13th Annual Symposium

Bank of Namibia

Housing in Namibia

Has the situation changed 21 years after independence?

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13th Annual Symposium 2011

Housing in Namibia:
Has the situation changed 21 years after Independence?

Edited by the Research Department

Housing in Namibia

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Preface

The Bank of Namibia held its 13th Annual Symposium on 29 September 2011 at the Windhoek Country Club and Casino. The main objective of the conference was to deliberate around the theme 'Housing in Namibia: Has the situation changed 21 years after independence?'

The selection of this topic comes at a time when many developing countries are faced with the challenge of ensuring access to housing for families in low and ultra low income categories. Given that Namibia faces the same constraints, the objectives of the symposium were therefore two-fold. Firstly, the conference sought to establish the current state of the housing market in terms of constraints and opportunities. Secondly, the symposium brought together various stakeholders to identify pragmatic policy interventions needed to address the issue of access to affordable housing in Namibia. As is customary, the Bank of Namibia invited regional speakers to share their experiences and knowledge on the subject. The speakers discussed country case studies from around the world and put forward their recommendations in using policies and strategies to ameliorate the challenge of enabling access to affordable housing. In addition, for the first time, the symposium had a panel discussion, with panellists drawn from the various stakeholders in the Namibian housing sector. The representatives on the panel were drawn from the public sector, private sector and non-governmental organisations. The panel looked at the role of each stakeholder in the housing market, the challenges they encounter in housing delivery and proposed strategies to address the delays and shortfalls in the provision of affordable housing.

Housing in Namibia

Overview

The importance of housing in Namibia and elsewhere relates to the multiple roles home and property ownership play in the economy and society. To an individual, housing refers not only to the fulfilment of a basic need for shelter, but also constitutes a significant part of the wealth of a household or individual. In the broader economy, housing plays a significant role due to its backward and forward linkages to other sectors of the economy. These include the construction sector, financial intermediation sector and the retail sector. Notwithstanding the significant role and contribution of the housing sector to the economy, the sector faces many constraints. The most profound constraint in Namibia is the mismatch between housing supply and demand. This remains a key concern for policy-makers, who recognise that addressing this persistent imbalance will not only unleash the full potential of the housing market and its contribution to the economy, but will also address the social aspects related to sustainable and affordable housing.

In his opening speech, the Deputy Governor of the Bank of Namibia, Mr Paul Hartmann highlighted the importance of housing delivery to the Namibian Government, which identified housing as one of the most pressing developmental priorities following independence. To meet the housing needs of the population, Government ratified pertinent international legal instruments, introduced a number of national policies and has been allocating financial resources to facilitate access to housing among low income and ultra low income households. Nonetheless, access to affordable housing still remains a considerable challenge for many Namibians as unprecedented increases in house prices continue to reduce the majority of the population's ability to access affordable housing. Moreover, the increase in house prices poses a threat to financial stability, especially in the event where such high prices are not supported by any economic fundamentals, for instance an increase in household incomes. The Deputy Governor, therefore, called on all policy-makers to come up with pragmatic measures to tackle the obstacles facing the Namibian housing market.

Three papers were delivered at the symposium, of which two were presented by international speakers, while the third was presented by Mr Ebson Uanguta, the Director of Research at the Bank of Namibia. The papers were complemented by one discussant paper, which provided a critique of the two regional speaker's papers, and a panel discussion, consisting of panellists drawn from relevant institutions in Namibia. A cross cutting feature of the papers delivered was the highlighted recognition that affordable housing delivery remains a key challenge in Namibia and in other developing countries. Furthermore, the experience from developed countries, in particular the US and Japan, and emerging economies such as China, indicates that despite their levels of development, affordable housing shortages remain a universal challenge as the constraints in delivery continue in these countries. This is despite a myriad of government interventions in the form of policies – such as subsidies, taxation, etc. – and programmes specifically targeting low income households. A key lesson drawn from the presentations of the various speakers is the importance of a well designed and targeted subsidy system that will improve access to housing by households in Namibia. In summary, the first paper, presented by Mr Uanguta, provided an overview of the Namibian housing market with a focus on the opportunities and constraints existing in the market. The paper highlighted various Government housing initiatives and how they have fared thus far. Moreover, the presentation identified a number of factors which have contributed to escalating house prices in Namibia and interventions to slow house price increases. Some of the factors contributing to the increase in house prices include unavailability/shortage of serviced land in the face of increasing demand; increases in the costs of building materials; and the use of auctions by local authorities to distribute land. The knock-on effects include speculation and limited housing stock at the lower and middle spectrum of the market. Given this, the paper recommends increased serviced land delivery, improved access to housing for low income households and finding ways to mitigate the rising costs of building materials. In addition, the review and introduction of legislation to discourage speculation and multiple-home ownership in low income areas was recommended.

The second paper provided an assessment of the housing policies from countries such as the USA, Japan and China. The paper was presented by Prof. Mosha and was titled 'Government policies on access to housing and financial stability: Experience from the USA, Japan and China'. The paper shows that these countries have a long history of housing policies aimed at increasing access to housing. Furthermore, excluding China, the government's role in the housing market is that of facilitation rather than direct involvement in the provision of houses. Moreover, these countries have used both social policies, in the form of subsidies, and monetary policies, in the form of reduced interest rates, to improve access to affordable housing.

The main weakness identified in such policy interventions has been the preference for home ownership over rental accommodation. Additionally, reduced mortgage rates and favourable repayment terms contributed largely to the bubbles experienced in the housing markets of these countries, as cheap home loans encouraged reckless behaviour among housing market players, which in turn pushed up house prices to unsustainable levels. The subsequent bursting of the housing bubble has adversely affected economic growth. A case in point is the 2008 global economic crisis, which started in the US housing market and trickled to other sectors of the US economy and spilled over into the global economy. Prof. Mosha's paper concludes by cautioning that "badly designed Government policies can have substantial negative effects on the economy, for instance by raising the volatility of real house prices leading to bubbles and preventing people from easily moving to follow employment opportunities".

Dr Napier's paper, titled 'Government policies and programmes to enhance access to housing: Experience from South Africa', provided an overview of the various policies and programmes that the South African government has implemented since 1994. The South African experience differs significantly from the international cases discussed above, due to the country's apartheid history, which saw people granted access to economic opportunities based on racial classification. Given this, when the ANC came to power, the focus was more on creating a conducive environment for the private sector to participate in housing construction, while the Government only provided subsidies to low income households.

Since 2004, however, South Africa has experienced a shift in policy to emphasise the creation of sustainable settlements, which encompass aspects of integration and proximity to services (i.e. schools, places of work, etc.) as compared to only providing adequate houses. In addition, housing provision has shifted from focusing on subsidies to informal settlement upgrading. In terms of housing delivery, the paper showed that the South African state has delivered more than three million houses to low income households. Nonetheless, the ANC Government still faces a number of challenges in its housing delivery pipeline, including the sustainability of the settlements created, peripheral development, increasing backlog and no or a limited secondary housing market, amongst others. Dr Napier concluded by raising the following questions with respect to whether the new policy paradigm would change the form and location of the settlements and whether the beneficiaries would have real choices and opportunities to decide where they wanted to live.

In her review of both papers, Ms Rust expressed agreement with the nature of the discussion of the issues. Nonetheless, she cautioned that care should be taken when attempting to extract lessons from the experiences of others, as the countries discussed find themselves in different developmental stages and thus the characteristics of the respective housing markets differ. In her commentary on the South African paper, she highlighted that Dr Napier had omitted an important point, specifically the fact that: "By virtue of the deemed value of their housing, subsidy beneficiaries in South Africa do not pay rates and taxes to the municipality". This, she argued, deprives local authorities of income which can be used to improve service delivery to such communities. This is an important point, as it speaks to the ability of local authorities to provide services and infrastructure in such communities. In her analysis of the two papers, Ms Rust introduced two concepts, namely that of housing as an asset and the importance of understanding the housing market through pools, flows and filtering. According to her, housing serves as an asset in three ways: firstly, housing is a social asset; secondly, as a financial asset and, thirdly, as an economic asset. Rust argues that understanding these multi-dimensional aspects of housing is important in the process of designing strategies to address shortages in housing. Understanding the concept of pools, flows and filtering is important in the formulation of housing policy and strategy because this can give Government an indication of the quantity of available housing stock (pools) and the mobility of households from one housing pool to another (flows) as their incomes improve (filtering). This requires a reliable data base, which is a necessary tool for policy-makers when implementing and reviewing housing policies.

Governor's Welcoming Remarks

13th Annual Symposium

29 September 2011, Windhoek Country Club and Casino

Theme: Housing in Namibia –
Has the situation changed 21 years after Independence?

Director of Ceremonies

Honourable Jerry Ekandjo, Minister of Regional, Local Government, Housing and Local Development

Permanent Secretaries

Distinguished speakers, discussant and panellists

Members of the Media

Ladies and Gentlemen;

Good morning and welcome to the Bank of Namibia's 13th Annual Symposium. Allow me to express my gratitude to you all for accepting our invitation. For those of you who are attending the symposium for the first time, we hope that you will continue to do so in the future. For those of you who have attended our previous event, welcome back. Your continued participation and interest in this event signifies its importance, and therefore encourages us at the Bank of Namibia to continue hosting it.

I would not be a good host if I failed to extend a warm welcome to our speakers and discussant from the region: Welcome to Namibia. I trust and hope you will have a delightful stay in our beautiful city, Windhoek. Indeed, we look forward to your contribution.

Ladies and Gentlemen, the Symposium has become one of the main vehicles through which our institution engages the public and other policy-makers on relevant socio-economic and developmental issues affecting our country with the hope of finding common and informed solutions to the challenges facing us.

