SECOND CARNEGIE INQUIRY INTO POVERTY
AND DEVELOPMENT IN SOUTHERN AFRICA

The "affordability" of the new housing policy and its likely impact on the 'Coloured' housing crisis in Cape Town

by

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SECTION I
INTRODUCTION

The continuing existence of a low-income housing crisis in Cape Town has been frequently highlighted and debated over recent years. In particular, reference has been made to the housing shortage, overcrowding, rent increases, a lack of facilities and deteriorating physical environments. The aim of this paper is to focus on one aspect of the more general housing crisis: the question of affordability of housing for the Cape Town 'Coloured' population, and the impact on it of recent changes in the government's new low income housing policy.

I. DIMENSIONS OF THE CURRENT AFFORDABILITY PROBLEM

'Coloured' incomes in Cape Town are generally low and standards of living have been seriously affected by the economic recession of the last few years. Divisional Council figures for Cape Town as a whole in 1980 (1) estimated average 'Coloured' incomes at R183 a month, and a 1982 Divisional Council analysis (2) of incomes of tenants in its letting units estimated that 39% of these heads of households earned under R150 a month, 73% earn below R250 a month and 89% below R350 a month.

The average household income for Coloured families in Cape Town is a more respectable R640 a month (a). However, surveys in some of the larger rental townships show figures well below this: Bonteheuwel has an average household income of R405 and Uitsig R376,38 (3). While on average this places family incomes above the minimums laid down by various poverty datum lines, a high degree of income differentiation means that a significant number of families falls below these theoretical minimums. Thus, in relation to UNISA's (4) minimum living level (MLL) and the more realistic supplement living level (SLL), 22% of families in Bonteheuwel fall below the MLL (b) and 28% below the SLL. In Uitsig 40% of families fall below the SLL (c) and 28,3% below the MLL. Levels of poverty have therefore reached significant proportions, in both an absolute and relative sense, and this has affected people's perceptions of their relative economic status as well.

A 1981 survey (5) of the 'Coloured' population of Cape Town conducted at the onset of the present economic downswing, showed that 56% of respondents considered their income just sufficient to live on, while 21,3% were facing an increasing debt situation and 9,8% were being forced to use past savings to boost current income. 54,5% of respondents were finding it impossible to save and only 20% thought it an opportune time to invest in durables.

A study undertaken in Elsies River a year later (6) revealed even greater pessimism. 93% of respondents claimed that food prices had reached levels which made adequate nutrition very difficult, and 91% were adamant that saving was impossible.

Table 1 shows that grounds exist for survey results of this nature: even
though average 'Coloured' earnings have increased over the last few years, price rises have all but negated these increases and the increase in real earnings is in fact very small.

Table 1. 'Coloured' Earnings 1972 - 1982

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2,2%</td>
<td>3,7%</td>
<td>0%</td>
<td>1,4%</td>
<td>-.8%</td>
<td>-1,4%</td>
<td>-2%</td>
<td>-2,4%</td>
<td>5,5%</td>
<td>5,7%</td>
<td>4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td>8,9%</td>
<td>14,6%</td>
<td>13%</td>
<td>15,4%</td>
<td>9,7%</td>
<td>9,6%</td>
<td>9,7%</td>
<td>10,1%</td>
<td>21,3%</td>
<td>22,1%</td>
<td>19%</td>
</tr>
</tbody>
</table>


An important factor contributing to the generally low standard of (Coloured) living in Cape Town has been the high cost of housing.

The Department of Community Development has laid down (7), as a guideline to local authorities, the criterion that basic rents (d) should not exceed more than 25% of the income of the household head. It has however been pointed out (8) that it is incorrect to attempt to apply such a measure to all income groups, and that it is only at an income of R750 per month that it becomes reasonable to pay 25% of income in rent. At income levels below this families are able to pay a much smaller proportion of their income on housing (Table 2).

Table 2. Percentage of Income Payable on Housing

<table>
<thead>
<tr>
<th>Income per Month</th>
<th>Maximum % for Housing</th>
</tr>
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<tbody>
<tr>
<td>R150</td>
<td>9%</td>
</tr>
<tr>
<td>R200</td>
<td>10%</td>
</tr>
<tr>
<td>R300</td>
<td>12,5%</td>
</tr>
<tr>
<td>R400</td>
<td>15%</td>
</tr>
<tr>
<td>R500</td>
<td>18%</td>
</tr>
<tr>
<td>R600</td>
<td>22,5%</td>
</tr>
<tr>
<td>R750</td>
<td>25%</td>
</tr>
</tbody>
</table>

(These figures reflect October 1980 levels)

In fact, large numbers of Cape Town 'Coloured' families pay well over 25% of their income in rent. A 1980 investigation (9) of eight sample areas showed that 42% of tenants were paying over 25% of their income in rent, and these proportions have been backed up by more recent surveys. In Elsies River it was found that 35% of tenants pay over 20% of their income in rent (10), and a 1982 survey of Bonteheuwel and Uitsig (11) showed 62% of tenants in both areas paying over 25% of income in rent.

Moreover, it is the lowest income groups which are being particularly hard hit. Table 3, derived from the investigation of eight sample areas in 1980, shows that it is particularly those earning under R70 a month which may be paying up to half their income in rent (and in the sample areas between 5 and 40% of family heads fall into this category).

Table 3. Percentage of Income Paid in Rent by Income Group: Sample Areas in Cape Town 1981

<table>
<thead>
<tr>
<th>Monthly income</th>
<th>R0-70</th>
<th>R70-150</th>
<th>R150-250</th>
<th>R250-350</th>
<th>R350-450</th>
<th>R450+</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>City Council</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Factreton</td>
<td>30,3%</td>
<td>18,5%</td>
<td>12,8%</td>
<td>7,8%</td>
<td>6,1%</td>
<td>4,5%</td>
</tr>
<tr>
<td>Kalksteenfontein</td>
<td>44,9</td>
<td>26,3</td>
<td>16,6</td>
<td>10,2</td>
<td>6,5</td>
<td>4,3</td>
</tr>
<tr>
<td>Valhalla Park</td>
<td>36,0</td>
<td>21,4</td>
<td>19,2</td>
<td>17,0</td>
<td>11,1</td>
<td>10,6</td>
</tr>
<tr>
<td><strong>Div. Council</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hout Bay</td>
<td>38,7</td>
<td>18,7</td>
<td>19,3</td>
<td>12,5</td>
<td>12,4</td>
<td>10,8</td>
</tr>
<tr>
<td>Ocean View</td>
<td>42,0</td>
<td>24,8</td>
<td>14,9</td>
<td>11,6</td>
<td>9,2</td>
<td>6,1</td>
</tr>
<tr>
<td>M. Plain</td>
<td>42,8</td>
<td>24,8</td>
<td>25,2</td>
<td>21,7</td>
<td>19,3</td>
<td>18,2</td>
</tr>
<tr>
<td>Atlantis (a)</td>
<td>48,0</td>
<td>25,6</td>
<td>33,2</td>
<td>38,8</td>
<td>34,6</td>
<td>26,0</td>
</tr>
<tr>
<td>Atlantis (b)</td>
<td>43,0</td>
<td>25,3</td>
<td>25,1</td>
<td>28,0</td>
<td>27,0</td>
<td>23,0</td>
</tr>
<tr>
<td><strong>Averages</strong></td>
<td>40,7</td>
<td>23,1</td>
<td>20,7</td>
<td>18,4</td>
<td>15,7</td>
<td>12,9</td>
</tr>
</tbody>
</table>

The conclusion to be drawn from this is that already, for many families, the cost of housing is onerously high and is contributing significantly to the problems of poverty in Cape Town.

II. EMERGENCE OF THE NEW HOUSING POLICY

1. The Nature of the Approach

In essence, the last few years have witnessed a major reorientation in the state approach to the provision of low income housing, both in terms of repayments on existing housing stock and the provision of new housing. This reorientation has taken the form, firstly, of a partial withdrawal of state responsibility for low income housing and a shift in the burden to the private sector and the low income group itself. Secondly, in those areas of housing provision for which the state will continue to take responsibility, there is to be a cutback in financial commitment through the dropping of housing standards.

The new approach itself has not been announced as a coordinated 'housing policy': instead it has emerged from the findings of various state-appointed housing commissions and has taken the form of a number of instructions to local authorities. The most important elements of the new approach are as follows:

a. 500 000 houses funded originally by National Housing Commission will be sold off. Houses that were funded from other sources, but fall under the control of the Dept of Community Development, by virtue of the lessees being Coloured, African or Asian, will also be sold in accordance with the general shift in policy (12).

b. New stock of complete dwelling units will be provided with government finance only for:

i. The under-R150 per month earners and then only at lowered standards. The lowered standards refer to the withdrawal of 'luxury' elements, such as tarred streets, electricity, ceilings, floor-covering, the painting of internal walls, wash-lines and street-front fencing. (13).

ii. Welfare housing for the aged and needy. Contributions to this category will be reduced in the hope that organisations involved will increase their financial commitment. The implication is that the extent of government funding will be wholly dependent on the size of the private sector contribution.

iii. Urban renewal areas.

c. New stock constructed through private sector funding for home ownership will be 'facilitated' by the government through the provision of:
i. A surplus of available serviced sites. Requests from local authorities for the purchase of land will receive preference. Thereafter requests for funds to lay services will be considered.

It is the stated intent of the government to give priority to people who can afford to build their own houses.

ii. 90% loans for the purchase of houses for those who cannot find finance from other sources. First priority here is placed on the under R450 per month earners and secondly, under certain conditions, the R450 to R800 per month earner. The number of loans will still be limited but an increase over past allocations is envisaged (h).

iii. A 20% interest subsidy for first-time home-owners on newly constructed houses providing that the cost of the improvements (i.e. house) does not exceed R40 000 (14).

iv. Loans for materials up to a maximum of R3000 - R4000 per unit on controlled self-help schemes.

d. There will be a withdrawal of the majority of funding for the provision of community facilities and this will become the financial responsibility of the community. This process will be 'facilitated' by the government through the provision of technical and administrative assistance.

e. There will be a gradual reduction of interest subsidies in order to switch funds from the 'subsidisation of housing to the provision of housing' at realistic standards (i).

f. There will be a restructure of the rental formula which applies to Council housing for those earning over R150 a month. The aim of this move is to bring rents in line with 'market values' so as to avoid any disincentive to home-ownership.

2. Reasons for the New Approach

At the broadest level the reasons for a reorientation in the approach to low income housing provision can be traced to the economic and political crisis which has beset South Africa, and which has reached particular intensity in the past few years. At an economic level the crisis has made itself felt in terms of declining overseas demand for products and the reduced availability of finance capital (as a result of the world recession), internal blockages to economic expansion as a result of a limited domestic market and a skilled labour shortage, and massive increases in defence expenditure which in turn has placed a limit on state expenditure in other areas of the economy. At a political level the state has been faced on one hand with rising working class militancy and on the other hand with the need to readjust the apartheid structure to cope with changed conditions of capital accumulation.
The strategy devised to counter this crisis (termed 'Total Strategy') involves the incorporation of specific representatives of the private sector into certain levels of government, and the cooperation of both public and private sector in areas previously barred to the latter. Furthermore, it involves the development of a Black middle class (in contradiction to previous class-levelling devices) which will defuse increasing working-class solidarity and which can be coopted in support of government policies.

More particularly, pressures for a re-think on state-provided housing may be traced to four primary sources.

Firstly, there is the very real pressure of an escalating housing backlog (currently estimated at between 450 000 and 500 000 units) and growing demands from both the private sector and organised sections of the working class to step up the delivery of housing units. Given that by the year 2000 some 4 million additional housing units will have to be provided, demanding an expenditure of some R25 285m, a change of approach is clearly required.

There is, moreover, a spatial dimension to this. There are strong pressures to improve the level of homeland viability and the attractiveness of decentralisation points and this has brought about a switch in funding priorities from the 'White' urban areas to the homelands. The Department of Cooperation and Development has calculated a need for 154 000 houses in the homelands at an approximate cost of R1.54 billion, and these will be concentrated in the 'new towns' which are being proclaimed at a rate of 4.4 towns a year. The advantages of this investment will be two-fold: firstly, it will contribute to the maintenance of influx control, as housing will be more easily available and cheaper than in the 'White' urban areas, and secondly, it will stimulate employment on a large scale: the Department of Cooperation and Development has claimed that for every R100m spent on housing, 25 000 jobs can be created. The overall effect, however, will be a reduced emphasis on housing in the 'White' urban areas where the housing shortage has already reached critical levels.

Secondly, the housing issue has become a highly politicised one: the last few years have seen a proliferation of community-based organisations in all the major centres, and more recently in smaller towns as well. The role of the Department of Community Development as the (almost) sole landlord to low income tenants has made it an easy target for community action, and it would be greatly to the advantage of the Department to be able to withdraw from this role and hand over to private sector agents and individuals.

Thirdly, the National Housing Fund has come under severe strain. There are several reasons for this.

