distances, then the benefit-cost ratio will be less favourable and may fall below one, the threshold for an economically beneficial policy.

The sensitivity of the net benefit-cost ratio to some of the key cost and benefit assumptions is discussed below.

5.2 Comparative Cost of Options

The costs and benefits of the HDA (option 1) are calculated in the simple model. More limited estimates of the costs and benefits of the other options are made for illustrative purposes.

5.2.1 Option 1: Creation of Housing Development Agency (HDA)

Implementation Costs

The annual implementation costs, based on the assumptions made above, are shown in the table below. The most significant cost is the implicit subsidy being made on the sale of high-value land at an 'affordable' price. This accounts for R205 million per year at the assumed scale.

Annual costs of the Housing Development Agency

	2007 Rand values
Loss on sale of land	204,707,708
Holding costs	10,010,414
Administrative Costs	27,152,905
Transaction cost	21,215,163
Total Costs	**263,088,197**

The land loss figure is very sensitive to the relative value of high- and low-value land and an improved understanding of land values and the cost implications related to the land value subsidy is a key step in developing a final RIA and a business plan for the HDA. The initial estimates suggest an annual funding requirement of R263 million.

The net benefit-cost ratio is not very sensitive to changes in the holding time of land for the HAD, nor is it sensitive to changes in the administrative costs per hectare of land. However, the costs and the overall benefit-cost ratio are highly sensitive to the difference between the sale and purchase price of the land. The table below shows this sensitivity, with the initial value being based on available market data and assumptions.

Loss on sale of land (R/m2)	**53**	**100**	**146**
Benefit:cost ratio	3.76	2.6	2.13
Total Costs (R million)	263	455	648

More refined modelling of the administrative costs would be possible once there is greater clarity on the envisaged size of the HDA and its relationship to current Servcon and Thubelisha capacity.

These costs exclude any development costs incurred by the HDA on the purchased land. It is assumed that typically such development will not occur. In those cases that it does occur these costs will be offset by the sale at a market rate of the developed land or housing units which recovers the development costs.

Compliance costs

No compliance costs for business or beneficiaries are foreseen as discussed above.

5.2.2 Option 2: Creation of Land Acquisition Fund

Implementation Costs

The implementation costs of the land acquisition fund would be similar to that of the HAD, as equivalent land value subsidies would be provided, but in a demand-led rather than a supply-led manner. The same land holding costs and transaction costs would occur as for Option 1, but in this case they would be borne by the developer.

It is presumed that the administrative costs would be lower than under Option 1 and an assumed one third of the administrative costs is used below. The percentage decrease in costs from Option 1 to Option 2 is about 7%.

Annual costs of the Land Acquisition Fund

Year	2007	Incurred By
Loss on sale of land	204,707,708	Public Sector
Holding costs	10,010,414	Private Sector (Developer)
Administrative Costs	9,050,968	Public Sector
Transaction cost	21,215,163	Private Sector (Developer)
Total Costs	**244,986,260**	

5.2.3 Option 3: Fine-tune existing demand-driven model

Implementation Costs

The third option of fine-tuning the existing demand driven model implies improvements in the existing management of the land release and housing process but no additional costs of actual land purchase or development. The main government costs would be related to national, municipal and provincial level improvements in the administration of deeds registration and transfer, rezoning and town planning. The costs of these measures are impossible to ascertain without significant further investigation. It is likely, however, that the administrative costs will be significantly lower than the land purchase (subsidy) costs of the other two options.

6. Benefits

The benefits from the proposed HDA would result from benefits that arose due to an increase in the affordability of well-located settlements that are well integrated into the urban economy and social fabric. These benefits include economic benefits, such as reduced transport costs and reduced urban service costs, and social benefits. Many of these benefits are not quantifiable in economic terms, in particular the social benefits such as a sense of dignity, social cohesion and improved equity.

It is also important to note that the provision of subsidised land for affordable housing is a *transfer* in economic terms. Although the costs of this transfer are borne by the public sector, equivalent benefits accrue to the private beneficiaries. In economic

terms, these costs and benefits balance each other out, the main implication being distributional. There are some additional net benefits to the private sector due to the envisaged reduction in the holding time of land.

An attempt has been made to provide an initial estimate of the major economic benefits. The model includes reduction in transport costs and reduction in urban bulk and connector service costs.