The focus of this year's symposium is one that is close to many of our hearts. The topic at hand is "Housing in Namibia – Has the situation changed 21 years after Independence"? Indeed, immediately after independence in 1990, the Namibian Government identified housing as one of its top developmental priorities. In this respect, the Government ratified a number of instruments which promote access to housing and thus recognised it as a human right. Further, the Government introduced national laws (National Housing Policy), set up institutions (NHE) and introduced programmes (BTP) to address the acute challenge of housing. All these required resource investments from the Central Government.

Nonetheless, the country still grapples with an acute shortage in housing. The latest official figure for the housing backlog shows that as of 2007, Namibia had a backlog of 80,000. We believe that this figure has increased. Furthermore, we continue to witness the mushrooming of informal settlements on the outskirts of our city and towns, a sign that many Namibians have been excluded from accessing the formal housing market. The main challenge, as recent research on the Namibian housing market has revealed, is that houses have become unaffordable. In cities such as Windhoek, the issue of affordability is exacerbated by a continuous escalation of house prices due to a number of factors. Among others, demand has outstripped the supply of houses. The shortage of serviced land, an increase in the cost of building materials and speculation in the housing market are some of the factors pushing up house prices and therefore further compounding exclusion of the majority from formal and decent housing. Apart from the social implications of the high prices, increasing house prices could also pose a threat to financial stability. The threat to financial stability can materialise in as far as the increase in prices is not rooted in economic fundamentals, such as corresponding increases in household incomes. Certainly, the implications of the imbalances in the housing market are great, both from the social and financial stability perspective. This, therefore, requires us to deliberate on this matter with earnest and vigour.

Ladies and gentlemen, allow me therefore to conclude my speech by expressing my hope that today's deliberations will come up with tangible and feasible solutions which can be used by our policy-makers to address the current imbalances in the housing market.

I thank you!

Housing in Namibia

Keynote Address

by Honourable Jerry Ekandjo,

Minister of Regional, Local Government, Housing and Rural Development

13th Annual Symposium of the Bank of Namibia

Windhoek, 29 September 2011

Director of Ceremonies

Deputy Governor of the Bank of Namibia

Honourable Members of Parliament

Distinguished Members of the Diplomatic Corps

Distinguished invited guests

Eminent Speakers, Discussants and Panellists

Members of the Media

Ladies and Gentlemen

First, let me express my profound gratitude and appreciation for the invitation to deliver the keynote address, and to officially open the 13th Annual Symposium of the Bank of Namibia. It is indeed my great honour to be able to express my views on the severity of the housing situation in Namibia. Since independence, increased access to housing was identified as one of the critical matters that needed to be addressed to achieve integrated development in the country. This resulted in access to affordable housing being integrated into the Government's overarching development policy document of Vision 2030 and consequently the National Development Plans and the National Housing Policy of 2009.

The Government of the Republic of Namibia remains fully committed to addressing the housing challenge in Namibia. This commitment is evident from the goals and objectives of our national Vision 2030, which seeks to reduce poverty and promote a healthy human environment, and access to adequate housing with water and sanitation facilities. Consequently, each of the five-year National Development Plans (NDPs) has recognised housing as one of its priority areas for integrated human development.

In carrying out the effort of housing delivery countrywide, Government policies recognise that both the public and private sectors have a role to play in the effective provision of affordable housing and the finance thereof. We envision that the provision of housing finance will be based on a market-related approach, with public financing supplementing private sector shortfalls and catalysing private financing in segments of the housing market that may be perceived as high risk.

Director of Ceremonies, this morning, as a prelude to today's deliberations, I want to highlight the current housing situation in Namibia and some of the actions taken to

provide adequate housing. I am pleased to note that as part of today's programme, participants to this symposium will have an opportunity to deliberate on what further actions can be taken to ensure that every Namibian has access to a descent shelter.
Employment and household

Ladies and Gentlemen, despite the fact that housing has been one of the main objectives of the past three National Development Plans, the delivery rates have been below expectations, with a total current backlog of about 300,000 houses. The Central Government has partnered with private, local and regional institutions, community-based organisations and non-governmental organisations in an effort to improve housing delivery. Despite these efforts, the housing challenge continues to persist as the pace of housing delivery in the country has been slow in relation to the growing urban population, which expands at a rate of 3.4 percent per annum. For example, the National Housing Enterprise (NHE), which is one of the institutions mandated to provide affordable housing, could only construct approximately 485 houses, well short of the 1,200 houses expected per year to meet the requirements as envisaged in Vision 2030. A number of factors are attributed to this situation, which I believe, this symposium will seek to reflect upon and unpack with a view to providing possible solutions.

But the question remains, why is there a huge backlog in the provision of houses in Namibia? Namibia's housing market suffers from a variety of structural problems, namely: high real estate prices and housing finance costs relative to incomes, creating a wide affordability gap; and complex land development and registration procedures that hinder low- to middle-income housing provision. Ladies and Gentlemen, I will attempt to highlight some of the key challenges.

One of the reasons is that access to serviced land within municipal areas continues to be a problem. So much so, that the serviced land for auction arguably benefits only the high-income earners. In addition, the cost involved in servicing the land is prohibitively high. This limits the provision of affordable housing, especially to the low-income segments. Most people rent, squat or buy cheaper houses and develop them incrementally, because most of them cannot afford the price of houses offered on the market. Rising house prices negatively affects demand for housing loans and impedes the ability of loan applicants to satisfy the affordability criteria applied by banks, even for loans that they would otherwise have qualified for.

Moreover, as we know, large parts of Namibia are designated as communal land. This situation also complicates access to conventional housing finance. Over 50 percent of the adult population in Namibia's rural areas is unbanked with the vast majority of the households financing their housing from own savings. This high rate of financial exclusion and the lack of title in communal areas continue to hamper access to housing finance.

An additional related concern is that house owners in Namibia do not view their houses

as tradable assets. Therefore, they resort to constructing temporary, informal or modular housing in the towns where they work. This results in very limited trading of the existing housing stock, especially in the lower income groups.

Last but not the least, Director of Ceremonies, there is a grossly insufficient supply of housing for the low-income market segment. Even though these individuals qualify for housing loans from commercial banks and the NHE, there is simply no housing stock in their price range. The number of households in need of houses, but which are not eligible for mortgage finance, stands at about 70 percent, with 23 percent of that representing the low-income group.

Going forward, Ladies and Gentlemen, the Central Government has recently once again availed N$85 million for the 2011/12 – 2012/13 fiscal years to the NHE, as well as a capital injection of N$1 billion under the Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) towards housing. This is expected to result in the clearing of 3, 980 new serviced plots and construction of 4,521 new low-cost houses.

In conclusion, Ladies and Gentlemen, I would like to emphasise that the limited access to housing in Namibia is of great concern to us all. It is worrying that there is a backlog of about 300,000 houses and that 70 percent of the population cannot access decent residential properties mainly due to issues of availability and affordability. This alarming situation calls for radical policy measures to restore the housing market.

Fellow Namibians, the fundamental question we must seek to address today is, 'WHAT CAN WE DO TO IMPROVE THE HOUSING CONDITION IN NAMIBIA?' Perhaps, it may not be far-fetched to consider a proposal that seeks to provide an annual allocation in our National Budget to assist local authorities to revert back to municipal housing provision. This could complement NHE programmes in assisting the low to middle-income group. I am convinced that the majority of our people can afford at least a one-bedroom brick house with an ablution facility and kitchen, instead of sleeping in a shack that provides no protection at all.

Ladies and Gentlemen, our gathering here today should therefore be seen as a sacred call to deliberate on these very important issues aimed at complementing the current efforts by the Government and other stakeholders to build a thriving housing sector. I do believe that with the unwavering commitment from all stakeholders, we can provide access to affordable housing in Namibia as one of the important milestones towards the ideals and promises of a high living standard in Namibia, as set out in Vision 2030.

With these few remarks, it is now my honour and privilege to declare the 13th Annual Symposium of the Bank of Namibia officially open.

I thank you!

Evaluating the Namibian Housing Market: Opportunities and Constraints

Authors: Ntwala Mwilima, Helvi Fillipus, Floris Fleermuys
Presented by: Ebson Uanguta

Abstract

There is a consensus on the existence of a housing problem in Namibia. By 2007, the housing backlog was estimated to be 80,000 households and indications are that this figure has since increased. This is despite various interventions and programmes implemented by central government to enhance access to housing. The objective of this paper was to analyse the opportunities and constraints pertaining to housing access in Namibia. This was done by looking at the performance of the various Government programmes to improve the housing situation and the factors driving house prices. Although the housing programmes have made progress with regards to housing provision, there remains room for improvement. The paper also found that high house prices have resulted in unaffordable housing middle, low and ultra-low income household bracket, further amplifying the housing shortage. Accordingly, the study suggested ways in which access to housing can be enhanced especially among low and ultra low income groups.

Housing in Namibia

1. Introduction

Provision of affordable housing is one of the key challenges facing policy-makers in Namibia. By 2007, the country faced a backlog of 80,000 households in dire need of housing. There are reasons to believe that this figure has increased since then, as manifested in the growing number of informal settlements on the outskirts of most towns in the country. The main factor contributing to the housing shortage is the shortfall in housing supply which failed to keep up with growing demand over the years. The housing shortfall is further amplified by the prevailing high unemployment rate, rising house prices and growing urbanisation in the country, amongst others.

Available literature indicates mounting pressure on housing delivery in various developing countries. At the same time, there are indications in the literature that public sector initiatives have failed to improve housing delivery to low income communities owing to bottlenecks in policy design as well as implementation. A similar trend has been observed in Namibia, where access to housing remains a matter of concern, despite various government efforts through national programmes and strategies to address it. Residential property is perceived as wealth or an indicator of quality of life, however, the majority of the Namibian population (70 percent) cannot access formal housing. Against that backdrop, it is essential to adopt relevant policy measures to accelerate housing provision in the country, both as a social and economic imperative.