Firstly, the National Housing Fund can no longer rely on the Treasury to increase allocations to the Fund or constantly to defer portions of interest and capital repayments due to them. The tightening up of Treasury allocations has been a result both of the economic recessions (especially since 1980) and the switch in priorities to funding housing in the homelands.
Secondly, the general economic recession has made it more difficult to raise funds from the private sector, both locally and abroad.

Thirdly, the shortage of funds has been further aggravated by escalating construction costs. With construction costs increasing at an average rate of 20% p.a., the cost of providing a single unit has doubled over the last four years (18). Table 5 indicates the effect of this in relation to Coloured housing.

Table 5. Increases in Construction Costs

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>No. of Units</th>
<th>Average Cost of Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977/78</td>
<td>R12425 000</td>
<td>18 704</td>
<td>R 6 010</td>
</tr>
<tr>
<td>1978/79</td>
<td>R163 356 000</td>
<td>20 794</td>
<td>R 7 855</td>
</tr>
<tr>
<td>1979/80</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1980/81</td>
<td>R160 865 000</td>
<td>11 494</td>
<td>R13 995</td>
</tr>
<tr>
<td>1981/82</td>
<td>R185 315 000</td>
<td>12 153</td>
<td>R15 248</td>
</tr>
</tbody>
</table>

Fourthly, problems have arisen as a result of the method of financing vis-à-vis the income group of people to be housed. Borrowed funds have to be repaid plus interest. If funds are used in such a way that their investment does not allow for their full recovery, then at some point in time bankruptcy is inevitable. This crisis point can be delayed if increasing amounts can be borrowed, but once borrowing capacity levels off, the possibility of bankruptcy becomes a real one.

Funds are borrowed from the Treasury by the National Housing Commission at a current interest rate of 13.75% p.a. Yet the highest interest rate applicable on housing repayments is 11.25% p.a., while the majority of tenants in Cape Town (for example) pay at an interest rate of 3 - 5% p.a. The inevitable result is that increasing proportions of the annual allocation from the Treasury are used to finance subsidies and deferred interest repayments and fewer and fewer funds are available for new housing stock.

Thus in the 1983/84 financial year, subsidies constituted close on a quarter of the full Treasury allocation to the National Housing Fund, and 77.5% of the total interest repayments of the National Housing Fund. The subsidy alone could have funded the construction of 5528 houses in Cape Town (at a cost of R15 000 each). The implication of an interest subsidy over an ever-growing pool of houses, given the current pattern of capital allocation from Treasury, is that it holds the possibility of eventually constituting the majority of the allocation. This trend shows clearly over the last few years as the percentage of the total allocation comprising subsidy has risen from 12% in 1980/81 to 22.8% in 1983/84 (Table 6).
Table 6. National Housing Fund Allocations

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TOTAL INTEREST AND CAPITAL REPAYMENTS (% of Total Allocation)</th>
<th>TOTAL INTEREST REPAIRED</th>
<th>SUBSIDY PAYMENTS (Subsidy as a % of Total Allocation)</th>
<th>TOTAL ALLOCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>83/84</td>
<td>R157 000 000 (43,25%)</td>
<td>R107 000 000</td>
<td>82 921 000</td>
<td>363 000 000 (22,8%)</td>
</tr>
<tr>
<td>82/83</td>
<td>R136 700 000 (36,24%)</td>
<td>R 85 400 000</td>
<td>+ 66 185 000</td>
<td>357 930 000 (18,4%)</td>
</tr>
<tr>
<td>81/82</td>
<td>R158 290 000 (54,42%)</td>
<td>R 77 709 000</td>
<td>+ 60 224 475</td>
<td>290 850 000 (20,7%)</td>
</tr>
<tr>
<td>80/81</td>
<td>R 50 000 000 (18,8%)</td>
<td>Not stated</td>
<td>32 000 000</td>
<td>265 150 000 (12,0%)</td>
</tr>
<tr>
<td>79/80</td>
<td>R 10 000 000 (13,8%)</td>
<td>Not stated</td>
<td>21 500 000</td>
<td>217 320 000 (9,8%)</td>
</tr>
</tbody>
</table>

Source: Based on Treasury Reports for the Relevant Years
This impasse has prompted a drastic revision in attitude towards financing principles. The Department of Community Development has given an undertaking that they can no longer provide housing for all low income families, and that they can no longer operate as a monopolistic body, but will merely reserve the right to operate in such a capacity.

A fourth important influence on the state's attitude to low income housing provision is the general international trend towards monetarist economic policy. Adopted by most advanced capitalist countries as a method of solving their economic crises (while at the same time disciplining the working classes) monetarism calls for a withdrawal of state intervention in the economy and giving free reign to the private sector. Implicit in this approach is a drastic cut in state spending on areas of reproduction (education, health, housing, etc.) in the belief that the same services can be provided more efficiently and economically by private enterprise. It is under this doctrine that massive cuts have occurred in British and American spending on council housing and in Britain intensive efforts have been made to sell off state-owned houses.

In practice, the gradual increase in intensity of these major pressures over the last few years resulted in the appointment of a number of Commissions of Inquiry (n), the most significant of which has been the Steyn Committee of Inquiry into the Financing of Black Housing. The deliberations of the Commissions have reflected strongly the importance of above-mentioned factors: four of the Inquiries had as their major concern the financial crisis of the National Housing Fund; three specifically dealt with the implementing of political ideals via the promotion of the private sector and the concept of home-ownership in order to 'make the ugly face of capitalism, if it exists, more benign in the eyes of the masses' (19); three Inquiries were concerned with the problem of the housing shortage, and one (the Louw Committee) with the debate over the form and method of low income housing delivery.

It is from the findings of these Commissions that the two major legs of the new approach to low income housing have emerged: the increased participation of the private sector and the concept of home-ownership for low income owners. Some of the aims behind the adoption of these two principles need to be examined in more detail.

3. Aims of the New Approach

a. Home Ownership

Home ownership is expected to provide benefits to the state in both the political and financial spheres.

At the political level, three main advantages will accrue:

Firstly, there is a firm belief that home ownership will have a stabilising effect on the working classes and that ownership will automatically result in a commitment to the principles of capital investment and the safeguarding of this investment. Politically, the rationale is that a home-owner will withdraw from any action which
may jeopardise his/her asset and will support any action which enhances it. Thus it was asserted by one of the Commissions that, 'Private ownership ensures stability and that the average man with a stake in the biggest investment he is likely to make in his lifetime, his private dwelling, will work all the harder in order to protect his investment.' (20).

Secondly, the introduction of ownership will, on one hand, allow the state to withdraw from its politically exposed role as sole landlord to the low income groups, and on the other, will split communities into owners and tenants, a factor which will make community-based organisation and resistance a far more difficult task.

Thirdly, ownership can facilitate the introduction of the new local councils which form a major element in the government's constitutional reform. Given the application of the principle that townships should be self-financing, home ownership is one method of generating a tax base to fund the new local body. Mabin et al argue that this could be the reason for the considerable haste with which the new policy is being implemented. Furthermore, they put forward the hypothesis that the sale monies themselves might provide the means by which the local authorities can be established: "Without delving into the economies of the community councils, it is clear that they will require a more sound financial base than can be provided by unpopular high rents and service or electricity levies. The sale of even a portion of the rental housing stock could provide the initial capital if half the money raised were to revert to the community councils from the National Housing Fund. By the time these new local state apparatuses are in full operation the sale of much state housing may well be a fait accompli. Without maintenance costs on the privately-owned housing and given site rents and various service levies, the community councils would have ongoing income, despite their lack of commercial and industrial rates and taxes.' (21).

At the financial level it is intended that the transfer of units to individual ownership will help relieve the financial strain on the National Housing Fund by minimising losses on existing housing stock (through re-valuation of the stock) and by enlarging the asset base of the Fund. An example will illustrate how this can be achieved.

A four-roomed house in Bonteheuwel built in 1963 at an original construction cost of R745 will effectively cost National Housing R3260 - at 11.25% interest over a 30-year period, and to date has cost R2173 (c). Payment received on this house will have varied from R344 to R1838 (depending on the income, and therefore the monthly rental of the tenant) giving a loss to date of between R335 and R1229.

One way of overcoming this loss is to switch from a depreciation method of fixing the base value of the house to an appreciation method. The mechanism used for this (i.e. replacement value of the unit plus construction cost divided by two) (p) gives a new value of R2602 for the unit.

If one subtracts from this figure the largest amount of loss already borne (R1229) one is left with R1373 to cover all future payments (i.e. the outstanding R1067) leaving a profit of R286.
11% of the purchase price. Thus with the 5% discount for buying in the first year and the 5% discount for being a tenant of five years' standing, the full effective costs of the unit are covered. The largest cash discount possible (40%) is R1040 and would imply that an amount of R754 is written off (using the highest loss already sustained). This situation can only apply in a cash sale which releases the full amount immediately for the use of National Housing on other projects. An interest rate of only 4.8% over the next ten years on the amount released, covers the effective loss.

At a considered guess, National Housing will be funding a high proportion of the bonds, which constitutes merely a paper transaction on their own assets. On these bonds the bulk discounts (25% cash) do not operate, so a greater profit is achieved. Therefore the total revaluation amount, i.e. R2602 plus interest (a total of R5847 at 11.25% interest) is due to National Housing. Profit therefore constitutes R5847 minus R1087 (outstanding capital and interest owed) minus R1229 (highest interest loss already borne). Total profit in this case would equal R3531. This then constitutes an interest-earning profit which can be used to secure bank loans, counter losses, introduce a capital subsidy and develop sites. As local authorities gain on capital profits (not interest ones), the second and the last will definitely occur at the local level while the greater volume of funds flowing to National Housing opens up further options.

Moreover, the revaluation upwards of housing stock increases the potential for profit-taking on units that remain under rental. This will occur through a revision, at two yearly intervals of the base value of the units and also as a result of the introduction of family income (as opposed to household head income) as a basis for working out rentals. With regard to the latter, an example may be taken of a family in Bonteheuwel whose head of household earns R265 per month and pays rent calculated on the basis of a 3% interest rate. Their family income, however, is R698 per month (q) which puts them into the 11.25% interest bracket: their monthly rent will inevitably increase by a large amount.

The overall impact of the ownership scheme is at this stage difficult to judge. Much will depend on factors such as the proportion of units which are sold, the percentage of cash sales and the amount of the discounts. However, the potential for the National Housing Commission to both improve its cash flow and its asset position is high.

b. Private Sector Involvement

The National Housing Fund has in the past sought outside finance from the private sector to a limited extent only. There are, however, both financial and political gains to be made from extending the role of the private sector while essentially maintaining control over how private investments are spent.

Ideologically the involvement of the private sector can play a major role in disguising many of the presently more overt forms of government control over housing. This principle applies to the standard of
housing and the quantity produced, but it also applies in particular to the application of influx control: under the proposed new Aliens and Immigration Laws Amendment Bill housing will become a major tool in controlling influx of the Black population to the metropolitan areas. With the private sector as an important provider of housing it will be more difficult to pinpoint the role of the state in this process. Ultimate state control will be maintained however: all projects will require approval from the National Housing Commission (22) and the size of the required contribution from the private sector will be recommended each year (23). In this way the amount of housing provided by the private sector, and its location, can still be controlled.

Economically there are advantages to be gained from increased private sector involvement in housing, both to capital in South Africa and to the state.

As capital in South Africa desperately grapples with the necessity of expanding its market, its eye has fallen on the potential of the Black consumer. As government spending on housing has decreased since the late '70's it is possible that pressure has been brought to bear on the government to 'give practical effect to the spirit of the Carlton and Good Hope Conferences, and allow each sector as well as individuals to assume their legitimate role in the economy over time.' (24).

Wilkinson postulates which economic interests would be immediately interested in this market: '...the so-called "exchange professionals" (property developers, estate agents, surveyors, etc.) anxious to secure access to an arena (the African townships) from which they have hitherto been totally excluded; building capital seeking to define alternative forms of investment in the housing process in the face of the decreasing likelihood that further large-scale public housing contracts would be offered by the state; capital invested in the production and supply of building materials which could be directly affected by any pricing policies or bulk-ordering schemes that might accompany large-scale self-help projects; and (perhaps less immediately) capital invested in the production of consumer durables (furniture, appliances, etc.) which might perceive the spread of the "homeownership ethic" to be a necessary pre-condition for the expansion of their markets.' (25).

However, to what extent capital, whose interests are primarily and directly profit-motivated can be involved is as yet debatable. Property developers will be severely hampered, firstly by the lack of available land and secondly the difficult and time-consuming process of Group Areas applications. In Cape Town, for instance, the Coloured population only has access to 25% of the land but constitutes 56% of the population (26). Bodies already involved in 'Coloured' housing (both local authorities, New Garden Cities, Citizens' League and Urban Foundation) claim land shortage to be one of their greatest problems in the provision of 'Coloured' housing (27).

Similarly the actions of both estate agents and speculators will be limited in the short term by the imposition of the ten year pre-emptive right clause which includes a limit on re-sale values. Furthermore, capital linked to building materials is only likely to
benefit if:

1) There is a nett increase in numbers of units built.
2) There is a switch in the use of materials to allow entry of new capital into the market.
3) There are no price restrictions placed on materials, so that increased profits are made possible by a rise in price levels.

Current indications are that the first is well-nigh impossible and the second unlikely.