It is very important to note that the benefits accruing from so-called 'well-located land' vary tremendously according to local circumstances. The presumption that such benefits will always occur is not necessarily true and case studies have shown that, in many cases, land regarded as poorly located does not have higher or significantly higher associated costs of transport and infrastructure. This is discussed further later in the report. The model is therefore a crude representation of reality. The results are important because they demonstrate the significant benefits that *could* accrue if correctly located land is released for affordable housing.

6.1 Option 1: HDA

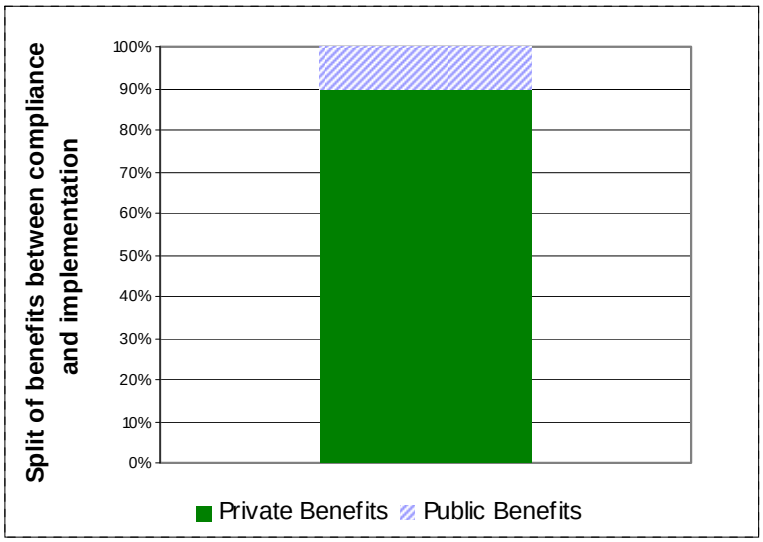
A set of assumptions are made in the model about the alterations in transport distances that will occur due to better located settlements. Similar assumptions are made about reduced infrastructure costs. These assumptions are based on published literature, which notes the location-specific nature of these costs. Therefore, although costs have been extrapolated nationally in the absence of better information, they must be regarded as crude estimates.

Similarly, assumptions on the reductions in bulk infrastructure costs are based on limited examples. Research suggests that the relationship between land located closer to the city centre and lower infrastructure costs does not always hold. Instead, there are a number of reasons why peripheral land is sometimes cheaper to service. These figures should therefore be viewed with caution.

Benefits of the Housing Development Agency in Year 1 (2007 Rand values)

Benefit	Amount (Rands)	Accrues To
Receipt of land at lower cost	204,707,708	Private sector (Beneficiary)
Holding costs not incurred by developer	34,163,959	Private Sector (Developer)
Reduction in transport costs to households	167,529,667	Private sector (Beneficiary)
Reduction in transport subsidies provided by government	7,731,635	Public sector
Reduction in cost of bulk service provision	95,707,500	Public sector
TOTAL BENEFITS	**509,840,469**	

The total benefits are R510 million for the first year. However, the transport benefits are not one-off benefits but continue to exist in perpetuity. If a ten year approach is taken the total benefits, discounted at 7%, are R1 314 million. The split between the public and private benefits is shown below. Private benefits dominate due to the preponderance of transport benefits, their long-term nature and the fact that most transport costs are borne by households in South Africa.



Reduction in travel distances

Although the primary aim of the IHP is to improve social cohesion by improving a better balance of race and class in new developments, the policy is also intended to bring low and lower-middle income households closer to their places of work. If this is achieved, it will generate several significant benefits:

- *Reduction in transport costs to households*: Transport represents a significant cost to households. The magnitude of the reduction in transport costs depends on whether households use private cars, buses or taxis to travel.
- *Reduction in public transport subsidies allocated by government*: If the use of bus travel decreases due to shorter trip lengths, then the magnitude of public transport subsidies allocated by government will decrease.
- *Reduction in pollution costs*: Shorter journeys mean less petrol used, and thus less CO_2 generated.

The monetary magnitude of the benefits listed above depends largely on the extent to which trip lengths are in fact reduced due to the introduction of the policy. In the analysis it has been assumed that all of the residents of the affordable units delivered under the policy have their average trip lengths reduced by 10km. The total benefit-cost ratio is *very sensitive* to the proportion of residents who in fact benefit from shorter trip times, as shown in the table below.