The objective of this paper is to review access to housing in Namibia by analysing housing delivery under the various government and NGO initiatives. Further, the paper looks at the underlying causes of the increase in house prices in the country. The study suggests ways in which access to housing can be enhanced among low and ultra low income groups. The structure of the paper is laid out as follows: subsequent to this introductory section, Section 2 provides an overview of the current state of the housing market in Namibia, while Section 3 analyses the issue of access to affordable housing and the final section rounds up the discussion by drawing conclusions and making the necessary policy recommendations.

2. Salient Features of the Namibian Housing Market

The residential housing market in Namibia is characterised by fundamental imbalances in terms of demand and supply dynamics. The demand for housing has been rising at a fast pace, while supply has not been growing at the same rate. This situation has resulted in high house prices, raising the question whether these price increases will be sustainable and affordable over the long-run (Fig.1). In light of this, households in the low and ultra-low income brackets have experienced difficulties in accessing formal housing. As Table 1 below shows, the housing backlog in these income groups is high and continues to increase.

Table 1: Housing backlog

Income bracket	Backlog
N$10,500+	706
N$4,601 – N$10,500	4,201
N$1,501 – N$4,600	29,554
N$0 – N$1,500	27,249

Source: Kalili, Andongo & Larson (2008)

The number of people living in improvised dwellings [1] or informal settlements is also on the increase. For instance, whilst in 1993/94 only 10 percent of the population lived in informal settlements, by 2003/04, this had increased to 17 percent with 27 percent of those being in urban areas (NHIES, 1993/94 & 2003/04). The survey also revealed that affordability plays a critical role in determining access to housing. For instance, an analysis of dwelling type and main source of income reveals that many people who depend on insecure sources of income, such as drought and in-kind contributions, remittances/grants and informal business incomes, mainly live in improvised houses. On the other hand, 88.3 percent of those who derive their incomes from commercial farming and 60.3 percent of salary and wage earners live in modern brick-and-cement houses. These two income categories have the highest share of the income per capita in Namibia.

Concerning housing finance, roughly 70 percent of the Namibian population cannot access collateralised home loan facilities available in the financial markets (National Housing Policy, 2009). The main reason for this high exclusion rate is that delivery of mortgage products requires titled land which is obtained at a price. Also the majority of the Namibian population reside on untitled communal land in the rural areas. The mortgage finance market which caters to the urban populace is composed of commercial banks (middle and high income), National Housing Enterprise and the Build Together Programme (middle and low income), while the Shack Dwellers Federation of

[1] An improvised house is an independent makeshift shelter or structure built from waste materials and without a predetermined plan for the purpose of habitation by a household.

Namibia (SDFN) focuses on the ultra low income households [2]. The annual growth in the value of mortgage credit extended by commercial banks averaged 17 percent, with the stock level moving from N$1.8 billion at the end of 2000 to roughly N$20.5 billion by the end of 2010 (Fig.2). The value of the total mortgage loans extended as a ratio of the total loans of commercial banks increased from 30.1 percent in 2001 to 52.3 percent in 2010. These developments reflect the growing importance of the property market on the balance sheets of commercial banks and the increasing exposure of the banking sector to the mortgage market.

The average house prices as a ratio of GDP has been rising at a steep rate, except for the slight dip during the financial crisis of 2007-2009 (Fig.3). Nevertheless, the upward trend observed earlier continued after the crises, partly fuelled by the favourable credit conditions to help stimulate the economy. This was evident towards the end of 2008, when an accommodative monetary policy was employed (Fig.3). Average house prices have been increasing, even in the periods of brief monetary policy tightening. Moreover, house prices have by far outpaced annual inflation, which remained within single digits. The average rate of inflation observed over the sample period was 7.1 percent, while house prices increased by 14.9 percent (Fig.4). The rate of house price rises has, however, moderated towards the end of the sample period.

Figure 1: FNB Average House Prices

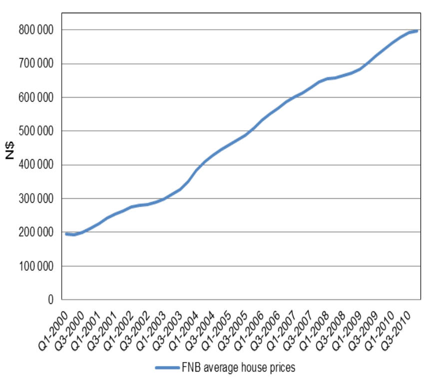
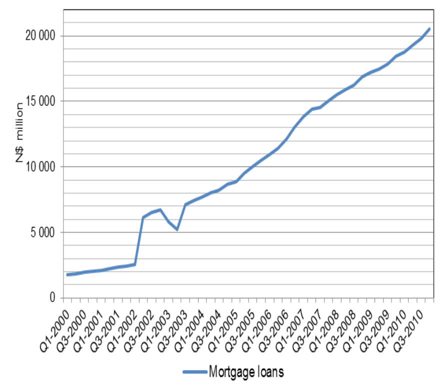


Figure 2: Mortgage loans



[2] The operations of the NHE, BTP and Shack Dwellers Federations are discussed in Section V.

Figure 3: Average House Price to GDP

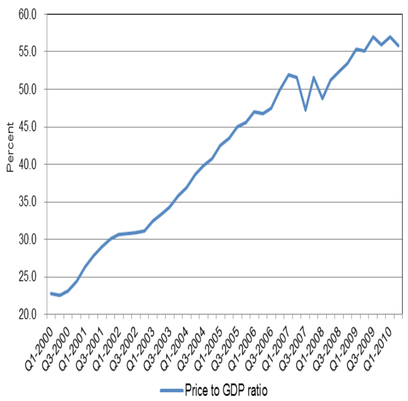
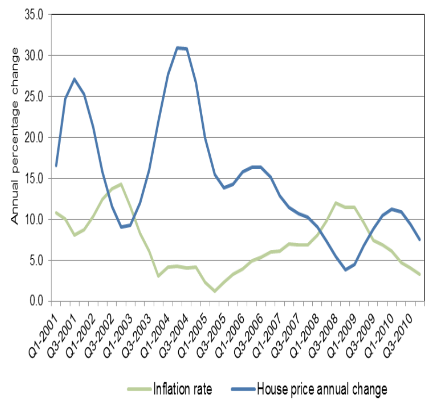


Figure 4: Inflation rate vs. House price growth



Source: BoN, CBS, FNB

These developments took place in a market that is governed by an array of legal instruments that facilitate housing finance and provision in Namibia (see summary in Table 2). Prominent amongst these instruments is the National Housing Policy, which outlines the agenda for directing resources towards providing affordable and sustainable human settlements, particularly to the low and ultra low income group. Meanwhile, the National Housing Development Act of 2000 provides for the establishment of Government structures at the national and regional level to facilitate access to housing. Furthermore, the National Housing Enterprise Act of 1993 focuses on the provision of housing to households in the middle and low income brackets, while the Local Authorities Act of 1992 confers powers on local governments to avail affordable serviced land for construction of such dwellings. Despite all these efforts there still remains a sizeable housing shortfall in Namibia and the paper therefore aims to explore the perceptions of the various stakeholders in the housing market to establish the root cause of the demand-supply imbalance in the market.

Table 2: Policies and regulations on the Namibian housing market

Instrument	Main Objective
National Policy on Housing of 1991 (revised in 2009)	Guides the actions of various stakeholders with regard to the development, provision and financing of housing
National Housing Development Act of 2000	Establish a National Advisory Committee on housing; a housing revolving fund and decentralised Build Together Programme
Local Authorities Act of 1992	Provides powers to the local Authorities to engage in housing schemes which include providing loans and availing affordable serviced land and establish a housing fund.
National Housing Enterprise Act of 1993	Provides for the establishment of the National Housing Enterprise to provide housing financing to middle and low income groups
Pension Fund Act of 1956	Makes provision for registered pension funds to be used as a guarantee
Namibia Estate Agents Act of 1976	The Act provides for the establishment of a board, whose main responsibility is that of maintaining and promoting the integrity of estate agents.

3. Housing Shortage: Demand and Supply Analysis

The drastic increase in residential property prices and the supply shortage experienced over the past decade have set the stage for various knock-on effects within the Namibian housing market. Key amongst these ripple effects is the resultant social exclusion of low income households from the formal housing market. Indeed, Namibia's National Housing Policy (2009) posits that approximately 70 percent of the Namibian population cannot access urban freehold land due to, amongst others, limited disposable income, poverty and exclusion from conventional home loan facilities. This section of the paper aims at deconstructing the issue of access to housing in Namibia by looking at the various programmes developed by the Government to improve access to housing and also factors responsible for increasing house prices.

3.1. Programmes to Enhance Access to Housing

To improve access to housing, the government undertook multiple courses of action, which consist of various legal instruments, housing finances schemes and housing construction programmes. These efforts mainly focus on enhancing access to housing among middle, low and ultra low income groups whilst housing to middle and high income groups is mainly financed through commercial banks. Property and/or land prices are determined by market forces according to the 'willing buyer/willing seller principle'. In addition to policies and programmes, the Government also avails funding from the central budget to speed up land and housing delivery in the country. This section of the paper zooms into the operations of the various social housing programmes.

a) Build Together Programme (BTP)

The BTP is the key programme through which Government has attempted to deliver housing to low and ultra low income groups in Namibia. This programme is implemented at the regional and local authority levels as four sub-programmes (see Table C in the Appendix), which disburses loans for building new houses and/or upgrading existing homes. The loan values range from N$3,000 to N$40,000 with a repayment period capped at 20 years and is geared towards individuals earning less than N$3,000 per month. The interest rate attached to these loans ranges between four percent and seven percent, depending on the length of the repayment period. Nonetheless, due to an increase in the costs of building materials, the loan amounts have become insufficient for housing construction and therefore need to be revised upwards to reflect prevailing market conditions. To that effect, the Ministry of Regional, Local Government and Housing is reviewing the BTP loan amounts to address this challenge.