The state, as well, stands to gain financially from greater private sector involvement in the housing process, both in terms of making use of private sector funding and in terms of off-loading part of its responsibility onto the private sector. While it is not yet clear exactly how this will work, recommendations have been made by the Steyn Committee for the realignment of the National Housing Fund along 'market' principles, and proposals have been put forward for the adjustment of the subsidy system which will facilitate private sector participation.

Some of the most important recommendations of the Steyn Committee Report have been as follows:

1) That building societies be allowed to float debentures with a minimum seven year pay-up period for the express purpose of financing housing.
2) That National Housing be allowed to use their assets in lieu of state guarantees.
3) That National Housing floats shares on the stock exchange.
4) That National Housing should be freed from taxation on the said shares.
5) That National Housing be allowed to look for loans on the international market.
6) That National Housing should start a so-called 'sinking fund' or amortisation fund which should be maintained at a level which reflects a balance between the provision of housing and the servicing of the debt load. This fund should be competitive with the private sector and offer market rates. In other words, this is to operate as a buffer fund similar to the 'irrecoverable rentals' fund at the local authority level.
7) That the National Housing Fund itself should acquire mainly long-term loans as the nature of their investment is essentially long-term.
8) That the National Housing Fund should offer short-term bridging finance to developers, employer groups, etc. for the development of housing until the said groups raise alternative finance.
9) That local authorities are offered mainly bridging finance (5 years or longer) which is recovered in full through the sale
of sites. These sales should be on the basis of:
- full market value to the over R800 p/m earner
- a once-off capital subsidy on the market value of the unit for the R450-R800 p/m earner
- the same for the under-R450 p/m earner but involving a slightly larger capital subsidy.

10) That private sector finance is tapped in every possible way.

The private sector has, however, frequently claimed that it cannot participate in the provision of low income housing since the subsidy system makes it impossible to compete in this area. The decision to introduce a system of house values and repayments on a basis which most closely approximates market values and market interest rates will allow both for the freer participation of the private sector as well as reducing the subsidy load on the National Housing Fund.

The formula proposed for revaluing upwards all housing units (construction costs and replacement cost divided by 2) has been described above. Along with this, it has been suggested that interest subsidies should be replaced by a once-off capital subsidy: a move which would result in a considerable reduction in expenditure for the National Housing Fund. For example, a 25% capital subsidy on a house costing R15 000 would amount to R3 750 paid by National Housing. The tenant/purchaser would therefore pay a total interest amount of R39 625 at 16,25% as opposed to R52 834 on the full amount. This would be the equivalent of 12% (or a subsidy of 4,25%) interest charged on the full amount, which means in fact a total subsidy of R13 209 paid by National Housing as opposed to the R3 750 - the latter capital subsidy is a saving of 252% to National Housing.

However, the effect of both a revaluation upwards of the value of the stock, together with a withdrawal of interest subsidies implies a double gain for the National Housing Fund. A revaluation upward of the 'base figure' on which rental and repayment calculations are based can, on its own, cut out much of the 'negative effects' of the interest subsidy (r).

Finally a reduction of interest subsidies is in line with intentions expressed in the government's 1981 industrial development proposals. (28). The withdrawal of Clause 3 of the Physical Planning and Utilisation of Resources Act (1967), which was aimed at controlling Black influx to 'White' urban areas through limiting the ratio of Black to White industrial employees, is to be replaced by a more subtle measure which raises the cost of housing and transport in the major towns and cities by a reduction of interest subsidies. This approach has the added advantage in that it applies to lower income Coloured and Indian groups as well and can thus serve to enforce influx control while avoiding accusations of racial discrimination. The desired result of this is, in the words of S.F. Kotze, that: "'n Persoon met 'n inkomste van R200 per maand sal homself geredelik op die platteland kan behuis maar nie sonder meer in a stedelike gebied nie.' (29).
While these various measures proposed by the new approach to housing may indeed help to ease both political and economic pressure on the state and on the Department of Community Development, they can only be implemented if the lower income groups have the money available to afford housing provided in this way. The following section examines this question in relation to the 'Coloured' population of Cape Town.
Section 1 - Notes

a. Using a conversion factor of 3.5 on head of household income.


c. In Uitsig the SLL = R373,13; MLL = R283,03 (1981).

d. This excludes service charges, which may often be as large as the basic charge.

e. Sample areas were: Factreton, Kalksteenfontein, Valhalla Park, Hout Bay, Ocean View, section of Mitchells Plain, sections of Atlantis.

f. These high proportions are largely due to the high percentage of household heads registering as having no income (59% in Bonteheuwel and 57% in Uitsig). Of those who do earn an income the following applies:

<table>
<thead>
<tr>
<th>Rent under 10% of income</th>
<th>Bonteheuwel</th>
<th>Uitsig</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot; 10 - 20% &quot;</td>
<td>71%</td>
<td>25,7%</td>
</tr>
<tr>
<td>&quot; 20 - 25% &quot;</td>
<td>17,8%</td>
<td>57</td>
</tr>
<tr>
<td>&quot; over 25% &quot;</td>
<td>3,5%</td>
<td>5,7</td>
</tr>
</tbody>
</table>

| " over 25% "           | 7,1%       | 11,4   |


In terms of the new approach to low income housing the role of the state changes from that of 'implementor' to that of 'facilitator' - see S.F. Kotze, 'A Partnership for the Public and Private Sectors' in Housing, Vol. 1, 1983, Dept. of Community Development.

h. Over the financial year 1981/82, only R2 118 971 was used for this purpose nationwide.

i. This constituted a key recommendation of the Steyn Commission, which furthermore argued that current values and prices set for the 'Big Sale' were so low that they in themselves constituted a subsidy which then negated the need for an interest subsidy in toto.

j. In 1960 there were only 3 proclaimed towns in the homelands. By 1980 this figure had risen to 90.

k. '...Die stedelike Swart bevolking het hoofsaaklik tot dusver om die groot metropolitaanse gebiede gevestig geraak. Indien 'n totale verstedelikingsstrategie wat by ontwikkeling aansluit om waar 'n goedgefinansierde behuising strategie ingepas nie gevolg word nie, sal hierdie metropolitaanse gebiede die groot meerdeel van die toekomsstige migrerende bevolking moet absorbeer.' (Raath in Housing in South Africa, S.A. Institute for Housing, Nov./Dec. 1983, p. 43).

l. It is intended that the existing level of subsidy on housing is maintained in the homelands.
Financial severity towards National Housing resulted in a deficit on their account for the 1983/84 financial year, e.g.

<table>
<thead>
<tr>
<th>Allocation from treasury</th>
<th>R363 000 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less</td>
<td></td>
</tr>
<tr>
<td>Repaid capital</td>
<td>50 000 000</td>
</tr>
<tr>
<td>Interest earnings</td>
<td>107 000 000</td>
</tr>
<tr>
<td>Repayment of capital to bankers</td>
<td>200 000 000</td>
</tr>
<tr>
<td>Net addition to capital</td>
<td>6 000 000</td>
</tr>
<tr>
<td>Losses</td>
<td></td>
</tr>
<tr>
<td>Interest on</td>
<td></td>
</tr>
<tr>
<td>Assisted housing schemes</td>
<td>82 921 000</td>
</tr>
<tr>
<td>Homes for aged etc.</td>
<td>208 000</td>
</tr>
<tr>
<td>- R 77 129 000</td>
<td></td>
</tr>
</tbody>
</table>


Table 4 illustrates comparative expenditure since 1977/78. It should also be pointed out that these figures differ from those in the Annual Reports of Community Development. This is apparently due to differences in the financial years, which for National Housing ran from September to October for the last 5 years. The Treasury operates from February to March.

(1) Firstly the 1977 Fouché Commission of Inquiry into Housing Matters. The recommendations of this Commission have been largely ignored except for one main point, namely the necessity of lowering standards. This applied to infrastructural services, construction and plot sizes. The key was to provide the adequate as opposed to the ideal.

(2) Secondly the 1982 Viljoen Committee Report into the Private Sector and the Housing Backlog in Soweto. The main aspects of the new policy appear with this report, namely the recommendations to:

- Sell off existing houses at a price which constitutes an incentive to all concerned (occupants, local authorities and the National Housing Commission)
- The gradual reduction of subsidies except for welfare cases
- Achieve balance between public and private sector involvement in the provision of new housing and that private sector involvement should not be limited merely capital loans.
- Apply differentiated standards to housing units with the proviso that health and safety standards be maintained.

(3) Thirdly, the Louw Committee of Inquiry into Alternative Methods for the Procurement of Housing for the Lower Income Groups on a Large Scale. (This report has not been published).

(4) Fourthly, the van der Vyver Committee of Inquiry into the Rental Formula and Conditions of Sale with Regard to Low Cost Housing. This inquiry was specifically charged with developing recommendations that would stimulate cash flow to the National Housing Fund. (This report has not been published).

(5) Fifthly, the Steyn Committee of Inquiry into the financing of Black Housing, the Report of which was publicly released in mid-1983. This Committee was brought into being by the Good Hope Conference of November 1981 with the specific brief of stimulating the involvement of the private sector and the fostering of homeownership.
<table>
<thead>
<tr>
<th></th>
<th>76/75</th>
<th>77/78</th>
<th>78/79</th>
<th>79/80</th>
<th>80/81</th>
<th>81/82</th>
<th>82/83</th>
<th>83/84</th>
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</thead>
<tbody>
<tr>
<td><strong>Addition to Capital Fund</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whites</td>
<td>£27,000</td>
<td>4,245,500</td>
<td>£18,750</td>
<td>£19,290</td>
<td>£29,500</td>
<td>£31,600</td>
<td>£30,400</td>
<td>£50,000</td>
</tr>
<tr>
<td>Asians</td>
<td>82,182</td>
<td>75,450</td>
<td>49,400</td>
<td>40,250</td>
<td>26,000</td>
<td>49,807</td>
<td>16,900</td>
<td></td>
</tr>
<tr>
<td>Coloureds</td>
<td>144,410</td>
<td>131,300</td>
<td>109,600</td>
<td>89,090</td>
<td>100,300</td>
<td>125,500</td>
<td>122,746</td>
<td></td>
</tr>
<tr>
<td>Blacks</td>
<td>110,573</td>
<td>98,700</td>
<td>81,500</td>
<td>61,000</td>
<td>24,520</td>
<td>16,000</td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>313,365</td>
<td>301,400</td>
<td>256,350</td>
<td>209,750</td>
<td>180,320</td>
<td>207,000</td>
<td>178,046</td>
<td></td>
</tr>
<tr>
<td><strong>Repayment of Capital</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Bank consortium</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To building &amp; finance firms</td>
<td></td>
<td>2,500</td>
<td>15,000</td>
<td>18,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on bridging finance by bank consortium</td>
<td></td>
<td>25,800</td>
<td>18,100</td>
<td>17,000</td>
<td>16,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building &amp; finance firms</td>
<td></td>
<td>29,000</td>
<td>1,000</td>
<td>3,000</td>
<td>3,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest capitalised i.e. uncompleted schemes</td>
<td></td>
<td>13,000</td>
<td>12,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sliding scale receipts</td>
<td></td>
<td>3,000</td>
<td>6,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>163,000</td>
<td>357,930</td>
<td>290,450</td>
<td>265,150</td>
<td>217,320</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Les</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repaid capital</td>
<td>50,000</td>
<td>51,500</td>
<td>30,581</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing building societies</td>
<td></td>
<td>50,000</td>
<td>30,000</td>
<td>25,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest earnings</td>
<td>107,000</td>
<td>85,400</td>
<td>77,709</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net addition to capital</strong></td>
<td>4,000</td>
<td>31,030</td>
<td>112,580</td>
<td>215,150</td>
<td>187,320</td>
<td>177,000</td>
<td>151,046</td>
<td></td>
</tr>
<tr>
<td><strong>Losses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Assistance housing schemes</td>
<td>82,921</td>
<td>5,000</td>
<td>12,000</td>
<td>21,500</td>
<td>19,840</td>
<td>14,000</td>
<td>12,500</td>
<td></td>
</tr>
<tr>
<td>- Houses for aged</td>
<td>204,000</td>
<td>170,000</td>
<td>2,300</td>
<td>2,820</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Other schemes</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Combined loans</td>
<td>1,000</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Maintenance</td>
<td>49,900</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>30,129</td>
<td>5,170</td>
<td>30,129</td>
<td>41,350</td>
<td>35,522</td>
<td>19,890</td>
<td>14,049</td>
<td></td>
</tr>
</tbody>
</table>
The Committee reviewed the latter three reports assessing the feasibility of their recommendations while at the same time developing some of the finer nuances of the change in housing policy. Undoubtedly, one of the most important conclusions in this report hinges on their assessment that homeownership had not taken off as anticipated as low rentals provided a disincentive. 'Daar bestaan dus geen aanmoediging vir huurders om hulle wonings aan te koop nie omdat dit vir hulle voordeliger is om te huur as om te koop.' (Steyn Committee Report, p.1). This observation gave rise to the major carrot and stick recommendation: substantial discounts would provide the incentive to buy while rents would be greatly increased. 'Ten einde te versek onder voorwaardes om die woning aan te koop in plaas daarvan om steeds as huurders aan te bly, word voorgestel dat daar in die reklametydperk pertinente daaraan gewys se dat na afloop van die verkoopstydperk die huurwaarde van die bietenheid van dieselfde vlak as die vasgestelde verkoopprys, sonder enige kartings vasgestel sal word en dat huurgeld dan noodwendig aansienlike hoër sal wees as dié wat tans gevorder word' (Steyn Committee Report, p. 2).

