

# A Cost Benefit Analysis of Social Rental Housing

*Social Housing Foundation*

## Extract from the Executive Summary

South Africa has various state-supported housing programmes, of which RDP housing (currently termed “BNG” housing) and more recently social rental housing (SRH) are significant components. Although over 2 million houses have to date been provided through the RDP housing programme, the programme poses several challenges, not least concerning the implications for the future sustainability of cities and their municipalities in the country.

SRH is seen as one alternative to RDP housing and although the perceived initial construction costs are higher, the benefits of this housing form over time are also expected to be higher. It is also believed that SRH addresses an important demand and income segment within the full housing sector and market in South Africa.

This report contains the results of a cost benefit analysis (CBA) comparing SRH (as the potential investment or ‘project case’) and RDP housing (as the status quo or ‘base case’). The goal of this study is to assess whether providing SRH to poor people is more beneficial to society than providing RDP housing, taking into account all costs and all benefits to all members of society over the full lifetime of the housing.

The CBA provides an *economic perspective* on investments in housing by identifying and quantifying costs and benefits where possible. Importantly, the CBA as an economic tool quantifies direct and indirect costs and benefits in monetary terms, and discounts these values over time to allow for them to be accurately compared.

The quantification of costs and benefits is important as it allows for a more objective comparison to be made between the total effects on society of RDP and SRH. For analytical purposes we distinguish a financial, economic and distributional analysis within the CBA. The financial analysis considers the costs of the project taking into account and correcting for (as far as possible) pricing and other distortions. The economic analysis considers primary and secondary effects that result from the projects and aims to quantify these as far as possible. Finally the distributional analysis seeks to assess where the incidence of cost falls, that is the primary beneficiaries of the project and the carriers of the cost burden.

In order to analyse the relevant aspects of housing, the primary intended effect of SRH is defined as:

- to contribute to urban restructuring in order to address structural economic, social and spatial dysfunctionalities; and
- to improve and contribute to the overall functioning of the housing sector.

Based on these policy goals, several measurable variables were defined resulting from the characteristics of SRH compared to RDP housing, including effects on employment, health and crime.

In order to calculate costs and benefits, the costs and benefits of six actual projects were analysed. The principal analysis was based on comparisons of the Bram Fischerville RDP project and the Roodepoort, SRH project both located in Johannesburg, and on RDP housing in Potsdam and the Amalinda SRH housing

project in East London. The analysis was supplemented with further information from the Tokologo / Mhluzi Ext 2 RDP project and the GMHA Hope City SRH project in Middleburg.

Extensive primary data were collected on the six projects, from project documentation and an extensive series of interviews with practitioners involved in the projects. This was supplemented by secondary data. Causality relationships were established based on information received, and on empirical and theoretical literature, as well as engagement with an expert panel (the Project Reference Group). A detailed survey of 550 households was conducted to measure impacts and effects in detail.

The CBA is not intended to measure the exact value of an investment. It necessarily simplifies reality and is partly based on assumptions, which means that the results can only be stated in ranges. Sensitivity analysis is therefore a crucial element in understanding and interpreting the results. *The strength of the CBA, however, is that it helps to understand differences between alternatives, and the relative value of these differences.*

Second, the CBA provides an economic perspective on the subject which can be an extremely valuable tool in policy making. However, a CBA is not a substitute for policy making in which also social, political, budgetary and other perspectives are important.

Third, it needs to be stressed that the CBA is a cash flow model, which means that it does not provide insight in the value of the underlying assets at each point in time.

A specific methodological problem encountered, results from residents in RDP housing having substantially lower incomes than residents in SRH. This means that it is important to differentiate effects that come from income levels, from those resulting from housing. The report indicates in which calculations this issue was encountered and the way in which the issue was dealt with. Inter alia, a subset of residents with comparable incomes in the RDP and SRH survey was created to test for income versus housing differences.

Download the full report from the Social Housing Foundation [website](#).