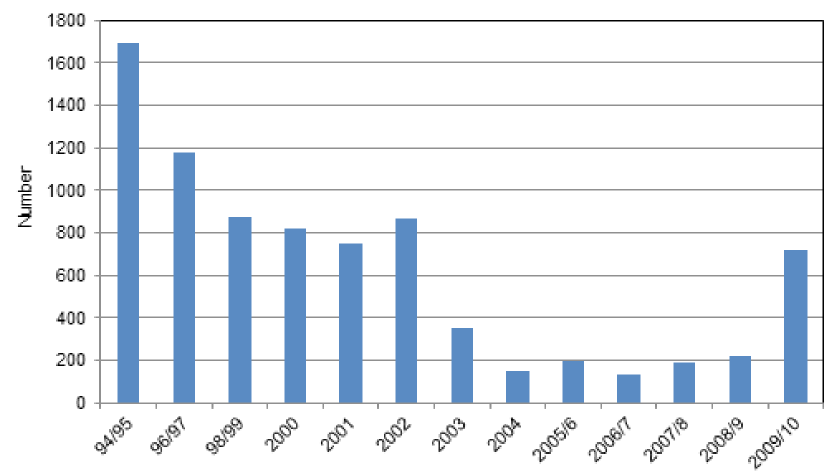
The study found that between fiscal years 1998/99 – 2007/08, 10,479 houses were constructed under the BTP scheme, inclusive of renovations and upgrading of informal settlements. An additional 2,500 houses were constructed during the 2007/08[3] - 2009/10 fiscal years, way short of the MTEF target of 4,600, translating to a realisation rate of only 54 percent. These figures add up to an average delivery rate of approximately 1,500 houses per annum. Despite the strides made by the BTP scheme, the housing market still faces a considerable backlog of around 80,000 houses. Considering population growth, the backlog is unlikely to remain static, thus there is a need for pragmatic approaches to speed-up the housing delivery process in the country. A set of challenges needs to be overcome and that includes, amongst others, land servicing, rising cost of building materials, incapacity at some regional and local authorities and budget constraints.

[3] These findings should be treated with caution as there are gaps in the data.

b) National Housing Enterprise (NHE)

The NHE is dedicated towards providing housing finance and constructing houses for individuals in the low and middle income brackets. The NHE loan sizes vary, but have a ceiling of N$550,000, and are disbursed as various financing products (see summary in Table D in the Appendix). The loan repayment period ranges between 20 - 30 years, at prime minus one percent rate of interest. Since inception in 1993 until 2010, the NHE has delivered over 8,000 houses. The delivery rate was comparatively high in the early 1990s, when the institution developed 625 houses per annum between 1993 and 1999, but has since experienced a dramatic decline in delivery (Kalili et al., 2008). Housing delivery declined from 816 houses per annum in 2000 to 216 houses in 2008/9 before picking up again to 719 houses during the 2009/10 financial year (Figure 5). The decline could be ascribed to lack of financing and an increase in costs of building materials. The delivery rate falls considerably short of the annual target of 1,200 houses built by the NHE in line with the requirements of Vision 2030.

Figure 5: Housing delivery under the NHE



Source: NHE

Challenges, such as a shortage of serviced land and the lengthy process of acquiring virgin land for servicing, continue to hamper the operations of NHE. Land acquisition involves obtaining vacant land from local authorities, transfer of the title deed into NHE's name by the Deeds Office, subdivision of land by a town planner, approval of layout by the local authority, Namibia Planning Advisory Board (NAMPAB) and the Township Board, assigning of coordinates by quantity surveyors, registration by the surveyor general and thereafter procurement of professional engineering services for land servicing. This process can take as long as four years and become costly due to administrative fees and professional charges. Approving bodies such as NAMPAB and the Township Board do not sit frequently which further drags out the approval period.

In addition, the institution is faced with a refinancing challenge as they strive to provide house loans at below market rates. Since its inception, excluding the initial capitalisation, the NHE has not received financial support from the Namibian government. However, going forward, the Central Government recently pumped N$85 million for the 2011/12 – 2012/13 fiscal years into the NHE. Although a welcome development, it is just a slice of the needed funding, as far as speeding up of housing delivery is concerned. For instance, NHE embarked on a project of developing 200 houses on unserviced land in Windhoek, an initiative which cost N$35 million. At that rate, the N$85 million capital injection can only construct approximately 485 houses, well short of the targeted 1,200 houses per annum. According to the NHE, meeting that annual target will require financial resources in the region of N$500 million per annum.

Going forward, the NHE is envisaged to receive a capital injection of N$1 billion under the Targeted Intervention Program for Employment and Economic Growth (TIPEEG) dispensation. Out of that amount, N$131 million is earmarked for land servicing while N$898 million will be put towards construction of low income housing units. The housing and sanitation programme under TIPEEG is expected to result in the clearing of 3,980 new serviced plots and construction of 4,521 new low cost houses.

c) Shack Dwellers Federation of Namibia (SDFN)

The SDFN is a non-governmental savings organisation comprising 620 housing groups, which assists its members to obtain land and infrastructure for housing purposes. The SDFN provides members with loans ranging from a minimum of N$8,000 to N$26,000, with the main determining factor of the loan value being the ability to repay the loan. The loans are repayable within a period of 11 years at an interest rate of 0.5 percent per month. However, in order to qualify for a loan, a member is expected to provide an advance payment equivalent to five percent of the loan amount. After the land is purchased by the SDFN, the individual members are collectively involved in clearing the land, as well as undertaking other manual labour during the construction phase. The Namibia Housing Action Group (NHAG)[4] estimates that this helps to reduce construction costs by as much as N$705 per square meter.

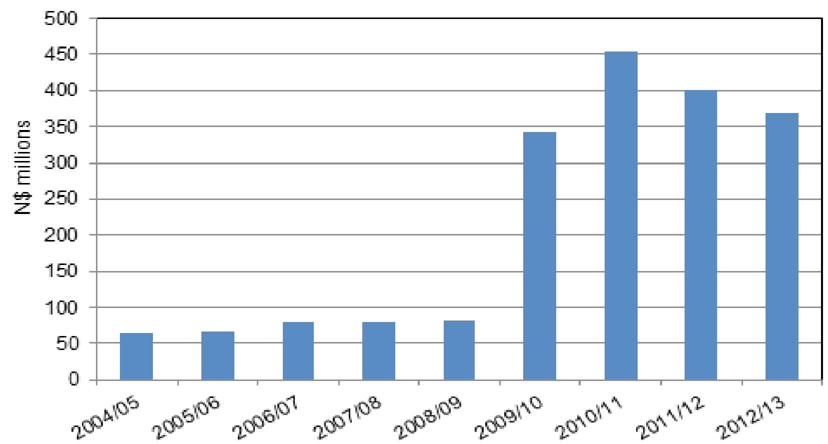
The SDFN solicits funding from its savings schemes, the Central Government, local private companies and international donors. During fiscal years 2007/8 and 2009/10, Government allocated N$3.9 million to the SDFN, which steered the construction of 150 houses. Furthermore, additional funding of N$8.5 million has been allocated under the 2010/11 – 2012/13 MTEF for the construction of 215 houses. From the individual savings groups the SDFN recorded as much as N$7.7 million between 1998 and July 2010. Between 1994 and 2010, the SDFN has managed to construct 3,015 houses. The house delivery rate was very slow during the earlier years due to limited funds. However, the financial boost from Central Government has improved the capacity of the federation to acquire land and construct houses. During the 2010 alone, the SDFN managed to deliver 592 houses to its members. While noting the success achieved by the federation in providing homes to its members, there are several challenges that hinder their activities. Notable amongst these is the unavailability of developable land, which is further compounded by the slow process of land delivery and a lengthy land registration process. Another challenge cited is the increase in the cost of building materials, which erodes the purchasing power of loan values.

[4] *An organisation providing technical and administration support to the SDFN.*

d) Central Government Initiatives

Although access to housing continues to be a challenge in the country, Central Government has responded to the situation in various ways. The noticeable response came in the form of a substantial increase in funds allocated for the purposes of housing and land provision (Figure 6). From 2009/10, the Government increased its funding from approximately N$81 million to more than N$300 million per annum. These increases include the recapitalisation of the NHE, to the tune of N$85 million for the financial years 2010/11 – 2012/13, which is envisaged to result in the construction of 8,000 houses by the end of 2012. Furthermore, a portion of the funds was geared towards infrastructure development, of which N$300 million is earmarked for informal settlement upgrading in the low income residential areas of Windhoek. Allocations to the BTP scheme, single quarters transformation and administration costs are also provided for. To curb the rising cost of building materials, Government also invested resources into the Habitat Research and Development Centre, which conducts research into the development of alternative building materials. Although the budgetary allocations to the housing sector are commendable, more still needs to be done to improve the rate of housing delivery, as the country still faces a backlog of 80,000 housing units.