The combination of this latter proposal with the necessity of stimulating an asset base for the National Housing Fund (which almost by definition could only be achieved through a revaluing of their already pledged assets and thereby increasing their liability to assets ratio) implies increasing costs to the existing tenants on both the 'carrot' and the 'stick'. It is merely the degree of increase that differs.


o. These figures have been calculated from economic rentals which are based on historic cost. They therefore do not represent the precise sale figure, but rather an approximation of it.

p. The formula used for calculating the sale price of houses.

q. The average ratio of head of household income to family income in Bonteheuwel is 1:4. (J. Prinsloo - 'Income Survey of Bonteheuwel and Uitsig', SALDRU, University of Cape Town, Forthcoming).

r. For instance, Bokmakierie, a housing scheme built in 1934 in Cape Town, has several hundred units which were originally built at a cost of R216 per unit. Were they to be sold voetstoets their purchase price would be set at R939,60 without discounts. This would also be the figure used to calculate new rentals. An interest rate of 16,25% on the original cost implies a repayment of R1058 (capital plus total interest charged); which on the other hand equals an interest rate of fractionally under 1% charged on the newly set value. The total required amount in this instance (1%) is R1221,48. If the full interest rate were to be charged on the new value the total figure would equal R4600,80 or a profit of R4385,22 over original construction cost (546% more than the full market interest rate on the original construction cost).
Section 1 - References

1. Cape Metropolitan Area: Proposals Towards the Guide Plan. TP Section, Engineers' Department, Divisional Council of the Cape, Report TP 81.4.
2. Figures supplied by Divisional Council.
7. Housing Code, Department of Community Development, Pretoria.
10. Ellis, G. and Erlank, D., op. cit.
13. Circular No. 8 of 1982, Department of Community Development.
15. Viljoen Committee Report.
20. Ibid.
22. Circular No. 8 of 1983, Department of Community Development, Pretoria.
26. Te Water Naude, S., 'An Exploratory Study into the Housing Question in the Municipality of Cape Town', Department of Geography, University of Cape Town, 1983.

27. Information from personal interviews.


SECTION II

IMPACT OF THE NEW POLICY

This section aims to examine, in cost terms, the impact of the various elements of the new approach to low income housing provision on its recipients. It is intended first to examine the impact of each element in the new approach, and then in the final section to synthesise these in order to draw conclusions in relation to the impact of the new approach on the current housing crisis.

The new approach to low income housing is to have a far-reaching impact both on the cost of existing state-controlled housing and on its future provision. These two aspects will be dealt with separately, although there is obviously a fair degree of overlap between the two.

I. IMPACT ON EXISTING HOUSING

1. The Sale of Council Houses

The sale of rented council stock is not a new phenomenon in Cape Town. The Cape Town Divisional Council has for some years been offering units for sale in Ocean View at a relatively cheap price based on initial cost value of the dwelling plus land cost. In Heideveld the City Council has been attempting to sell units at a price based on 90% of present-day replacement cost plus the cost of land (R5 per square metre) and services. In both these cases the interest shown by tenants has not been great: by August 1983 the Divisional Council had sold 438 out of a total of 658 units on offer (1), and by May 1983, the City Council had sold only 40 out of a total of 332 units. It can be assumed that in both these cases problems of affordability and the extra costs and responsibilities of ownership were hindering factors.

However, the formula adopted by the Department of Community Development for valuing its 500 000 houses to be sold, has resulted in selling prices significantly above those previously used in Cape Town.

The formula adopted by the Department (2) is as follows:

\[
\text{Construction Cost} + \frac{\text{Replacement Cost}}{2} \tag{including Land and Services}
\]

Replacement cost is worked out from a schedule (Table 7) which requires initial cost to be multiplied by a factor determined by construction date. Significantly it is this method of calculating replacement costs which results in prices higher than those arrived at by the City Council in its Heideveld scheme (a). Under the new formula a house previously selling for R8647 (requiring the tenant to earn at least R240/month) has now been revalued to R10 329 (or 15% more). This will require a tenant to earn between R329 and R558/month (at interest rates varying from 9% to a full market rate of 16.25%).
### Table 7

<table>
<thead>
<tr>
<th>JAAR/YEAR</th>
<th>FAKTOR/FACTOR</th>
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<tbody>
<tr>
<td>1950 of vroeër</td>
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<tr>
<td>1951</td>
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<td>1981</td>
<td>1,0</td>
</tr>
<tr>
<td>1982</td>
<td>1,0</td>
</tr>
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</table>

**VOORBEELD:**

Woning opgerig in 1960 teen 'n koste R 4 000
Vervangingskoste R4 000 x 7,4 = R29 600

**EXAMPLE:**

Dwelling erected in 1960 at a cost of R 4 000
Replacement cost R4 000 x 7,4 = R29 600
In general, prices of houses will be relatively high, compared, for example, to units selling in Soweto. The reasons for this are that a large proportion of Cape Town housing stock is fairly new (a good proportion of it has been built since the late 1960's), construction costs have been relatively high as a result of the construction standards required by the Western Cape climate, and much housing is located at a fair distance from the centre of Cape Town: a factor which has a significant impact on unit cost. Thus, for example, a four-roomed economic semi in Atlantis will be on sale for R14 507, a four-roomed maisonette in Ocean View is priced at R9425 and a four-roomed sub-economic semi in Grassy Park at R4964. (b). Some of the cheapest units will be on sale for under R2 500 but these are in the minority.

A series of discounts has been offered on these sale prices. Firstly, 5% off is allowed to tenants who exercise their option to buy before July 1984 (supposedly the end of the first year of the campaign). Secondly, a further 5% off is allowed to tenants who have been registered with the Council for over five years. Thirdly, 25% is deducted if the tenant pays cash. It is therefore possible for a tenant to qualify for a 35% discount on the final selling price, although the discount is only payable on final transfer: the full price must be paid initially. Finally, there is a ruling that all houses with a selling price of R2500 or less can only be sold for cash, and in this case a 30% cash discount applies.

While this discount system does succeed in bringing down selling prices, it contains a built-in discrimination against the poorer section of the community. Thus, people on the waiting lists will not be able to take advantage of the 5% discount to registered tenants, and lower income families may not be able to exercise their option to buy immediately as a result of deposit and other costs. These families will also be unable to pay cash or pay the building society costs which will allow them to take advantage of the 25% 'cash equivalent' discount.

Furthermore, a series of extra costs will be added to the selling price which in some cases may cancel out the effect of the discount.

Firstly, in some of the older (and consequently, cheaper) areas, the local authority intends to carry out basic renovations prior to sale, and the cost of these will be added on to the sale price. For example, a four-roomed house in Bokmakierie constructed in 1934 at a cost of R358,96 has a purchase price of R561,46. The houses, which are considerably run down, require initial renovations at a cost of approximately R2 500 per unit. Thus, tenants who had previously paid R24/month economic rental, will, if they purchase, pay between R30 (R15,87 at 3% interest rate and approximately R14 rates and other costs)/month and R65 (R51,33 at 16,25% interest and R14 service costs)/month.

If these tenants decide to purchase they therefore face increases of between 25% and 170%. Any discounts offered on these units will only operate on the original purchase price excluding the costs of renovation and will consequently only have a minor impact.

A similar (but less acute) situation exists in Kewtown which was
constructed from 1941 onwards. Here renovating which involves mainly re-wiring, will add an additional sum of R500 (3) onto the purchase price. Thus a four-roomed house originally costing R1 910,60 has a basic purchase price of R8 311,11 plus the R500 renovation equals R8 811,11. Basic monthly repayment costs without discounts, therefore, will vary between R35,91 (at 3% interest) and R16,16 (at 16,25%). An additional amount of approximately R14/month needs to be added for rates and additional charges, excluding electricity. The original rent was R44,72 at economic rentals. Tenants deciding to purchase will therefore face increases varying from 11% to 191%.

It is also important to note that in areas where houses are not being renovated prior to sale, units are being sold 'voetstoots' or 'as is'. The implication of this is that maintenance costs become the responsibility of the purchaser, and since many of the units are presently in a run down state, this cost is likely to be significant.

Secondly, in many areas individual plots have not been surveyed, and in the case of semis and row houses legal subdivision will have to occur. It has been estimated that it will cost approximately R200 per unit to carry out surveying, and this will be added to the final sale price.

Thirdly, many units are not provided with their own water and electricity meters. To provide each unit with these will add between R150 and R500 onto the sale price.

Fourthly, the Divisional Council is adding a community facilities charge onto the selling price. This will be an amount of 1% of original cost of the unit in the newer areas, and 1% + 5% of original cost in older areas, the latter 5% being described as a community facilities 'endowment levy'.

Fifthly, the Department of Community Development has given permission for local authorities to hire professional advertising agents in order to promote the sales campaign. The cost of this service is also to be added to the final sale price.

In all, survey costs, meter costs and levies may add between R360 and R710 to the final sale price. This can increase monthly repayments on a purchased house by between R1,50 (R360 at 3% interest) and R9,69 (R710 at 16,25% interest) a month.

As regards payment for the units, a number of options are open to the purchaser. Firstly, the Department of Community Development has said that it will make bonds available, at subsidised interest rates, to all heads of households earning less than R450 a month (c). Secondly, the Department has stated that people earning above this level will have to secure a bond from a building society or an employer. A number of the major building societies have, on their part, agreed to make bonds available on standard council units, and the U.B.S. is to offer bonds to families where combined husband and wife income equals at least R350/month. Obviously, however, the cost of obtaining a loan from the building society will be far higher than a National Housing loan. Moreover, building societies have stated that Council
tenants will not be given favoured status: they will have to queue for loans along with other bond applicants, and at present this implies a long wait.

A third option open to purchasers is to secure a loan from his/her employer. Each employer will be able to set its own conditions of sale, deposits, interest rates and repayments.

It is at this stage difficult to estimate the numbers of people who will qualify for the various sources of funding. In Bonteheuwel, for example, 70% of families have a combined husband and wife monthly income exceeding R350 and will have to apply for a bond from a building society or employer. Some 4000 families (59%) are renting units which will sell for under R2500: they will have to pay cash or secure a loan at market rates. On the other hand, taking Divisional Council tenants as a whole, in 1982 55% of heads of household earned between R150 and R450/month and should therefore qualify for a National Housing loan. It is likely that prospective buyers will be encouraged first to approach a building society for funds, and only if this fails, to apply to National Housing.

In general, tenants of older townships will be relatively advantaged: the price of units will be such that monthly repayments should not differ much from present rents.

For example, a unit in Bonteheuwel priced at R2060 will have a discounted selling price of R1545,21. A building society loan (at 16.25%) will require a monthly capital and interest repayment of R1898 and a total monthly payment of approximately R27,75 including rates. Present rent on the unit will be between R31,05 and R41,61.

However, a problem will arise where tenants of these 'under R2500' units have a combined husband and wife income of less than R350/month. In this case they will qualify for neither a National Housing loan nor a building society loan, and will have either to pay cash or seek assistance from an employer. In Bonteheuwel, for example, there may be as many as 30% of tenants who find themselves in this situation.

In newer areas repayments will be substantially higher. For example, a four-roomed maisonette in Ocean View built in 1972 will be selling for R9425. A National Housing loan at 3% interest will mean a monthly repayment on capital and interest of approximately R38,50 and a total monthly payment of R57,50 with rates (estimated). The present rent for this income group is R39,43.

If the tenant earns over R450/month and has to take a building society loan, monthly repayments will be R115,78 and with rates, R134,78. Present rent for this income group is R56,72, and monthly expenditure on housing would therefore have increased by 137%.

Perhaps the most important factor determining whether or not tenants will be able to purchase, will be the extent to which they can afford the initial costs of ownership: deposit, insurance, rates, and transfer and bond costs for a building society loan.

In the case of a National Housing loan a deposit has to be paid equal
to R300 or 10% of the purchase price (whichever is lower). In addition, the purchaser will probably have to pay insurance (usually 1% of house value), annual rates and an administration fee. In the case of deposits it has now been decided that local authorities can use funds in their maintenance fund or their irrecoverable rental fund to lodge as guarantees for deposits. Prospective purchasers can then pay off the deposit over and above their usual rental. (d).