Average difference in distance between business-as-usual poorly located settlement and settlements developed by the HDA.	***20km***	***10km***	***0km***	***-10km***
Benefit:Cost Ratio	6.3	3.8	1.3	0.08

The table above also shows the danger of ineffective policy implementation. If the policy is implemented in such a way as to in fact *increase* average travel distances (the -10km column) the benefit-cost ratio declines below zero which means that costs become greater than benefits.

6.2 Option 2: Creation of Land Acquisition Fund

Under Option 2 the benefits are the same as under Option 1, except that developers would not benefit from a reduction in holding costs. The benefits to the private sector are therefore reduced by R34 million.

There would be a decrease in the benefit-cost ratio under Option 2, with everything else being equal to the starting assumptions for Option 1, if it was presumed that the Land Acquisition Fund did not reduce land holding time for developers. Holding time and associated costs would be longer and higher for developers than those incurred by the HDA under Option 1. The holding costs would double to about R20.5 million and the benefit-cost ratio would decline to about 3.5. Although the benefit of the reduction in holding time for developers would be removed, the net economic impact is not very sensitive to the holding period.

6.3 Option 3: Fine-tune existing demand-driven model

Under Option 3, the presumption is that the improved efficiency in land administration might lead to an improved supply and hence some or all of the benefits of the proposed HDA. No reasonable assumptions can be made about the relative effectiveness of this option.

It should be noted that, in interviews, developers suggested that issues such as long holding times for land, regulatory inefficiency and planning uncertainty are more important factors preventing new affordable developments than land costs alone. If these are accurate representations of the situation, then Option 3 may well have significant impact on the problem which is being addressed. Given the likely lower costs of this option there is a reasonable presumption that this option would have a high benefit-cost ratio

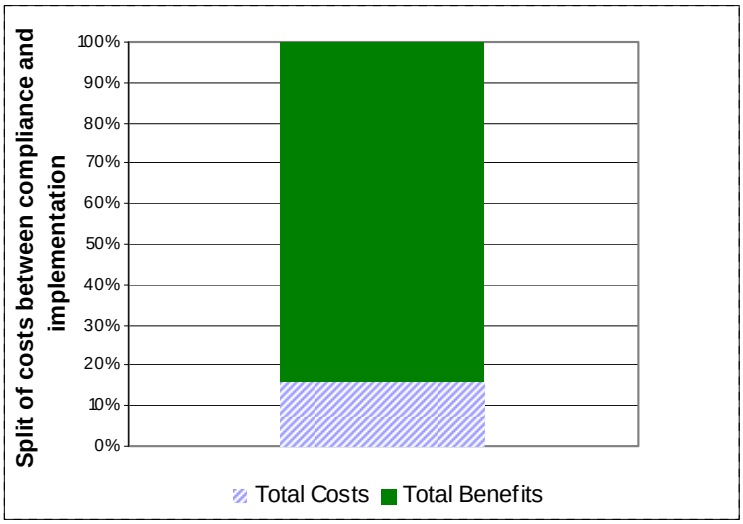
7. Cost/Benefit Summary

A summary of the costs and benefits for Option 1 (creation of the HDA) are shown below in a table and graph.

Costs and benefits for Option 1 (creation of the HDA)

Net Present Value Overall NPV (net costs and benefits) at 7% discount rate over 10 years	**1,068,897,955**
Implementation Costs	245,874,944
Compliance Costs	-
Total Costs	**245,874,944**
Private Benefits	1,181,119,887
Public Benefits	133,653,012
Total Benefits	**1,314,772,899**

The graph shows the relative split of costs and benefits.



On the basis of the rough analysis it appears as if the benefits of the proposed HDA significantly outweigh the costs. This is due to two factors:

1. The land subsidy costs are regarded as an economic transfer and not a net cost to the economy. However, they will appear as a cost to the fiscus.

2. The general presumption is that the HDA will lead to the development of land with lower transport and infrastructure costs as locations will be closer to employment and urban amenities. This is the main benefits driver but is not a guaranteed outcome.

The research of Venter *et al* (2004) is pertinent to the second point.[3] They note that definitions of 'well-located land' should not be seen as static. The suitability of individual parcels for housing development, be they central or peripheral, changes over time and may be as dependent on local-area growth as on their relative location within the metropolis.