Figure 6: Government expenditure on housing and infrastructure development



Source: MTEF

3.2. Determinants of House Prices

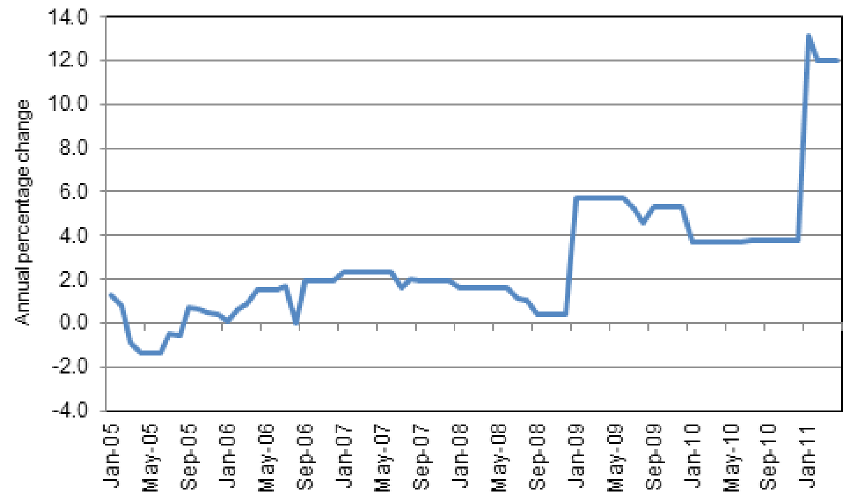
With the understanding that there is a demand-supply gap in the Namibian housing market as illustrated in the preceding section, the authors gathered views from various stakeholders in the housing market to establish the factors that account for the perceived and real rapid increase in house prices. Although the interviews were Windhoek-based, the information obtained also applies to other urban areas in the country. A summary of the responses is follows.

a) Demand factors

An overwhelming majority of stakeholders interviewed maintain that demand for housing in urban areas has increased exponentially over the past two decades, considerably outpacing supply. In addition to demographic adjustments in terms of the urban-bound versus the rural populace, the demand for housing is also fuelled by speculative activities and the increased volume of foreign cash-buyers.

The urbanisation trend observed since the 1990s is one of the key factors having an incremental effect on the demand for housing, especially in Windhoek. The majority of the population migrates to urban areas on the premise of accessing better living conditions and employment opportunities. Data from the City of Windhoek shows that the city's population has been growing by 4.5 percent every year between 1995 and 2006. This effectively translates to a growth rate of roughly 54.8 percent over that period. A good proportion of these migrants form part of the low skilled segment of the labour force, so that if they do secure employment they most likely join the low income household pool. As alluded to earlier, it is indeed this segment of the population that cannot access the formal housing market. Thus, the burgeoning urban population is further crippling the ability of local authorities to provide adequate housing to residents. In addition to the already buoyant demand, further strain is introduced by high income earners buying residential properties for investment purposes. These speculative buyers are lured to the market by the sustained appreciation of house prices over the years, which guarantees a positive return on investment. These massive investments for gains have partly been contributing to the steep rise in house prices. Furthermore, the monthly income accruing to investors in the form of rentals has also increased over the years. Rental inflation data from the Central Bureau of Statistics (CBS), as shown in Figure 7 below, indicates that rental costs which were rising by less than two percent during much of the last half of the 2000s has since picked up to over 12 percent in 2011. The continuous rise in rental payments also partially induces individuals to rather buy properties instead of leasing and that further fuels housing demand.

Figure 7: Rental inflation



Source: CBS

There has also been an increasing trend of foreign acquisition of properties in Namibia over the years. Since the domestic residential market essentially follows a free market system, the assertion is that foreigners with superior buying power have an advantage when it comes to property acquisition. Any seller will seek to maximise his/her profits by transacting with a party who offers the highest price and/or is able to transact on a cash basis. And since there effectively is no ceiling on the mark-up from property sales, the seller can float an asking price as high as possible. This elevation of prices has hindered the entry of first-time buyers and low income residents with little savings to the market. This practise has helped drive up prices, especially at the coastal town of Swakopmund where beachfront holiday homes are in high demand.

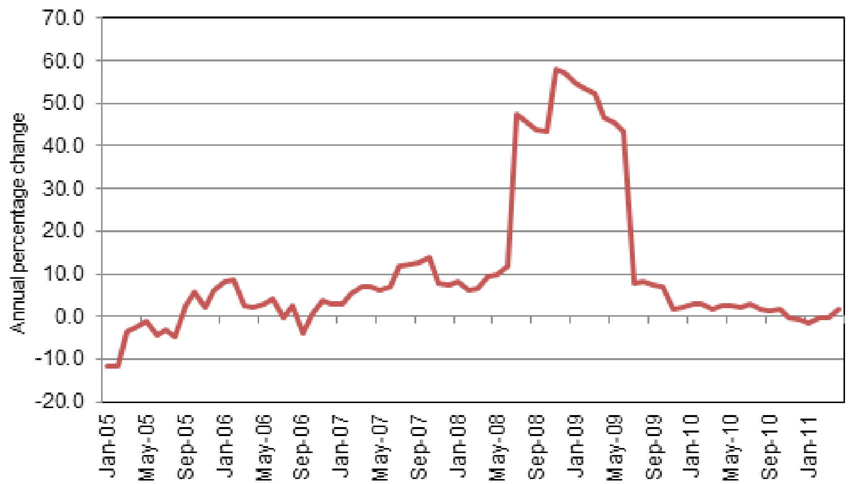
b) Supply factors

The supply of affordable housing to low and middle income households in Namibia has not been rising fast enough to meet the housing demand profile. The land delivery process is hindered by unavailability of serviced land, while the rising cost of building materials further contributes to increasing the cost of constructing housing units.

A recurring assertion by stakeholders in the housing market is that the supply of serviced land, in Windhoek especially, is lagging behind demand. As a result, agents are forced to scramble for property developments on limited land space, which has a significant bearing on the prices of existing houses. The counterpoint from local authorities is that it is expensive to service land, especially in the mountainous regions. For one, the land surveying and planning expertise required is in limited supply in the country, hence it is expensive to employ. Moreover, most of the land surrounding the municipal areas is privately owned and acquiring it will require enormous capital investment, while local authorities are resource constrained to attempt large scale land acquisition. Currently, the City of Windhoek (as well as all other 1st tier municipalities in the country) does not receive any financial support from Central Government to improve the land delivery process. The process of acquiring virgin land in order to service and develop it is also cumbersome and lengthy, taking as long as four years to get approval from the relevant authorities.

It also came to light that the rising costs of building materials contributes to the appreciation in house prices. The aggregate cost of constructing a house includes the profit margin accruing to a contractor, employee wages and material costs. These factors have risen over the years and this is argued to have contributed to house price appreciation. The absence of a construction index in the country makes it hard to ascertain the validity of this assertion. The prices of conventional building materials, such as cement, have escalated between 2008 and 2009 when construction activities in Angola and South Africa were at peak in preparation for the African Nations and World Cup football tournaments. The effect of these activities has since subsided. As Figure 8 illustrates, inflation in the sub-category of regular maintenance and repair of dwellings, a proxy series from the Namibian Consumer Price Index (NCPI), in which the price of cement is captured, had risen above 50 percent but has since fallen to less than two percent since 2010. This slowdown has, however, not filtered through to house prices, implying that there are other determinants of escalating house prices over and above building material costs.

Figure 8: Material cost inflation



Source: CBS

Housing in Namibia

c) Other factors

The various procedures applicable in the process of acquiring a property in Namibia are also argued to have a bearing on escalating property prices. There is also a perception that stakeholders, such as property valuators, developers and real estate agents, unnecessarily inflate house prices to rake in maximum profits based on the knowledge that there exists excess demand in the market and they are guaranteed to secure a purchaser for every property with an on-sale tag. Furthermore, fees charged by lawyers for handling property transfers further contribute to driving house prices out of reach of low-income households in particular.

Auctions, the main technique used by local authorities to dispose of land, are yet another factor contributing to the rising property prices. The auction procedure is used by commercial banks to recover their cost in the event of defaults on mortgage loans, while the City of Windhoek auctions off new erven on serviced land to recoup the cost of land clearing and servicing. The starting price is set based on the property valuation in case of the former, whereas for the latter it is determined by the cost of servicing per square meter. Depending on the financial standing of the bidders, the sale price could increase as much as four-fold. As a result of this highest bidder arrangement, low-income households find it extremely hard to compete and hence to access land in Windhoek and other metropolitan areas which rely on the auction procedure.

The fact that participants at auctions are not properly filtered to balance the playing field does not help the situation. At some auctions, first-time buyers are forced to compete for erven with wealthy property developers. This procedure effectively guarantees access for high income households while shutting the door on those in the low income brackets. To make it worse, the municipality specifies the time period within which the house must be constructed and further requires that the final structure erected must be valued at between two and four times the initial cost of acquiring the erven. This requirement puts further financial pressure on prospective house owners, some of whom already struggle to finance the land purchase. There have been reported cases of people defaulting on erven payments and thus ending up unable to complete the house construction, which underlines the point.

From the perspective of the City of Windhoek, however, the auctions are warranted as it is a fair method of distributing land in the presence of buoyant demand. In addition, this procedure rakes in profits that the municipality diverts towards funding new capital projects and also cross-subsidising municipal services in low income areas. To enhance access to land by first-time buyers, the municipality recently introduced the offer-to-purchase procedure which allows first-time buyers to bid for vacant plots amongst one another. In contrast to normal auctions where the highest bidder is considered, through this method the going price is determined as the average of the bid prices.

Another key factor having an incremental impact on the final prices of residential properties is the valuators who are tasked with determining the worth of an already standing structure. Theoretically, the value of an existing property can be gauged using two valuation methods, namely, the replacement cost method and the comparable method. The replacement cost method of estimating the market value of a unique property looks at estimating the current cost of reproduction or replacement of such an asset. The comparable method, on the other hand, estimates the value of a house by comparing it to the going prices of similar properties in similar locations while compensating for physical deterioration and all relevant forms of obsolescence.