However, it is usually the case with houses purchased through National Housing, that where purchase price is relatively high, a deposit of R300 will have to be put down and final transfer of the property is delayed until 10% of the purchase price has been paid off. It is likely that a problem will arise in the case of delayed transfers as discounts only become applicable on transfer, but eligibility in terms of income is calculated on the basis of the discounted price. A person in Kew Town purchasing a four-roomed house at a selling price of R8311 is entitled to the full 35% discount but transfer is delayed while he/she pays off 10% of purchase price. Presuming he/she is to pay 11.25% interest instalments on the discounted rate are R52,46, but during the initial two (e) years of delayed transfer he/she will be required to pay on the total amount at a monthly rate of R80,70: a 53% increase on the basic instalment. The additional monthly instalment on the deposit would be R34,62 - a total monthly instalment therefore of R115,32 for the first two years which is 119% more than the discounted instalment. Presuming the latter to equal 25% of monthly income then in the first two years the purchaser will be required to pay 59% of his salary on housing. And at the end of this period transfer costs will have to be paid.

In the case of a loan being obtained from a building society, initial costs will be much higher. A deposit equal to 10% of purchase price must be paid together with transfer costs, bond registration costs, valuation fee stamp duty, insurance costs and rates, etc. A Divisional Council promotion booklet quotes the average costs as follows:

<table>
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<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Society Inspection Fee</td>
<td>R 40,00</td>
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<tr>
<td>Legal Costs</td>
<td>250,00</td>
</tr>
<tr>
<td>Bond Registration</td>
<td>190,00</td>
</tr>
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</table>

Onto this must be added:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stamp Duty</td>
<td>20,00</td>
</tr>
<tr>
<td>Insurance (1% on R9000 house)</td>
<td>90,00</td>
</tr>
</tbody>
</table>

Total costs: R590,00

To take an example of a man earning R500 a month and wanting to purchase a maisonette in Elsies River for R962, on which he presently pays R78 a month rent: as well as having R590 readily available in cash, his monthly repayments will be R110 (repayment over 30 years at 16.5%) plus R17,16 a month in rates (estimate). This is a monthly payment of R127,25 (excluding water, electricity, etc.).

Given the initial cash down payment which is required, a crucial factor will be the level of savings of prospective purchasers. However, recent surveys have shown that savings levels are far lower than is often presumed. A sample survey of Bonteheuwel indicated that only 29% of families have any savings at all, and of those that do save, the average
is R32,72. Only three people in the sample had saved over R200. Similarly in Uitsig only 24.7% of families had saved at all with average savings levels at R18.75 (5). Finally a study in Elsies River, (6), which extended the concept of 'savings' to include insurance, a car and a house, showed 37% of households with savings under R200, 25% with savings between R200 and R1000, and 15% with savings over R10 000. It appears, therefore, that even where tenants can afford the increased monthly costs of ownership they will, in many cases, be unable to afford the initial costs, certainly in the case of obtaining a building society loan.

2. Increased Rents

The Steyn Committee Report has made it clear that the twin motivations for an increase in rentals are to stimulate a greater flow of funds to the National Housing Fund and to push tenants into ownership. The intention of the state to adjust the rental formula was announced along with the sales campaign and 'drastic rent increases' were predicted (7).

Four separate adjustments to the rental formula are planned, all of which will result in increases. These are:

a. Administration Fees

Local authorities will in future be allowed to charge an administration fee which covers their administration costs (8). Previously there was a restriction on the level of this fee.

b. Contributions to the Maintenance and Renewals Fund

The maintenance contribution will in future be calculated as 1% of the revalued cost of units (or the selling price) (9). Previously it was calculated as a percentage of the original cost of the unit.

c. Revaluation of Units

The implication of a revaluation of the base figure of the unit (the construction or historical cost) is certainly not unknown to the Department of Community Development. A similar attempt was made in 1980 (10). The revalued figure in this case was based on a calculation of a depreciated replacement value, but the scheme was abandoned at calculation stage as it was recognised that rentals would increase by too large a jump. (11).

Yet the currently proposed method of revaluing the units results in considerably higher rentals. Using their given example in the earlier recommended method, i.e.

\[ \text{Depreciation factor for a dwelling 10 years old} \]

- Dwelling erected in 1970 at R5 000
- Size of dwelling 70 sq. metres
- Type C dwelling = R125/sq. metre

\[ \text{Formula} = 70m^2 \times R125/m^2 \times 0.817 = R7148 \] (12).

(A basic monthly rental (excluding services) of R116,65 at 16.25% over 30 years).
This value would require devaluation every two years giving it a current value of R6728. Its value therefore decreases with age.

The new formula operates on the opposite premise, i.e., that the value of the unit increases in nett terms:

Cost of construction \( \times 4 \) to arrive at the replacement cost = 20 000

Add on the original amount \( R20 \,000 + R5 \,000 \) = 25 000

\( R25 \,000 \) divided by 2 = \( R12 \,500 \) (13)

(A monthly rental, excluding service charge, of R204 at 16.25% interest over 30 years).

This as opposed to R6728, constitutes the new base value from which to calculate rentals and selling price. Revaluation is required at two-yearly intervals, and consequently the value in two years' time would be R15 000. (A monthly rental, excluding service charge, of R244.80 at 16.25% interest).

This formula as opposed to the one proposed in 1980, implies a constantly increasing rental in terms of interest and redemption charges.

The implication of this change in base level for calculating rent implies, in an area such as Bonteheuwel, an increase in the 'interest and redemption' portion of the rent of between 192% and 283%. A unit which previously earned National Housing R8,77 a month at sub-economic rentals, R11,77 at 3½% interest and R13,67 at economic rates (9%), could, with the new formula, earn R16,84 a month at 3%, R21,43 at 5%, R26,53 at 7% and R38,74 at 11,25% interest. To this base figure the service charge is added: currently R22,90 a month.

d. Basing of Rent on Family Income

The switch from head of household income as a basis for assessing rent to that of family income compounds the jump in rent, e.g. in the Bonteheuwel example referred to above a head of household earning R204/month would previously have paid R11,77 (R34,67 including service charges) in rent. He will pay R16,84 (R39,74) a month as a result of the base value charge. Further, he has a family of 12, with a total income of R614 which pushes him into the 9% interest bracket with a base monthly rental of R32,12 (R55,82, with services).

Thus rent will have jumped in this case from R34,67 a month to R50,30 a month (a 71% increase) as a result of revaluation and the adoption of family income as a basis for calculation. The new formula for the calculation of the service charge and a higher administration charge will add to this as well.

According to the UNISA SLL measure a household of this size (12 members) should be earning R770,85/month in order to survive. For a family which is already living below the theoretical minimum, a doubling of rent can only have a critical impact on its future.
3. Withdrawal of Subsidies

The decision to introduce a system of market values and repayments thereof on a basis which most clearly approximates market interest rates will affect crucially the tenant's ability to pay for accommodation. Interest subsidies on the repayment of the historical cost has, to date, allowed a much lower earner to occupy a specific dwelling than would otherwise be possible under free market conditions.

For example, a four-roomed row house in Elsies River, which at economic interest rates would require a rental of R111 a month and thus a level of monthly income in excess of R450 per month, could be occupied with a subsidy, by someone with an income of under R150/month at a rental of R28,47 (14). Therefore without the interest subsidy a person who earns under R150 a month would be required to pay 74% of his salary on accommodation.

In terms of provision of new accommodation the impact of a subsidy withdrawal is even more dramatic. A house costing R15 000 to construct, either sold or rented at market rates of interest would require a monthly capital and interest repayment of R184,00. With an additional (estimated) R30 for rates or service charges, total monthly payments would equal R214,00. This, in effect, would require the tenant or owner to earn at least R856 a month: less than 3% of Coloured household heads in Cape Town fall into this income category.

The withdrawal of all subsidies implies that at current rates (16,25%) even a serviced site at a cost of R4 000 (which is the average development cost in Cape Town) requires a monthly repayment of R54,59 excluding rates. This implies a monthly income of R218 per month: 57.2% of Coloureds earn under this level. If the interest rate is dropped from 16.25% (market rate) to 11.25% (treasury rate) then the required level of income drops to just on R160 per month which is beyond the capacity of 43.2% of Cape Town's 'Coloured' people. If one bears in mind that under site and service additional amounts must be allowed for in order to purchase building material - the qualifying income level obviously increases.

In effect, therefore, the withdrawal of subsidies as well as a revaluation of units implies a double raising of housing costs. For those who continue to rent and are faced with rents calculated on a family income basis, a threefold raise is implied. And this under conditions in which there is already an affordability crisis in low income housing.

II. IMPACT ON NEW HOUSING

1. Cutback on State-Provided Housing

Under the new approach to low income housing it is the intention of the state to provide completed housing units only for those earning under R150/month.

Prior to the introduction of the new policy the state assumed responsibility for the provision of Black housing which was almost by definition low-
income housing. The major reasons behind the acceptance of this responsibility were, firstly, that it was a means of implementing the Group Areas Act, secondly that it was a means of control and thirdly in order to overcome extensive squatting. The continued acceptance of this role (once the vision of the earlier state of apartheid had given way to less direct means of control and concepts such as middle-class development) was then rationalised by the Department of Community Development on the grounds that, firstly, it constituted not an expenditure but an investment yielding interest and secondly, that it served as a stabilising force. 'Any effort to curtail state participation in the provision of housing at this time would be unwise and would play directly into the hands of our enemies because it would inevitably mean that the present rate of housing provision could not be maintained, and the result would be a crisis which would not be easily overcome.' (15).

Visions of crisis and the state's role in it had faded by 1981/82. The ground was laid for the state's withdrawal from its sole responsibility by the fulfilment of one of its primary motives: the near completion of Group Areas Removals (f). The 1981/82 report of the Department of Community Development stated that, 'For all practical purposes this comprehensive task has now been completed. The Department will therefore in future have to provide fewer houses for resettlement purposes. The fundamental principle of a free market system, that the state does not accept responsibility for the general provision of housing is, therefore, now more to the fore than in the past in respect of all population groups. The responsibility of providing housing for himself and his family rests primarily on the individual.' (16).

Along with this new emphasis on the role of the individual and the private sector has come a re-definition of what in fact constitutes a housing shortage. Thus the Minister of Community Development, in a published statement, asserted that the state can no longer be concerned with statistical measurements of the housing backlog and housing demand. South Africa is not a socialist welfare state (he continued) but a state in which the government is trying to promote and strengthen the capitalist free market (g). Instead housing demand is to be defined by the number of houses which are needed and occupied under particular economic parameters (h), and the difference between the two (between demand and provision) is expected to be in the order of 50%. These unhoused persons will be expected to 'make do' in a number of ways (i): doubling up, lodging, etc. Squatting will, however, still be prohibited (j).

The implications of this accepted 50% gap are large. Firstly, it implies that issues such as affordability are now only of minor importance. It implies the acceptance of a large floating population which belongs neither to the most destitute (the under R150/month group) nor to those who can afford to pay for their own housing at market rates. It accepts an occupancy rate at least double that for which the dwellings and services were designed. It implicitly accepts that this section of the population is open to gross exploitation.

In Cape Town, the shortage of housing has already reached critical proportions. The City and Divisional Councils have a combined total of 53 500 families on their waiting lists, but the actual need, given the state of chronic overcrowding, is in the region of 102 200 units (17). The City Council has, over the past few years, been providing on average
6 000 units a year and the Divisional Council a few thousand. Given that those earning under R150/month (the only group which will now receive completed housing) comprise only some 18% of families on Council waiting lists, a drop in housing production of between 5 000 and 7 400 units annually can be predicted. Unless this vacuum can be filled by the private sector it can be expected that waiting lists will begin to increase by between seven and ten thousand families a year.

A critical effect of this current and future housing shortage will be its effect on the cost of housing for the low income groups. Under conditions of acute housing shortage it is inevitable that exploitation will take place and there have been numerous reports of outrageous rents being charged for the sub-letting of rooms, garages and outhouses. Similarly, new, serviced plots sold on the open market are bought for sums well above their real value as a result of artificial inflation caused by the housing shortage and constraints imposed by the allocation of land under the Group Areas Act. It should also be noted that while, under the new approach, the state has claimed that it will continue to take responsibility for those earning under R150/month, and the aged, there are several major problems.

Firstly, the provision of housing for this income group is not a government priority. In terms of Circular 1 of 1983, which sets out future spending priorities, the provision of housing for the aged is a second priority and provision for those earning under R150/month only a fourth priority, coming after funding for serviced plots and self-help schemes. Furthermore projects for the R150/month category will be ranked in order of priority and 'areas of greatest need' will be satisfied first.

Secondly, there has been a drastic drop in standards for new sub-economic housing. In future new houses in this category will be constructed without electricity, ceilings, fencing, washing lines, floor covering or internal painting of walls. Apart from the effects of this type of construction on the health of occupants, it is generally accepted that the use of alternative fuels is far more expensive than electricity and will place an excessive cost burden on this income group.

Thirdly, it appears that even with reduced standards, these units will be expensive. An example may be quoted of a new sub-economic scheme in Connaught Estate in which the breadwinner pays a rent of R98 a month (he currently earns R189 a month).