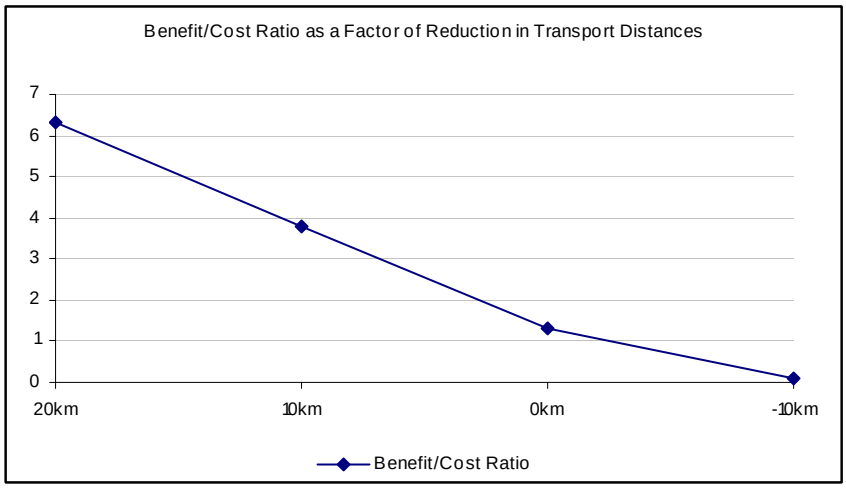
The Venter study considered all costs and benefits associated with low-income housing location in eight case study areas in Johannesburg and Ethekwini. *The empirical evidence did not indicate conclusively that more central locations have lower overall costs and higher livelihood benefits than ones located further away from the central city*. While not necessarily universal, this finding does suggest that the notion of 'well-located land', when used to assess the suitability of specific locations for subsidised housing, needs to be nuanced enough to allow for important differences in household preferences and cost structures that are not simply related to the distance from the centre of the city.

In Venter's case study areas, the costs of land, bulk infrastructure, and services did not all decrease in a linear fashion with distance from the city centre, due to their sensitivity to historic land use patterns, the incremental nature of infrastructure investment, and the relatively large impact of non-locality related factors. On the transport side, the relationships between household location and travel expenditure were not found to be simple functions of distance from the city centre, as many other

[3] Venter, C., Biermann, S. and van Ryneveld, M., 2004: *Low-Cost Housing Location in South African Cities: Empirical Findings on Costs and Benefits*; Proceedings of the 23rd Southern African Transport Conference (SATC 2004), 12-15 July 2004, ISBN Number: 1-920-01723-2 Pretoria, South Africa.

factors are also important including proximity to other development nodes, the pricing practices of transport providers, and household lifestyle choices (particularly car use).

Because of the significance of the transport component in the derivation of presumed benefits, the benefit-cost ratio is very sensitive to the presumed transport reductions occurring. This is shown graphically below.



The graph shows that if the location/transport benefits are not realised, the policy has rapidly declining economic merit.

All the above points are very important riders to the rough cost-benefit analysis and point to a key risk of the HDA i.e. that correct land is not released by the HDA for the housing most appropriate to that land. If this matching of land to households and urban processes is not done well it is possible that many or most of the calculated benefits could fall away.

8. Comparative Assessment of Regulatory Options

Criterion	*Option 1*	*Option 2*	*Option 3*
Economic growth and development			
Economic growth impacts	Strongly positive if it increases the net development of low-income and affordable housing stock.	Strongly positive if it increases the net development of low-income and affordable housing stock.	Strongly positive if it increases the net development of low-income and affordable housing stock.

Criterion	*Option 1*	*Option 2*	*Option 3*
Competition implications	Risk that HDA will compete directly with private sector in the provision of housing, with advantage of government subsidies/access to heavily discounted land.	No implications as long as all developers have equal access to the subsidies.	No implications.
Small business implications	Increased growth in the housing construction sector may create new opportunities for SMMEs (however, some SMMEs have expressed concern re competition implications).	Increased growth in the housing construction sector may create new opportunities for SMMEs.	Increased growth in the housing construction sector may create new opportunities for SMMEs.
BBBEE impacts	As above – the entry of SMMEs may create new space for black-owned business in the sector.	As above – the entry of SMMEs may create new space for black-owned business in the sector.	As above – the entry of SMMEs may create new space for black-owned business in the sector.
Employment impacts			
Job creation	Increased - would follow increased growth in the construction sector.	Increased - would follow increased growth in the construction sector.	Increased - would follow increased growth in the construction sector.
Distribution & equity			
Poverty reduction	There would be substantial benefits to low- and low/middle-income new homeowners if subsidies were passed through to the eventual purchaser.	There would be substantial benefits to low- and low/middle-income new homeowners if subsidies were passed through to the eventual purchaser.	Less direct impacts on beneficiaries. Possible decrease in housing prices due to lower costs of development. More difficult to ensure that these cost savings are passed on to beneficiaries.
Income distribution	Future political problems may arise as some households will be receiving assets and the allocation of these may cause equity concerns.	Future political problems may arise as some households will be receiving assets and the allocation of these may cause equity concerns.	Fewer equity concerns about unfair state allocations as access to new cheaper housing will be market driven.