The understanding gathered from interviews with various stakeholders is that there are no homogeneous valuation standards to which all property valuators in the country adhere to. As a result, these methods are not applied appropriately and depreciations of properties to account for loss of value overtime are not done in accordance with recognised standards. What's more, property values are highly influenced by additions and renovations which induce homeowners to make alterations to their properties in order to fetch higher prices. Further, the valuators practising in the Namibian housing market are not accredited to undertake property valuations since there is no institute and/or a legal requirement to ascertain their certification and credibility. Not all is lost, however, as a bill which is currently being drafted, will address these shortcomings.

The role property developers play in the housing market is yet another factor cited as fuelling house prices. Real estate developers serve as middlemen in the housing market, mainly involved in the purchase of virgin land from local authorities and ultimately developing it into ready-for-sale housing units. Their incremental effect on house prices arises from the observation that the constructed houses are sold-off at considerably inflated prices than is necessary to recoup the total investment injected into the project, plus a healthy profit margin. The market also holds the view that developers engage in speculative activities by hoarding unserviced land for an extended period while waiting for house prices to appreciate to ensure hefty profits from their investments. Moreover, there are no restrictions on the purchase of land, especially in terms of the number of plots purchased. Given the above, developers could engage in oligopolistic behaviour to put further upward pressures on final residential property prices.

Finally, there are additional transfer costs, incurred during the process of acquiring a property, which further inflate house prices. At the moment, regulations require that each property transfer transaction be handled by a lawyer. The reasoning is that lawyers should serve as a middlemen to maintain confidentiality, reduce conflicts and eliminate the cost to the state in event of disputes. In the end, lawyer fees, which are considerable, are added to the final price of the house. In this regard, plans are underway to relook the practice through amendment of the Deeds Office Act of 1937.

4. Conclusion and Recommendations

The Namibian housing market is characterised by escalating property prices and a limited capacity to meet the demand for land and housing. These factors have raised concern among policy-makers due to the high exclusion of low income households from accessing the formal housing market. The limited access to housing in Namibia, and Windhoek in particular, is of great concern considering that 70 percent of the population cannot access decent housing mainly due to issues of affordability. Furthermore, with a backlog of 80,000 the situation is dire and needs radical policy measures to address. Although Central Government partnered with private, local and regional institutions, community based organisations and non-governmental organisations in an effort to improve housing delivery, the housing shortfall persists as the pace of housing delivery leaves much to be desired.

Taking into account the observations highlighted throughout, this paper makes the following policy recommendations in order to mitigate house price escalation, to improve housing provision and consequently to alleviate the prevailing housing shortage.

a) Boosting land supply

The shortage of land for housing development remains a serious impediment that needs to be addressed. The issues pertaining to this challenge includes the cost of servicing land plus the cumbersome and lengthy process of acquiring virgin land for servicing.

to address these challenges are as follows:

- There is an urgent need for the central government to significantly boost financial support to local authorities and the NHE to enhance their capacity to purchase and service land across the country. However, such efforts should be linked with strict oversight and supervision and clear targets, so that funds are purpose directed;
- A review of the land acquisition and registration process needs to be undertaken in order to streamline processes for timely land delivery. The NAMPAB and Township Board should be integrated into a single entity and their meetings should be held on a monthly basis. Furthermore, administrative and professional fees can also be reduced by shortening the layout approval process. For instance, legal and transfer fees can be eliminated by having in-house lawyers in the Deeds Office.
- A longer term solution would be to expedite the process of decentralisation in order to curb the influx of people into Windhoek. In addition, there is a need to explore the possibility of establishing industrial and commercial hubs countrywide in order to relieve the housing pressure in Windhoek.
- Since financial constraints are the main factors hindering the NHE from accelerating housing supply, a portion of the pension funds and contractual savings that the country has in excess, can be channelled into housing investments through

the NHE. However, to minimise risk such an exercise must be accompanied by appropriate mitigating procedures, such as good governance mechanisms at the NHE.

- Alternatively, the NHE and local authorities can raise additional funds by issuing bonds in financial markets and/or borrowing from development finance institutions. These actions will require credibility and good credit ratings, which in turn will promote accountability and good governance at these authorities and agency.

b) Improving access to housing

To improve access to housing for low income and middle income households, several processes need to be reviewed:

- Several auctions by local authorities have proved that land is auctioned off at artificial prices, which reduce the ability of middle and low income households to access the formal housing market. To that effect, auctioning of land for excessive gains should be prohibited as it leads to inflated prices. Alternatively, such auctions should be exclusively limited to high income residential areas. The offer-to-purchase procedure recently adopted for first-time buyers is a step in the right direction.
- Central Government should avail more funds to housing initiatives to address the plight of low income households.
- Central Government should place a moratorium on the purchase of land by non-Namibians until such time that the housing backlog is sufficiently addressed.
- To cultivate a culture of renting, local authorities countrywide should consider constructing rental units which can be availed to low income households and graduates at subsidised rates.

c) Revising legal instruments and curbing speculation

Several legal instruments need to be introduced to curb rising house prices in the country. This will reduce speculative activity and standardise valuations in the housing market:

d) Reduction in costs of building materials

- To address concerns regarding rising cost of building materials, alternative materials proposed by the Habitat Research and Development Centre should be encouraged subject to standardisation. Subject to quality assurance and safety tests, financial institutions should be encouraged to finance properties constructed with these materials. Furthermore, there is a need to harmonise building standards amongst all stakeholders in the housing market. This will ease safety concerns around using these materials and change the prevailing negative perceptions regarding their quality. Additionally, vigorous marketing is necessary to raise awareness and

promote their usage by communities. It should also be made a requirement for companies bidding for government housing construction tenders to make use of local materials.

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Housing in Namibia

Government Policies on Access to Housing and Financial Stability: Experience from the Usa, Japan And China

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Abstract

Access to housing is a very emotive subject to individuals, communities and all nations at large. In every country, resolving housing issues has political, social and economic significance. To solve housing problems, every country has formulated its own policies, specific housing development programmes and developed its unique programme operating mechanisms.

A review of the housing policies of three countries has shown that the capitalist states of the US and Japan have had policies that rely mostly on local controls, private sector development and government programmes that favour home ownership rather than on rental accommodation. However, all do have some policies that facilitate the low income to acquire accommodation at subsidised rates. On the other hand, the Chinese experience has been more on welfare and social housing efforts in the past, though it is now moving to the market economy.

The paper concludes that badly-designed government housing policies can have substantial negative effects on the economy, for instance by increasing the level and volatility of real house prices leading to bubbles and preventing people from moving easily to follow employment opportunities. Some recommendations for efficient and equitable housing policies that can also contribute to macroeconomic stability and growth have been put forward at the end of the paper.

1. Introduction

All human beings are well aware that housing is one of the fundamental demands for living. Access to acceptable housing is also one of the elementary human rights as well as one of the keys to peace and happiness. In every country, resolving housing issues has political, social and economic significance. To solve housing issues, every country has formulated its own policies, specific housing development programmes and developed its unique programme operating mechanisms. Financing housing programmes is in most cases shared between the public and the private sector and if all goes well a functional housing market is created. However, the operation of the housing market is not always stable as at times fluctuations do occur, causing spikes (bubbles) that affect the financial systems in these countries. Eventually the national economy as a whole is also impacted negatively.

The main focus of this paper is first, to draw on experiences of three countries, i.e. the USA, China and Japan, which have experienced housing bubbles with regards to their policies of access to housing and how this has impacted on financial stability; secondly, to establish why property asset price bubbles arise and why they are so dangerous for the stability of the financial system; thirdly, what lessons can Namibia draw from these international experiences and finally, to provide some thoughts on key policy recommendations on housing policy options and also how to prevent housing price bubbles (both preventative and curative) from occurring. It is worthwhile remembering that some of these policies played an important role in triggering the recent global financial and economic crisis and could also slow down the recovery.

2. The concept of equal access to shelter for all

In order to contextualise the subject of this paper, it is prudent first to look at four critical issues that underlie any country's policies on human shelter. These are: (a) Access to raw land and housing; (b) Access to serviced land; (c) Affordable and adequate housing; and lastly, (d) Housing Policies in general.

(a) Access to Land and Housing

The provision of affordable, well located and adequate housing is one of the greatest challenges of the 21st century. Data from many sources, including UN-Habitat, reveal that the number of people living in inadequate housing (slums) and subject to conditions of inequality is worrisome and is on the increase. Even though the right to adequate housing has been recognised and provided for in international instruments, including the Habitat Agenda, it remains cumbersome and a difficult right for governments to fulfil (UN-Habitat 2001). This has serious implications. By not prioritising equal access to housing, a government misses unique opportunities to strengthen the considerable backwards and forward linkages of housing sector activities within other sectors of the economy which may lead to wider economic opportunities. In addition to this, the role of housing in poverty reduction and employment generation is not fully and optimally realised.

For the last 15 years or so, international organisations and governments in developing countries have retreated from the housing sector, resulting in housing provision being virtually or entirely left to the market. The main thrust has been on facilitating and not providing housing. Data from a variety of sources (UN-Habitat (2003); Mike Davis (2006) and Eduardo Marow (2003) clearly indicates that the rate of slum formation in various cities around the globe during this period is unequivocal evidence that this approach did not result in making available a wide range of affordable housing opportunities for the poor.

Fundamentally, it is felt that there is a need for policies that make access to land and housing both financially affordable and physically appropriate (UN-Habitat (2003). Formal housing markets do not provide for that. Conventional housing finance and formal mortgage services exclude the poor and those who earn seasonal incomes leaving households living in poverty with little option but to resort to slums, informal settlements and sub-rented and overcrowded accommodation. The urban divide has a clear housing and physical/spatial dimension. The need to provide a wide range of housing opportunities in terms of price, location, size, level of completeness and incremental development is critical to bridge the urban divide.