According to the new approach to the provision of low income housing, measures such as subsidy withdrawal and the introduction of self help housing will encourage and stimulate the provision of housing by the private sector and individuals, and this will 'fill the gap' left by state withdrawal. The question which must then be asked is: to what extent is the private sector (and individuals) capable of filling the gap left by the state, and thus ameliorating the high cost of housing generally?
2. Private Sector Housing Provision

There are two main ways in which the private sector will be encouraged to participate in the low income housing market: either through the provision of finance or through actual house construction.

a. Private Sector Finance

The National Housing Fund has seldom in the past sought outside finance from the private sector. However, in 1979, it was granted a short-term loan of R165m from a consortium of banks (20), and on this a total of R76,5m was paid in interest between the financial years 1979/80 and 1982/83 (interest rates varied between an initial 9,6% and 15,3% in the final year). Over the past year far greater effort has been put into the attraction of private sector funding and this has to some extent been successful.(I). Under the new approach to low income housing provision greater reliance will be placed on the attraction of private sector funding. There are, however, some major disadvantages to this practice.

Firstly, interest rates are necessarily higher than Treasury rates, and this cost will be passed on to the recipients of housing.

Secondly, private sector finance is extremely erratic, making long-term funding and planning almost impossible.

Thirdly, short-term finance increases the cost to the final recipient as higher interest levels need to be charged in order to build up a buffer fund. The fund is required to meet the shortfall should all plots/units not be sold by the time the loan becomes due.

Fourthly, if one excludes the necessity of building in a buffer fund and considers purely the implication of interest rates which range from 10% to 19,75% (.25% under prime overdraft rate) on 5-year bridging finance: at the lower interest rate, every R100m requires an additional R50m to be raised for interest (excluding interest payable on the latter) which implies to the final buyer at least a 50% increase in the basic price of the house. At the higher interest rate the price is effectively doubled. Therefore a site costing R4 000 to develop in Cape Town will in the first case have to be sold at R6 000 and in the second case at R8 000, in order to cover financial costs as well as development costs.

The implication of this for a person earning (for example) R160 a month is significant. If R40 of monthly income were to be spent on housing (which in itself can be considered excessive for this income group), then over a thirty year repayment period this amounts to a maximum amount of R14 400 (excluding service charges). At an interest rate of 16,25% (market rate) a sum of R2 950 remains for the original purchase price. Using 5 year bridging finance at 10% interest reduces the usable portion of the above figure to R1967 and at the highest interest rate to R1475. Comparing the 16,25% repayment rate of interest to various lower interest rates:
<table>
<thead>
<tr>
<th>Total Amount</th>
<th>Interest Rate/p.a.</th>
<th>Original Purchase Price</th>
<th>At 10% Rate of Interest</th>
<th>On Prime Rates Less .25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>R14400</td>
<td>16.25%</td>
<td>R2950</td>
<td>R1967</td>
<td>R1475</td>
</tr>
<tr>
<td></td>
<td>13.75%</td>
<td>R3460</td>
<td>R2307</td>
<td>R1730</td>
</tr>
<tr>
<td></td>
<td>11.25%</td>
<td>R4150</td>
<td>R2767</td>
<td>R2075</td>
</tr>
<tr>
<td></td>
<td>9 %</td>
<td>R4955</td>
<td>R3303</td>
<td>R2477</td>
</tr>
<tr>
<td></td>
<td>7 %</td>
<td>R6050</td>
<td>R4013</td>
<td>R3025</td>
</tr>
<tr>
<td></td>
<td>5 %</td>
<td>R7450</td>
<td>R4967</td>
<td>R3725</td>
</tr>
<tr>
<td></td>
<td>3 %</td>
<td>R9500</td>
<td>R6333</td>
<td>R4750</td>
</tr>
</tbody>
</table>

The implication is therefore that if this form of finance is to be used in Cape Town and made available to someone earning R160 a month in order to purchase merely a site, his repayments must necessarily be no more than 7% rate of interest for bridging finance at 10% and no more than 4% on finance at prime rates. Should a capital subsidy be introduced which is the equivalent of the interest on the bridging finance the person's repayments could still only afford a 11.25% interest rate on the price of a site in Cape Town.

If other aspects of the new approach are introduced as planned (i.e. a reduction of subsidies until market rates are reached and using private sector finance at rates of interest which are competitive) it will require a monthly salary of R330 before a person becomes eligible for a site at 10% interest on the bridging finance and a R464 per month income at the prime interest rate.

These figures clearly illustrate the correctness of S.F. Kotze's statement that: "'n Persoon met 'n inkomste van R200 per maand sal homself geredelik op die platte lend kan behuis maar nie sondermeer in 'n stedelike gebied nie." (m).

b. Private Sector Housing Development

The use of private developers in the provision of 'Coloured' housing in Cape Town has in the past proved, firstly, expensive and secondly, limited in extent.

In 1982, 1 350 sites in Mitchells' Plain were sold to the Strandfontein Development Company to develop (21). Besterecta also acquired 30 sites in Mitchells' Plain and the houses are currently under construction. The anticipated selling price of these houses is R30 000 per unit. A monthly salary of R1472 is required to be able to afford these, with a monthly repayment of R368 at current market rates (16.25%). The 20% subsidy on new houses for first time owners brings the eligibility level down (for some) to a monthly salary of R1 360 and a monthly repayment of R340.

Private developers can almost by definition not build houses for under R30 000 for four reasons:

i. The sites are sold to them at market prices (22). The usual method of establishing the market value is to relate the site...
to those in close proximity that are already on the market. Sites are currently fetching between R9 000 and R20 000 in 'Coloured' residential areas (23). Site prices are therefore varying from double to five times the cost of their development (R4 000 per site). Divisional Council are establishing market price by means of tender: presumably the highest bid is accepted.

ii. Secondly, houses are constructed in small batches with no reduction in standards, so that the minimum figure of R15 000 construction cost (achieved by Community Development) cannot be matched (n). (However, a figure of R22 000 as a likely construction cost is more realistic (o). If the market value for the site is taken instead of purely the development cost, the gross figure rises to R27 000).

iii. Higher costs are involved for a developer, as buffer funds need to be built in to cover risks such as a less than 100% sale rate.

iv. A higher profit level is involved.

Private developers are only able, therefore, to cater for less than 22% of the 'Coloured' population (24). It has become clear to the state that alternative forms of private sector housing delivery are required and to this end the promotion of housing utility companies and employer participation have been adopted as part of the new state approach to low income housing. It is important, therefore, to be able to estimate the extent to which both of these can fill the gap left by state withdrawal.

Utility Companies

Five utility companies operate at present in Cape Town and there are no plans to create more. Garden Cities and New Garden Cities (a subsidiary of the former that deals with 'Coloured' housing) will combine this year (1984) into one main unit. Legal restrictions which necessitated a separate company for 'Coloured' housing have now been lifted. The Citizens' Housing League and the Peninsula Community Association (P.C.A.) operate on a similar basis. The latter organisation, dealing with Coloured development, has, however, been taken over by the Urban Foundation. The Urban Foundation runs yet another utility company, i.e. Uluntu which deals only with African housing.

Table 8 indicates some of the main limitations on utility company housing provision.
Table 8. Cape Town Utility Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of Units p.a.</th>
<th>Min. Cost per Unit</th>
<th>Income Group/Per Month</th>
<th>Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garden Cities</td>
<td>300</td>
<td>R20 000</td>
<td>R800 - R1500</td>
<td>Private</td>
</tr>
<tr>
<td>Citizens' Housing (past)</td>
<td>200 - 300</td>
<td>R11 000</td>
<td>R450 +</td>
<td>NHC</td>
</tr>
<tr>
<td>Citizens' Housing (recent)</td>
<td>129</td>
<td>R28 000 - R42 500</td>
<td>R1375 +</td>
<td>Private</td>
</tr>
<tr>
<td>PCA</td>
<td>90</td>
<td>R16 000</td>
<td>R621 +</td>
<td>One-third NHC</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Two-thirds Private</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Private</td>
</tr>
</tbody>
</table>

Firstly, the number of units which they have been producing is very small, and none of the companies expect that their annual output will increase by any large amount. An exception here is the P.C.A. which, via the self-help concept, is expecting to develop 600 sites at Steenberg over the next two years. A major factor which has been limiting the expansion of utility company production has been a shortage of proclaimed 'Coloured' land in Cape Town (p) and an insistence on the part of Community Development that future expansion should take place outside of the metropolitan area. The utility companies themselves have generally expressed reluctance at the idea of developing outside of Cape Town.

A second problem has been the cost at which houses can be produced by utility companies. The high cost both of land and capital has meant that it is basically impossible, using market interest rates, to build houses for less than R20 000. In the case of Garden Cities this problem is exacerbated by the cost of the 'garden city concept' which requires low densities, developed parklands and special facade treatment.

Both Citizens' Housing League and P.C.A. have made use of subsidised National Housing Fund money as well as private money. Even with government money Citizens' Housing League could not, in the past, produce units for under R11 000 each (at a 9% interest rate). With a drying up of funds available from National Housing they have been forced to move up-market and a present development of 129 units at Montevideo is on the market at R28 500 - R42 500 a unit. The P.C.A., between 1979 and 1981, provided 181 houses in Belhar at prices ranging from R12 000 to R17 000. At present, however, their minimum construction costs range from R16 000 upwards.

What this means, in effect, is that at the present time, utility companies cannot cater for people earning less than R621 a month (that is, for 4% of the 'Coloured' population), and this with interest rates of 11.25%. If loans cannot be obtained from National Housing Fund then a loan at market rates will require a salary of R786/month and monthly
repayments of R196: well above the affordability level of most of the population.

Employers

The government has, for some time, promoted the concept of employer participation in low income housing. Reasons have been that firstly, this approach draws attention to a major problem in the provision of affordable housing: low wage levels. Since employers have for many years profited from subsidised housing for their employers (which has allowed them to keep wages down) the state would now like to see employers taking greater responsibility for housing costs. Secondly, employer housing allows the employer a greater degree of control over its workforce and is a disincentive to employer mobility.

Precisely because it has been more profitable and convenient for employers if the state assumed sole responsibility for housing, employers have been extremely reluctant to make any substantial input, maintaining firstly that housing is the responsibility of the individual or the state and secondly that few employers would have the necessary cash resources to make available large-scale loans at low interest rates for employees to purchase their houses.

In the past, employer participation has taken a number of forms: loans for deposits, subsidisation of interest rates, direct payments to employees, the provision of surety, collateral or guarantees on loans, or even the development of new housing. Past experience has shown that some employers are prepared to offer loans on deposits or stand surety (q), but the number of companies prepared to commit themselves to long-term subsidisation or the construction of new housing is far more limited.

To date, employers in Cape Town have been responsible for the construction of only some 1430 units (r), comprising 1.7% of 'Coloured' housing stock. They have, moreover, tended to cater for the better-paid, more highly-trained employees (earning R800/month and above) and on this basis are providing for the same income group as utility companies. Moreover it seems unlikely that their participation will increase much in the future: few companies have the liquid capital or in-house expertise to launch a housing development, for most companies such a project will probably be a once-off attempt and not an ongoing one, and finally the market at which employer-built housing is aimed will inevitably be limited to the higher income groups.

c. Self-Help Housing

The Louw Committee distinguishes between two different categories of 'self-help' housing.

i. Where the individual raises the necessary capital and builds the house or employs a building contractor to do so.

ii. Where the individual requires the technical and financial aid of a separate agent in order to facilitate his/her house construction (25).
The first form of 'self-help' has been limited in the Cape. In the entire Cape Province in 1980, only 2,644 units were constructed by the private sector for 'Coloureds' (26), while in 1981, 4,006 house plans were passed for 'Asians' and 'Coloureds'. The average value of these plans was R23,000 (27). There is, of course, an overlap between figures and the number of units developed by both private developers and utility companies.

It is, however, the second form of self-help that remains of prime importance, as, under the new approach, it is this form of housing provision which is expected to provide the majority of new houses for low-income people, i.e. to fill the gap between the R150/month group and the R780/month group. Approximately 57% of 'Coloured' people in Cape Town fall into this category.

This major swing to self-help is contrary to the generally-held opinion that self-help should be merely a supplementary form of housing provision, and that possibly only 20% of people seeking new houses in that income category are suitable for a self-help housing scheme. In the Guguletu scheme run by Uluntu (Urban Foundation) a wide range of choice was provided for and participants could elect to build on a self-build basis or not. Only 12.8% made this choice. This 12.8%, furthermore, corresponded to the wealthiest proportion of the participants who recognised an opportunity to maximise their capital assets (28).

There are at present in Cape Town three self-help schemes underway, all of which are aimed at the 'Coloured' population: the Cafda 'shelter' scheme, the Divisional Council scheme at Grassy Park and the City Council and Urban Foundation scheme at Steenberg. The first represents an experiment conducted by a charitable organisation to show how squatters can be housed. The latter two were initiated in response to the new housing policy. The importance of these existing schemes is that they give an indication of minimum unit cost under the self-help method and therefore which income group will be able to take advantage of this method.

Firstly, the shelter scheme illustrates the importance of appropriate funding arrangements in the success of this kind of scheme. Funds (in the region of R200,000) were received on a donation basis from the private sector for the sole use of Cafda. 5,500 square metres of land were purchased near Valhalla Park and 30 cores were constructed at a cost of R101,419. Thereafter, R27,000 was made available for material for extensions (29).