Criterion	*Option 1*	*Option 2*	*Option 3*
Geographical distribution	Positive impact of more racially and economically integrated human settlements. Potential to bring lower income groups closer to employment opportunities		
Racial equity	Unlikely to have significant impacts on urban integration.	Unlikely to have significant impacts on urban integration.	Unlikely to have significant impacts on urban integration.
Vulnerable groups	No specific impacts.	No specific impacts.	No specific impacts.
Health & Environment			
Health	No specific impacts.	No specific impacts.	No specific impacts.
Environmental	If the policy results in shorter travel distances and in more dense urban form it will have positive energy use and urban air quality impacts.	If the policy results in shorter travel distances and in more dense urban form it will have positive energy use and urban air quality impacts.	If the actions result in shorter travel distances and in more dense urban form it will have positive energy use and urban air quality impacts.

9. Enforcement and sanctions

Thought must be given on ways to address two major issues:

1. Prevention of downward raiding via a system of controls on the sale, transfer or sub-letting of the new asset created. This would have to be a long-term control. The easiest way to do this would be to create rental housing stock (social housing) rather than freehold stock.

2. Ensuring that land subsidies are passed through to the intended beneficiaries by developers. Some thought needs to go into how this could be achieved.

10. Monitoring and review

Key monitoring issues include:

1. Land release relative to the baseline. There should be checks to ensure that the HDA does not simply displace other developments that would occur, but adds to the total of land released.

2. Location of land. Indicators are needed to define what constitutes 'well-located' land and whether the release of such land is being achieved.

3. Indicators of whether households are located closer to their place of work than previously located or than would otherwise be located.

11.Consultation

Respondents included representatives of the National Departments of Housing, Land Affairs and Treasury, together with various external stakeholders including sector experts, private sector developers, SAPOA and academics.

12. Summary and recommendation

In order to properly assess the likely costs and benefits of subsidising the acquisition of well-located land for affordable housing, better information on average land values is needed. Such information will assist in calculating the average land loss figure, i.e. the difference between the market price of the land acquired by the HDA or participating municipalities and the price at which it needs to be released to the private sector for purposes of affordable housing.

The cost-benefit analysis in respect of the creation of a Housing Development Agency indicates that the success of this option in economic terms is highly dependent on the assumption that this option will lead to a reduction in transport costs. Without these benefits, the cost-benefit analysis of the HDA option suggests a break-even point at approximately -2.5km, after which the costs to the state of subsidising the acquisition of high-value land together with other implementation costs will outweigh the benefits received by the private sector in being able to acquire well-located land at less than market value. Any cost to the fiscus at this point will need to be justified in political terms according to the perceived social benefits of the policy.

There are a number of risks associated with the establishment of the HDA, including the risk that arrangements between NDoH and DLA may prove problematic, that funds for land acquisition will not be readily available, that the HDA will compete directly with the private sector in respect of housing provision, that the HDA will be perceived as over-riding the constitutional mandate of provinces and municipalities in respect of housing delivery, and that the provision of high-value, well-located land at subsidised rates may be seen as unfair by housing beneficiaries whose land costs were not subsidised in this way.

A clear business case for the HDA is yet to be established. In particular, it is not clear whether the HDA would be able to do the work of underperforming municipalities better or more efficiently. It is recommended that if the HDA option is pursued, municipalities that are already performing their housing delivery functions well should be exempted from the process.

It is recommended that there is a need for further consultation between the NDoH and provincial and municipal government on the implementation of the HDA option. If implemented, such consultation may assist in ensuring that the HDA coordinates the work of all three spheres of government in respect of housing delivery. There is also a need for improved coordination between the NDoH and other departments affected by the HDA proposal, especially the Department of Land Affairs (DLA).