In addition, it has become evident that the malfunctioning of the housing sector, and particularly of housing markets, has pervasive impacts on the poor, on the structure and functioning of cities and in the overall economy. Never before has this linkage been as evident as is now revealed by the global economic turmoil. While unregulated and irresponsible housing finance institutions lie at the heart of the present global financial problem, the revival of housing and a holistic approach to it seem to indicate the road map to overcome the problems the finance sector has created. Thus housing is an important vehicle to tackle the urban divide.

An equal city offers all its inhabitants, without discrimination of any kind, access to decent housing, infrastructure, health services, sufficient food and water, education, and open spaces. The access to safe and healthy shelter and basic services is essential to a person's physical, psychological, social and economic well-being. However, in this new urban age, it is generally recognised that the provision of adequate shelter to rapidly growing urban populations poses one of the greatest social challenges for humanity.

(b) Access to serviced land

The availability of land for development is vital for a sound and equal urban development process. Making this land ready for development and accessible for all is another challenge that governments often fail to realise. The reasons include: Cumbersome institutional and regulatory systems make land delivery costly and time consuming; monopolies in land ownership constrain supply, affects prices and urban growth patterns; lack of land management instruments and inadequate land and housing policies leave poor households entirely prey to market players, so they end up living in precarious areas; and lack of transparency in the market and land use restrictions elevate prices to exorbitant levels.

The result is that people revert to informal markets often triggering rapid rates of slum formation and informal land and housing processes. Cities are confronted with social and spatial fragmentation, social exclusion and clear physical manifestations of an unequal access to land, infrastructure and basic urban services.

(c) Affordable and adequate housing

Worldwide many governments have struggled in coming up with policies, approaches and strategies to make housing affordable and accessible for all social groups. The main constraint has been the delivery of adequate housing in a variety of outcomes, types and solutions that enable low-income households to realise their housing needs and aspirations. Governments need to do some introspection to answer the following questions: What are the most critical constraints that hinder the provision of affordable housing to low-income households? What is required in terms of policy interventions, institutional and regulatory reforms and other measures to generate a variety of housing options that meet the demand of various social groups? There are no easy answers.

(d) Government policy responses

State responses to the housing problems in both the developed and developing world have gone through many stages and modalities with different results and impacts. Approaches and policy responses have evolved from strong government provision and public housing strategies towards broad institutional and policy reforms to enable housing markets to work more efficiently. Different approaches have been designed and executed with mixed results.

Many national governments (Sweden, post-socialist Europe, Nepal, New Zealand, China, etc) engaged in policy reforms, dismantling and/or rehabilitating housing finance institutions and opening avenues for private sector provision. Large subsidised housing and serviced land programmes have also been executed. Different modalities of sites and services, sites without services, mutual aid and cooperative programmes have been experimented with but without halting the poor from resorting to informal housing and informal land supply mechanisms to access housing.

The dramatic growth on slums during the last decade is unequivocal evidence that leaving housing exclusively up to markets to provide not only resulted in exclusion of large parts of the population, but also highlighted that the housing sector does not provide diversity of affordable and adequate housing options at a scale compatible with meeting the level of demand. What is known is that there are fundamental bottlenecks hindering the delivery of a multiplicity of housing options that are adequate, affordable and well-located.

In conclusion, it is evident that equal access to shelter and basic urban services requires a multitude of actions and fundamental shifts in current land and housing policies. Some are more obvious than others. Nevertheless, any shift in thinking and practice, in housing policy formulation and implementation aiming at producing equality in opportunities to access adequate housing is likely to require sustained political commitment and engagement of all public, private and community stakeholders. These issues will be discussed in the case study of three developed countries (USA, Japan and China) in order to learn lessons from their experiences.

3. Housing policies in the United States of America

The ultimate lifetime aspiration of most Americans is to own a home rather than renting one. For many Americans, this is a culture, plus it could be cheaper than renting. Studies by realtors have shown that home-ownership or buying a house is more affordable than renting in 72 percent of major cities. Renter households tended to be concentrated in inner-cities while owner-occupant households are more prevalent in suburbs. In general, America's poor are concentrated in rental housing. For example, among the 15.12 million poor households in America in 2005, 57.4 percent were renters (Census Bureau, 2005). Also in 2005, the median income among renter households was $27,051 while it was $55,571 among owner-occupant households (Census Bureau, 2005).

Housing is the single largest expense in the budgets of both renters and owners. According to the Consumer Expenditure Survey for 2005, homeowners accounted for on average 31.9 percent of all consumer spending and renters for 35.6 percent (Yves Zenou, 2011a). Despite this, the federal government's housing-related policies strongly favour homeowners over renters, as indicated by its allocation of financial benefits between those groups. Below is a description of the housing policies implemented in the US (those targeted towards home-ownership and those targeting low income households).

3.1. A Description of USA Housing Policies

Many writers like Olsen (2003) and others have written comprehensively on various aspects of this subject. The main policies are: (a) Housing ownership through the Federal Tax Code for middle and upper class; and (b) Provision of housing for the low income and the poor through targeted subsidies. The USA housing policy has a particularly disjointed history, much of which concerns class and race, as well as opportunity and responsibility. It is said that in many ways, federal housing policy has shaped America's cities (Joshua Arbury(1987); Baldassare(1992) and M.O.Chandler (1997).

In the United States, important policies providing subsidies to housing consumers are made by the central ('federal') government. Other policies governing housing – the regulation of house construction, service provision, and occupancy – are determined by local governments. At the national level, subsidies provided to selected housing consumers and providers are implemented by two government agencies: the Internal Revenue Service (IRS) and the Department of Housing and Urban Development (HUD). The policies administered by the IRS are clearly more important quantitatively, and they have large welfare effects.

3.1.1. Policies for Home Ownership through the Federal Tax Code

To begin with, the paper provides a discussion of policies encouraging homeownership and later, the policies that make housing accessible to the low income/poor. Federal, state and local governments in the United States subsidise household investment in owner-occupied housing through taxation remedies. The portfolio of policies includes the non-taxation of imputed rents, favourable tax treatment of capital gains, local land-use restrictions, exemption of housing from means-tested social insurance programmes, subsidised mortgage insurance, and the sponsorship of secondary mortgage-market enterprises (Jaffee and Quigley, 2007).

The most significant housing subsidy programmes in the US are funded by tax expenditures through the Internal Revenue Code. The special status of owner-occupied

housing under the personal income tax code is well-known – interest payments for home mortgages are deductible as personal expenses for the first and second homes of taxpayers, up to a limit of one million dollars; ad valorem property taxes on owner-occupied houses are also deductible as personal expenses; the implicit rental income from occupying the house (the "dividend") is excluded from gross income; and capital gains are essentially untaxed (Zenou, 2011a).

Beyond these subsidies to home-ownership, which apply to all owner–occupants, the US tax code provides additional subsidies to specific groups of homeowners. These programmes are managed by the states, but the source of the subsidy is federal tax expenditures. The tax code permits lower levels of government to issue tax-exempt debt and to use the proceeds for the benefit of specific mortgage holders through the Mortgage Revenue Bond (MRB) programme. Recipients benefit by obtaining mortgages which have been issued at the lower tax-exempt interest rate, rather than the market rate.

Further, the US has specific policies directly targeting low-income households. Tax deductions on housing expenses are an important proportion of fiscal expenses in many countries. These deductions are often based on equity reasons as it is considered that they are useful to help many households to afford a house to live in. For example, in its preamble to the 1949 Housing Act, Congress declared its goal of "a decent home in a suitable living environment for every American family". In the more than 50 years since this legislation was passed, the federal government has helped fund the construction and rehabilitation of more than five million housing units for low-income households and provided rental vouchers to nearly two million additional families (Schwartz, 2006). Yet, the nation's housing problems remain acute. In 2003, 46 million households lived in physically deficient housing, spent 30 percent or more of their income on housing, or were homeless (National Low Income Housing Coalition, 2005). The main reason is the volatility of the economy and high poverty levels among African-Americans and Hispanics.

3.1.2. Policies to enhance access to housing for the low income/poor

Excluding tax expenditures, the federal government (though now local authorities play a larger role) provides subsidies for low income households in three basic ways: (i) supporting the construction and operation of specific housing developments; (ii) helping renters pay for privately owned housing; and (iii) providing states and localities with funds to develop their housing programmes. However, none of these are entitlement programmes (Jafee and Quigley (2007). Below is a summary of the salient points:-

(i) Project-based – Supporting the construction and operation by the private sector of specific housing developments. These policies are known as supply-side or project-based subsidies and include public housing and several other programmes, such as Section 8 New Construction, in which the federal government helps subsidise the construction and sometimes the operation of privately owned low income housing. The aim is to "remedy the acute shortage" of decent housing through a federally financed construction programme to eliminate “substandard and other inadequate housing” (Jafee and Quigley, 2007).(ii) Tenant-Based – Helping renters pay for privately owned housing. This has become the dominant form of low income housing assistance. The government provides low income households with vouchers. This programme is administered by Local Housing Authorities, who screen applicants and certify eligibility. Under current practice, households with incomes below 80 percent of the area median income are eligible for vouchers, but three-quarters of the vouchers are reserved for very low income households, those whose incomes are below 30 percent of the area median income. In principle, the voucher is completely portable. It can be used anywhere by a recipient to enter into a rental contract within 90 days of issue. Vouchers offer several clear advantages over the alternative supply oriented housing subsidy programmes. First, they are considerably cheaper per household served than programmes linking subsidies to construction costs, including the Public Housing Program, but also the Low Income Housing Tax Credit Program. Second, they remove questions about the location of dwellings occupied by low income subsidised households from the local political process. Third, they preserve the anonymity of the low income recipients of these subsidies. Fourth, they foster the spatial decentralisation of the low income population, reducing the concentration of disadvantaged households in particular neighbourhoods. Fifth, they better facilitate the operation of the labour market by encouraging recipients to live closer to actual or potential worksites.Households in possession of vouchers receive the difference between the fair market rent in a locality – the median rent, estimated regularly for each metropolitan area by the Department of Housing and Urban Development (HUD) – and 30 percent of their income. Households in possession of a voucher may choose to pay more than the fair market rent for any particular dwelling, up to 40 percent of their income, making up the difference themselves. They may also pocket the difference if they can rent a HUD approved dwelling for less than the fair market rent.