The cost of the scheme was recouped on a 1% interest basis which allowed the scheme to reach its target population - the under R150/month income earner. Repayments on the basic core were R18/month of which R13 constituted interest and redemption payment. Thus housing costs equalled 12% of the income of a R150/month earner, 18% of a R100/month wage and 26% of a R70/month wage. If considering head of household income only, approximately 16% of the 'Coloured' population could not afford this form of shelter while with family income this figure would drop appreciably. Within the shelter scheme itself initially (1978) 30% of households had one other person employed while by 1981 this figure had grown to 50%.
All participants had paid a basic rental of R11.50 in a squatter camp prior to joining the scheme. The increase to R18 in relative terms is therefore quite large. However, in spite of an initial situation in which no participant had any savings and 70% had debts varying from R200 to R600 (requiring instalments between R10 and R45), all but seven (23%) participants had extended their cores by 1981. This extension involved first of all the ability to save R100 for every R500 loaned from shelter and an increase in monthly instalments up to a maximum of R30 per month.

The total maximum commitment per family was R7 478 and the minimum R4 948. Repayment of these sums at economic rates of interest would have barred all current participants.

<table>
<thead>
<tr>
<th>Amount</th>
<th>16.25% Interest Rate</th>
<th>11.25% Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Repayments</td>
<td>Income Required</td>
</tr>
<tr>
<td>R7 478</td>
<td>R102</td>
<td>R408</td>
</tr>
<tr>
<td>R4 948</td>
<td>R67,54</td>
<td>R270,16</td>
</tr>
</tbody>
</table>

If the larger sum is upgraded from 1979 to 1984 at a compounded rate of 20% per annum (R13 486) repayments at 1% still only constitute R40,78/month while at 16.25% they would equal R184/month.

Secondly, the Grassy Park self-help scheme gives a better indication of how this form of housing delivery can be expected to operate under the new housing policy.

A total of 364 sites have been made available in Grassy Park but only between 87 and 137 (s) are to be made available for self-help. The rest are to be given over to private development.

The scheme itself, though aimed at what Divisional Council considers to be the minimum cost possible, is fairly expensive. It requires:

i. A participation fee of R300.

ii. A site cost of R3 422.

iii. Three plans were drawn up, the houses of which were to be built in three stages and to be completed within a two-year period. The cost of materials and specialised labour excluding land, were R12 258, R11 138 and R12 213 respectively.

iv. The total amount to be spent with two years is therefore R15 680, R14 560 and R15 635 respectively (t). This implies the following repayment and income requirements for the maximum and minimum figures:
At the minimum interest rate envisaged (11.25%), the minimum salary requirement after the first year is R565/month. Even subsidised to a 9% interest rate, monthly payments would still be in the order of R117,21.

Thirdly, the Steenberg/Retreat Scheme, which is being run by Urban Foundation (P.C.A.) under the auspices of the City Council, is aimed at a slightly lower income group. It is intended to provide housing for the R300 to R800/month income range but in effect, it is more likely to cater for the R390 to R800 income group (30).

The basic costs involved are R4 100 for a site and an approximate R6 000 material loan: this again implies

<table>
<thead>
<tr>
<th>Repayments of</th>
<th>and a salary of</th>
<th>at</th>
</tr>
</thead>
<tbody>
<tr>
<td>R 81,31/month</td>
<td>R325/month</td>
<td>9% interest</td>
</tr>
<tr>
<td>R 98,07/month</td>
<td>R392/month</td>
<td>11.25%</td>
</tr>
<tr>
<td>R114,42/month</td>
<td>R458/month</td>
<td>13.75%</td>
</tr>
<tr>
<td>R137,85/month</td>
<td>R551/month</td>
<td>16.25%</td>
</tr>
</tbody>
</table>

(These figures do not include rates and administrative charges)

The original calculations done by the Urban Foundation which assumed interest rates of 3 to 11.25% have recently been made redundant by an announcement in Circular 9 of 1983 of the Department of Community Development that the applicable rates of interest on existing loans and advances remain unchanged but all new loans and advances will be granted at an interest rate of 11.25%/month as from 1st July, 1983 in an effort to decrease the constant interest loss being borne by the Fund. Thus, if any interest rates lower than 11.25% are charged, the difference will have to be met by Cape Town ratepayers.

Given the distribution of people on the housing waiting list in this area, according to their income category, only 9% of people will be able to afford the repayments on this type of housing. (Table 9).
Table 9. Income Distribution of People on the Waiting List in Retreat/Steenberg

<table>
<thead>
<tr>
<th>Income</th>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>R150 - R249</td>
<td>907</td>
<td>56</td>
</tr>
<tr>
<td>R250 - R349</td>
<td>456</td>
<td>28</td>
</tr>
<tr>
<td>R350 - R449</td>
<td>166</td>
<td>10</td>
</tr>
<tr>
<td>R450 - R549</td>
<td>56</td>
<td>4</td>
</tr>
<tr>
<td>R550 - R649</td>
<td>34</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>1619</td>
<td>100</td>
</tr>
</tbody>
</table>

In general, therefore, it is apparent that the form of 'self-help' being promoted by the Department of Community Development cannot fill the gap being left by state withdrawal from the provision of low income housing. This is due both to the high cost of the schemes (resulting from the insistence that a high standard of finish be achieved in a relatively short period of time) and the fact that a significant proportion of people are unlikely to have either the time or inclination to construct their own dwelling. A basic requirement for the success of any self-help scheme is that it allows for a flexibility of financing and a staggering of costs over a long period of time according to the income of the individual. It is also generally recognised that the contribution of 'sweat equity' (the labour of the home-owner) to the final cost of the dwelling is relatively low. The system proposed under the new housing policy whereby people are forced to construct their own dwelling to Community Development standards in a short period of time is a complete misinterpretation of the concept of self-help and as a result fails to produce affordable housing as well.
Section Two - Notes

a. Replacement cost of a unit in the Heideveld scheme was R7 000 (for a unit costing an initial R3 443). Under the new formula replacement cost becomes R18 936.

b. Divisional Council Minutes. Housing Committee 10.11.83.

c. Except in case where the selling price of the house is less than R2 500, in which case buyers must pay cash or raise a building society loan.

d. Circular 19 of 1983 allows this to be paid off over 24 months. It appears that Divisional Council is adopting a 6-month period and City Council a 12-month period.

e. This is the maximum period allowed for paying off 10% of purchase price under the new sale.

f. See the Annual Report of Community Development of 81/82.

g. "Die Departement van Gemeenskapsontwikkeling kan nie met die pogings van akademie en ander behuisingdsdeskundiges saamstem wat die grootte van die behuisingstutdaging kwantificeer deur 'n reeks ingewikkelde aanlikes oor aanwas, vrugbaarheids-verhoudinge, gesinsvorming, sterfteefters, migrasie en derglike faktore te maak nie. Die basiese fout met hierdie aanlike is dat die Republiek van Suid-Afrika nie 'n sosialisteiese welsynstaat is nie, maar 'n staat waarin die Regering poog om die kapitalistiese vrymarkstelsel te onderskraag en te versterk." Housing in South Africa, Nov./Dec. 1983, S.A. Institute for Housing, p. 20.

h. '...die aantal huise wat nodig is en wat deur gesinne/individuele geokkupeer sal word onder bepaalde ekonomiese parameters.' Housing in South Africa, Nov./Dec. 1983, S.A. Institute for Housing, p. 20.

i. 'Die verskil tussen behoefte en aanvraag is daardie groep persone wat onder bepaalde ekonomiese toestande elders onderdak sal soek, b.v. vergrootte gesin in een huis, loseerders, deel van woonenhede, ens.' Housing in South Africa, Nov./Dec. 1983, S.A. Institute for Housing.

j. The Steyn Committee states: 'Die Komitee het kennis geneem dat die Regering reeds as beleid aanvaar het dat beheerde plakkery nie aanvaarbaar is nie en dit word dus aanbeveel dat enige vorm van behuising wat as minderwaardig beskou word en wat nie aan aanvaarbare minimumstandaarde ten opsigte van gesondheidsregulierings, beheerlike beheer en hulpverlening asse as voldoen nie, of op 'n ongeorganiseerde basis en sonder bystand van 'n overheidsorgaan aangepak word, nie uit Behuisingfondse gefinansier sal word nie.'

k. 'There are more than 20 000 families on the waiting list of the Cape Town City Council alone. Where are these people living in the meantime? In someone's backyard. Somebody is letting a room. Many of these landlords are exploiting their tenants, charging between R60 and R150 for tiny rooms or for accommodation in garages, because there is such a shortage of accommodation.' Cape Times, Friday, Jan. 20, 1984. "Landlords Exploit Housing Shortage".

l. The following loans have been secured:
   1. R500m of foreign capital has been attracted to finance Khayalitsha.
   2. R15m has been loaned from Sanlam via the Urban Foundation for the
provision of 'Coloured' housing in the Western Cape (Steenberg Draft Report: Urban Foundation, Cape Town).

3. In late 1983 the N.B.F. sought R65m on the primary capital market. Four loans were issued with maturing periods from 1990 to 2009 (from 6-year bridging finance to 25-year long-term loans) and at interest rates which varied from 10% to 14.9% (Financial Mail, 25.11.83). The interest rate on state funds was set at 13.75% as from 1.2.83 (Circular 22 of 1983, Dept of Community Development). A further short-term loan was sought maturing in 1988 at an interest rate of 1.25% below prime overdraft rates (Financial Mail, 25.11.83).

4. A large consortium has signed a partnership agreement with the state to produce 50,000 houses over the next five years with an initial expenditure on the part of the consortium of R50m. Minimum interest rates on this money are 10%, but final profit levels will no doubt be set by the consortium. This will need to be at least 20% to entice capital, but may be in the vicinity of 50%.

m. Translated: A person with an income of R200 a month will be able to house himself in the rural areas but not in the cities. S.F. Kotze in Housing for South Africa, The S.A. Institute for Housing, Nov./Dec. 1983, p. 21.

n. This is the lowest construction cost achievable in Cape Town (City Council official).

o. Divisional Council considers this to be a reasonable construction cost for a house with all fittings (ceilings, floor, etc.) and the site.

p. Garden Cities would consider expanding production by approx. 50% if land were available.

q. Both the Urban Foundation and Garden Cities claimed that approximately 50 - 60% of employers contacted in relation to selling schemes offered some form of assistance such as standing surety, or small loans for deposits, transfer fees, etc. (Personal communication).

In a sample survey of potential applicants for the Divisional Council Grassy Park scheme, 58% of employers contacted were prepared to assist in some way (Divisional Council Housing Minutes 5.5.83).

The Cafda Shelter Scheme which was aimed at a considerably lower income group (the under R150/month group) had a much lower success rate. In this instance employers were contacted by Cafda for help with deposits, but only 33% agreed to help, 23% refused outright while 36% were unsure (8% of purchasers were self-employed). The low positive response rate was not, moreover, due to a high turnover rate on the part of prospective purchasers. About 53% of applicants had been with the same employer for over 5 years. (Booley, M.: 'An Alternative to Standard Housing for Low Income Groups: A Case Study in a Community on the Cape Flats', 1983 M. Soc. Sci. Thesis, unpublished, U.C.T.).

r. These have been as follows:
1. 95 units at Macassar (A.E.& C.I.).
2. Approximately 40 - 50 units at Firgrove (Sanchem).
3. 500 units at Belhar (a combined scheme under the auspices of the Cape Chamber of Commerce).
4. Old Mutual has purchased 99 plots in Mitchell's Plain for development,
and will be selling the units to employees at R20 000 per unit.

5. Koeberg have built 285 units in Atlantis.

6. United Building Society has built a further 100 units in Atlantis as has

7. Atlantic Diesel Engines (100 units).

8. A.E.& C.I. through the Urban Foundation will be building 200 units at Belhar.

(Information from local authorities, the Urban Foundation, and annual reports of the Dept. of Community Development).

s. 87 are being set aside for self-help.
50 held as a reserve for a possible expansion on the self-help scheme.
70 to be sold as plots.
49 to be sold to private developers for maisonettes.
109 to be sold to developers by public tender in groups of no more than 10 per developer.

t. National Housing Commission will be advancing approximately 50% of the total cost (R8 000). The rest of the finance will be raised from the private sector.
Section Two - References

1. Divisional Council Minutes, Housing Committee 4.8.83.
3. Personal communication - City Council official.
9. Ibid.
11. Ibid.
12. Ibid.
14. 'Housing Scheme Rentals Applicable from 3.1.82', Divisional Council.
18. Circular 8 of 1982, Department of Community Development.
22. Circular No. 8 of 1983, Dept of Community Development.
23. Personal communication: official of the Cape Town City Council.

An examination of the impact of the new approach to low income housing provision must be made against the backdrop of an existing housing crisis which has manifested itself in the form of chronic overcrowding and long waiting lists, and high rentals and repayments on the existing housing stock. These factors in turn have contributed to high levels of poverty experienced by the 'Coloured' population; severe social problems (crime, poor health, family breakdown) which may be traced directly to overcrowding, the high cost of living and insecurity; and general environmental degradation of the township areas.

It must also be borne in mind that the primary intention of the new approach is not the resolution of this crisis. From the point of view of the state the main aims of a change in policy are: to reduce the cost burden of low income housing on the state, to improve cash flow to the National Housing Fund so that greater priority can be given to housing in the homelands and decentralisation points, to discourage the continued movement of 'Coloured', 'Asian' and African people to the main towns and cities, and to diffuse political organisation around the housing issue.

Given these priorities, it is inevitable that the impact of the new approach will be negative for a large section of the 'Coloured' population of Cape Town. The main questions then become: to what extent will the current housing crisis be exacerbated, and which groups will feel the impact most?

It is clear that as a result of the introduction of a number of new housing delivery systems, financing systems and producers of housing, different income categories will feel the effect of the policy in different ways. These are as follows:

i. RO - R150/m Income Bracket

This income group forms 42% of the 'Coloured' population of Cape Town and 18% of people on the waiting lists. People in this category will, according to the new approach, still be provided with completed housing units. However, firstly it is not government priority that units be provided for this income group: self-help schemes and the provision of serviced plots will receive greater priority; secondly, these houses will be built minus a number of facilities (such as electricity) and the onus will be on the tenant to install these if required; thirdly, there is no guarantee that the final rents on these units will be affordable, that is, below 25% of income as recommended by Community Development or below 9% of monthly income as is more realistically recommended by Myers (of Garden Cities).

It seems likely, therefore, that for a significant proportion of this income group, for whom housing will either not be available at all, or not be available at affordable prices, the only alternatives will be
to sublet or to squat.

ii. R150 - R400/m Income Bracket

39% of the 'Coloured' population falls into this bracket (in terms of head-of-household income). It is this income group, which is also one of the largest, which will feel the impact of the new approach most severely.

In the first place there will be no provision of new housing for people in this bracket: the cheapest self-help schemes will be above their level of affordability and private sector and utility company provision will be well beyond their range. The only alternative for families in this group is again, to double-up or to squat. It should be noted, however, that under conditions of existing severe overcrowding, the first option may not be possible.

In the second place families in this income group which do at present have accommodation will be paying more for housing. This will be either as a result of the ('drastic') increase in rents which has been threatened by the Department of Community Development, or, for those who decide to purchase, as a result of repayments which in many cases will be higher than present rents. It can be predicted that for many families in this category who are at present struggling to pay rents the new measures will result in their being unhoused.

It will be particularly difficult for those presently living in the older housing stock, whose combined husband and wife income is less than R350/month. Where the housing units are placed on the market at prices of R2500 or less, tenants will not qualify for loans from either the building societies or from the National Housing Fund. If they cannot raise the necessary amount in cash or from employers they will be forced to pay the greatly increased rents.

iii. R400 - R620/m Income Group

Approximately 11.03% of the 'Coloured' population of Cape Town falls into this category. It seems likely that at an income level of R400 and above families will be able to qualify for the cheaper self-help schemes and possibly will be able to purchase a serviced plot for development. However, problems are likely to occur with the rate at which plots and self-help schemes can be made available.

The first problem lies in the availability of well-located land in the Cape Metropolitan Area. There is at present a chronic shortage of well-located land which falls under a 'Coloured' Group Area classification and there is resistance on the part of Community Development to the declaration of further land. Attempts to initiate self-build schemes on the outskirts of the metropolitan area will increase the cost burden greatly, both in terms of higher servicing costs and additional transport costs for the purchaser.
Secondly, it is the intention of the new approach to housing that money which is released by the sales of houses should be channelled into the provision of self-help schemes and serviced plots. Consequently if housing sales do not yield the predicted income this will in turn slow down the provision of new housing.

In terms of Circular 8 of 1983, money received from the sales of houses is to be used firstly to pay off outstanding loans to the National Housing Fund and the balance will be split 50-50 between the local authorities and National Housing. Of the money retained by the local authorities, 60% may be channelled into providing plots and self-help schemes. Even if response to the sale offer is good, however, (and this at the present time is debatable) the total amount of money which can be used for new developments is limited and a good proportion of it will come in slowly over the next 30 years in the form of loan repayments.

iv. R620+/m Income Category

6.3% of the 'Coloured' population of Cape Town falls into this category. R620 a month is the lowest level at which utility companies (using a combination of subsidised and market value finance) can provide housing. People earning over R800 a month will be completely dependent on the private sector, on employers and on the more expensive utility company housing.

Again the question must be raised of how much housing will be provided by these bodies relative to demand, especially since demand in this category is likely to be boosted by people from lower income groups who have failed to secure alternative forms of housing, and who are prepared to pay well over 25% of household head income on accommodation.

It has been made clear (above) that the present rate of delivery of housing on the part of utility companies, employers and the private sector is very low. Cape Town-based utility companies do not see themselves expanding beyond the production of 1250 units a year at maximum (and this will depend on land being available). Only one employer group is at present providing new housing: 200 units on a once-off basis at Belhar. And the track record of employers in terms of providing other forms of housing assistance is not good.

It will therefore be left up to the private sector (private construction firms and developers) to provide the majority of new housing in Cape Town. Given that minimum prices for such houses are in the region of R30 000 this no longer becomes 'low income' housing and private developments are in all possibility keeping pace with demand at the present time.

The impact of the new approach on an already critical situation is, therefore, likely to be disastrous. It may in fact be predicted that once the effects of the new policy have become clear, the Department of Community Development will be forced to reconsider its stand. Assuming that this is not the case, however, there are several factors which, over the next few years, will operate to worsen the situation still further.
The first of these is the proposed total withdrawal of interest subsidies on low income housing and its replacement with a once-off capital subsidy on new housing. This will have a far-reaching impact on rents, on loan repayments and on the cost of new housing.

The second is the shortage of accommodation which has already led to a massive escalation in its cost. With the cutback in state-provided housing and the inability of either the private sector or individuals to compensate, the current housing shortage will worsen dramatically. This will affect the cost of subletting as well as the price of land and houses sold on the open market.

The third is property speculation which will be facilitated by the housing shortage. It is significant that the sale of houses in African townships (outside of the Western Cape) has not been subject to a pre-emptive right clause controlling sale prices: the inevitable result has been the possibility of massive overnight profits for those who are registered tenants and who could buy immediately (a). In Cape Town, the sale of houses has been subject to a 10-year pre-emptive right period in which the homeowner has first to offer the house to the Department of Community Development, which in turn sets the price for which the unit can be offered for sale. Half the profits of the sale are then retained by the Department. The intention of this clause is precisely to limit speculation in the short term. However, there is nothing to prevent individuals owning several units and renting them out at inflated prices and it will also be difficult to prevent black market buying and selling. Furthermore, unless the housing backlog has been diminished substantially by the end of the 10-year period, speculation will undoubtedly occur.

The fourth factor is the effect of the transition from a highly centralised and controlled housing production system to a decentralised one.

In the past, the only way in which the private sector could participate in the low income housing market was via access to government contracts for mass housing schemes. Several large companies specialised in this area (Besterecta, Model Homes, etc.) and came to dominate the market, thereby excluding the small, independent operator.

Undesirable though the mechanism may have been it was relatively efficient, allowing for the fast delivery of a large number of units on a cost-saving basis.

A substantial change in policy, which removes by far the majority of the actual production of housing from this centralised mechanism, is likely to have a wide-ranging impact on delivery and the cost thereof.

a. As the production field is thrown wide open it takes, firstly, time for a reorganisation along decentralised lines to take place; secondly, such a reorganisation costs a considerable amount of money which has to be recouped from sales.

b. As houses are no longer mass-produced on a large-scale, cost savings are reduced substantially. For example, taking into account simply finance and administration, the Urban Foundation
estimates that they need to add from 6% to 8% on to the cost of
their schemes to cover administration costs and between 5% and 15%
for finance charges, dependent on the form of finance used. On
a R15 000 house this already adds between R1 650 and R3 450 onto
the price.

c. The change to self-help aggravates these factors still further as
the total lack of precedent implies a lack, too, in experience.
Methods of implementation will need to be tried and tested before
cost-efficient mechanisms are devised.

Furthermore, the previous policy created a dependent target
population which mitigated against the spread of construction skills
through the population. This lack of skills acts both as a
disincentive to participation in a self-help exercise and alternatively
forces the person to employ skilled labour in the construction of
his/her house. Both the lack of expertise and the acquisition
of expertise increases costs. In the first case, increased costs
are the result of sub-standard work either having to be repeated
or else requiring more frequent maintenance. In the second case,
the necessary employment of skilled labour reduces the extent
of the cost-saving element in a self-help exercise, i.e. the use
of free labour.

The fifth factor is the likely effect of the restructure of municipal
administration under the government's new constitutional proposals.
According to these proposals the administration of Cape Town will be
reorganised into a metropolitan authority responsible for 'hard' services
(infrastructural provision) and numerous local council areas responsible
for 'soft' services (housing, maintenance of roads, community facilities,
etc.). The intention is that these local councils, which will be
defined racially, will be relatively self-financing, and the application
of this principle will lead inevitably to an escalation of rates and
service charges.

Under the present system of municipal financing it is expected that, as
far as possible, local areas should be self-financing. However, in
practice this has proved impossible to implement and both City and
Divisional Councils continue to subsidise 'Coloured' townships from the
General Rates Fund. (b). Under the new proposals not only will this
principle be applied more strictly but new local council areas (which
may be as small as Rylands, or Bonteheuwel) will also have to pay for
their own administrative structure: official buildings, officials' salaries, etc.

To indicate the effect of this principle of 'self-financing' the example
can be taken of Kleinvlei, a 'Coloured' local area falling in the
Stellenbosch Divisional Council.

The area consists of 1200 rented units and 750 ownership units. 54%
of tenants earn less than R150 a month. The level of services in the
area is minimal: sub-economic units have bucket sewerage, communal
taps and no electricity. Roads are untarred, community facilities are
minimal and public spaces unmaintained. The cost of providing and
running the few services which do exist is borne totally by Kleinvlei
residents: as a result, approximately 75% of rent is made up of service
and administration charges, and homeowners pay rates which are higher than those charged in most White areas. Some households pay R700 - R800 a year in rates! Moreover, any improvements on these services will have to be paid for by Kleinville's 2000 households: clearly, the installation of a water-borne sewerage system, at a cost of R7m, is impossible.

Clearly, the new approach to the provision of low income housing (and its ramifications) can only worsen a situation which has already reached critical proportions. Historically monopolisation of low income housing has given rise to a situation which is inflexible and inappropriate as regards affordability and which allows extensive state control over the lives of housing recipients. Undoubtedly a new policy in relation to low income housing provision is urgently required. However, under conditions of low wage levels, rising costs of living and general poverty there is no way in which such a new policy can be based on a withdrawal of the state's financial responsibility for housing. In fact, this responsibility needs to be extended greatly.
Section Three - Notes

a. *Rand Daily Mail* 24.11.1983: "Big Profit for Big Sale Buyer": A home bought for R1518 in Molofo Central in the Big Sale has been resold for R7000...

b. In 1982, the Divisional Council contributed R1,79m from the General Rates Fund to make up the R4,9m required by Belhar, Elsies River, Grassy Park, Matroosfontein, Nooitgedacht and Ocean View. In the last financial year the City Council contributed R4 million to the running costs of Mitchells Plain alone.
## APPENDIX

### Breakdown of Head of Household Income: 1980 Census

**Cape Town (5t Sample)**

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>Percentage</th>
<th>Monthly</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>7.81%</td>
<td>None</td>
</tr>
<tr>
<td>R 0 - 499</td>
<td>1.56%</td>
<td>R 45.58</td>
</tr>
<tr>
<td>500 - 899</td>
<td>12.47%</td>
<td>- 83.25</td>
</tr>
<tr>
<td>1000 - 1599</td>
<td>12.47%</td>
<td>- 133.25</td>
</tr>
<tr>
<td>1600 - 1999</td>
<td>8.90%</td>
<td>- 166.58</td>
</tr>
<tr>
<td>2000 - 2499</td>
<td>12.07%</td>
<td>- 208.25</td>
</tr>
<tr>
<td>2500 - 2999</td>
<td>7.79%</td>
<td>- 249.92</td>
</tr>
<tr>
<td>3000 - 3499</td>
<td>6.72%</td>
<td>- 291.58</td>
</tr>
<tr>
<td>3500 - 3999</td>
<td>6.05%</td>
<td>- 333.25</td>
</tr>
<tr>
<td>4000 - 4499</td>
<td>4.91%</td>
<td>- 374.92</td>
</tr>
<tr>
<td>4500 - 4999</td>
<td>3.72%</td>
<td>- 416.58</td>
</tr>
<tr>
<td>5000 - 5999</td>
<td>4.79%</td>
<td>- 499.92</td>
</tr>
<tr>
<td>6000 - 6999</td>
<td>3.52%</td>
<td>- 583.25</td>
</tr>
<tr>
<td>7000 - 7999</td>
<td>1.72%</td>
<td>- 666.58</td>
</tr>
<tr>
<td>8000 - 14999</td>
<td>3.08%</td>
<td>- 1249.92</td>
</tr>
<tr>
<td>15000 +</td>
<td>2.22%</td>
<td>1250.00+</td>
</tr>
<tr>
<td>Unknown</td>
<td>2.14%</td>
<td>Unknown</td>
</tr>
</tbody>
</table>

**Source:** Technical Management Services, City Council.