(iii) Public Housing – Providing states and localities with funds to develop their housing programs. These policies consist of block grants that fund housing programmes crafted by state and local governments. States and localities usually receive block grants on a formula basis and have the latitude to use the funds for a wide range of purposes. The oldest and largest block grant programme, the Community Development Block Grants (CDBG), gives states and localities the most discretion in determining how funds may be used (Zenou, 2001a).

All the programmes have exhibited considerable, indeed rather bewildering, variation over time, in terms of the form and magnitude of the subsidies provided to building owners, as well as tenant eligibility criteria and tenant rent formulae (Olsen 2003).

3.3. Housing Policy Reforms in 2011

Since taking office in January 2009, the Obama Administration has acted to help stabilise the housing market and provide critical support for struggling homeowners.

The Administration worked with Congress to put in place expanded tax credits for first-time home-buyers, additional support for state and local housing agencies, neighbourhood stabilisation and community development programmes, mortgage modification and refinancing initiatives, housing counselling programmes, expanded support for mortgage credit through FHA, and strengthened consumer protections.
Lately, the Administration has put forward a reform plan that is designed to: (a) Pave the way for a robust private mortgage market by reducing government support for housing finance and winding down Fannie Mae and Freddie Mac on a responsible timeline; (b) Address fundamental flaws in the mortgage market to protect borrowers, help ensure transparency for investors, and increase the role of private capital; (c) Target the government’s vital support for affordable housing in a more effective and transparent manner.

3.4. Lessons Namibia could learn from this experience

The success and failure of America’s housing policies can help provide lessons to African countries who are struggling to forge working housing policies. The lessons are as follows:

The first is that housing policy can work, and sometimes does. A combination of dramatically increased home-ownership and phenomenally improved housing quality remains one of the greatest public policy success stories in America’s history. And it was as a result of a series of government-initiated reforms. Further, the government has a robust housing policy or programmes for the poor. Today, there are several million units of public housing and other millions of units of private housing subsidised for low and moderate income households. Other households receive targeted rent subsidies. Although much still remains to be done, progress has clearly been made. However, America’s first and foremost housing policy challenge is to meet the shelter needs of the homeless and the very poor. The lesson of the past and present is that public policy can be a positive force for improving the nation’s housing, both directly and as a catalyst to the market. Thus far at least, no level of government has had either the resources or the political support to do the whole job. That’s the challenge that remains for America as a nation.

The second lesson is that housing equals jobs. Housing construction puts people to work as well as generating demand for other things produced in the economy.
The third lesson is that housing and community development go together. Housing has to do with the quality of people’s lives, the opportunity to lead a fulfilling life, to improve oneself, and to enjoy prosperity. Housing is the glue that holds communities together. The link between housing and communities cannot easily be severed, and it is for this reason that the federal government created the Department of Housing and Urban Development as one unit.

A fourth lesson of the past 20 years is that housing and supportive services go together.

A fifth and final lesson concerns the value of partnerships. There were certainly many downsides to the forced collapse of federal housing programmes during the 1980s and in the late 2000s. On the upside, however, maybe Americans have learned that big-budget, one-size-fits-all, bureaucratised federal housing programmes are not the answer. America should move forward into an era of partnerships, in which they direct more and better resources to state and local agencies, to community-based non-profit organisations, and to qualified for-profit developers.

In terms of Housing Finance the following are key lessons:
First, financial instruments have specific purposes. Using them for others can be disastrous. Like many financial instruments, subprime and Alt-A loans serve a specific function in financial markets. In particular, they allow less-liquid, higher-risk borrowers access to credit when they can statistically prove that they will be more liquid in the near future. Many of the problems America has today in mortgage markets result from sub-prime loans that were made when politics trumped good economics.

Second, public regulation of mortgage markets should be tightly controlled or eliminated. If this were the case, they would not be subject to as much political manipulation while at the same time they would show the same level of stability and differentiation associated with less-regulated markets. Private regulation would resurface. Until market controls are allowed to reassert themselves – controls that would eschew political considerations in the issuing of credit – America can expect continued volatility within financial institutions.

Three, home-ownership was the American dream only to the extent that housing protected Americans from monetary inflation. But today this dream is too expensive for average Americans. Government policies, and specifically monetary policies, helped bring this situation about. Housing was the middle class's best hedge against growing government intent on expanding its scope and power by inflating money supply. Today, housing looks like a relatively weaker hedge, and if this trend continues, middle class wage earners will have to find better assets in which to store the bulk of their wealth.
3.5. Conclusion

To conclude, it can safely be said that housing policy in America has gone full circle, from a reliance on local control, to an emphasis on private sector development, to federal programmes, and back to scattered-site private sector development in the suburbs. Housing policy today is increasingly pursued through the tax code and private-sector means. Direct government policies have become rare (Rosie Tighe, 2006).

4. Housing policy in Japan

Japan is a small but prosperous country in Asia. The population of Japan was 127,716 million in 2004, its land area, 377,899 km2, and home-ownership stood at 61.2 percent while private rented houses were 26.8 percent in 2003 (see Hirayama, 2007). The

three pillars of housing policy in Japan are the Local Authority Housing (Public Housing Act), the Government Housing Corporation and the Housing and Urban Development Corporation (now titled the Urban Housing Renaissance Agency). The main thrust has been the quest for providing good quality housing for the Japanese. Below are the main elements of the housing policy.

4.1. Post World War II Period to 1980 – Policy on home-ownership by the middle class

The housing policy in Japan after the Second World War focused on the expansion of home-ownership in order to stimulate the then ailing economy. The economy developed at a remarkable pace, resulting in an increase in middle class families who acquired and lived in their own houses. Since land and housing prices rapidly and continuously rose, owning a house became an effective means of acquiring an asset. The central government took the initiative in establishing a system which aimed at promoting home-ownership.

Through the Public Housing Act of 1951, housing finance was provided by the Government Housing Loan Corporation (GHLC). People were provided with sizable long-term, fixed low-interest loans for home purchase (Hirayama, 2007). Interest rates on subsidised loans were 2-3 percent lower than mortgage rates (Kanemoto, 1997). The loans were available also for rental housing construction, but the subsidies involved were much smaller. The Act also defined the system of local authority housing whereby central government subsidised the construction costs of local authority housing that met certain criteria and allocated low rent housing to people with low incomes in order to ensure healthy living.

The Public Housing Act was amended in the 1970s to restrict the entitlement of local authority housing to the lower income group because the amount of public housing provided by local authorities was limited. In the 1980s, the entitlement expanded from family households to single households, but was limited to the elderly, physically and mentally disabled individuals, and welfare recipients.

In the middle of the 1980s, rising land prices and the onset of the bubble economy made it very difficult for local authorities to provide housing. However, the increase in income levels allowed people to purchase their own housing. The need for local authority housing shrank and new construction of local authority housing decreased.

4.2. Housing Policy during the property bubble 1980-1990

The bubble economy appeared in the latter half of the 1980s and did not end for a decade. The abnormal upsurge in the prices of housing and land started in Tokyo and spread to Osaka, Nagoya and other large cities. The direct cause of the bubble was the

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deregulation of finance (Tanaka, 2002). As a result of the easing of monetary controls, surplus capital was injected into the real estate sector. Once land prices began to rise, all kinds of enterprises joined real estate-related corporations in a rush to invest in real estate. During the bubble period, the government, however, began to retreat from housing policy and to promote the marketisation of housing. The government promoted the construction of owner-occupied housing with the intention of easing the Japan-US trade friction through expanding domestic demand.

4.3. Policies since 1990 to date – The market economy

The collapse of the bubble economy began in Tokyo in 1989, and spread to other cities. Land prices as well as housing prices begun to decline, throwing Japanese society into total confusion. Since the bubble burst, a serious recession set in with minimal or negative real growth in GDP. The banking sector was plunged into crisis as a huge amount of bad debts were generated (Watanabe, 2001).

After the collapse of the bubble, the government increased the size of the GHLC loans and further improved the loan conditions in order to revive the economy. The GHLC's basic interest rate, which was 5.5 percent in September 1990, fell to 2.2 percent in March 2003. The continuous mass-construction of housing resulted in accelerated house price deflation after the burst of the bubble.

In 1996, a major amendment was made to the Public Housing Act. Since then, local authority housing has been provided and managed under the amended Act. In 2001, another programme was introduced to subsidise well-equipped, high quality houses, to be built by private builders and landlords for the elderly.

In 2004, the Japanese government came up with a new housing policy. Several elements are embedded in this new policy. The fundamental point of the new policies would be a market-driven housing industry that would limit public controls as much as possible. The government believed that utilising the market was a reasonable way to provide affordable housing. The policy emphasised four strategic fields: (a) Development of a new housing financial system based on the free market; (b) Improvement of the function of the private housing market; (c) Reform of the public rented housing system towards restructuring a housing safety net for people who find it hard to get housing in the market; and, (d) Regeneration of the built environment for urban areas.

4.4. Specific housing policy features of interest

4.4.1. Policy on Land Taxation

Even though land prices in Japanese cities are extremely high, there is plenty of vacant and under-utilised land in urbanised areas. This is because tax laws encourage land ownership, provides tax incentives and also protects tenant's rights, leading to under-utilisation of land. This policy has virtually destroyed the rental market in Japan. Major tax advantages that cause under-utilisation of land are (1) under-assessment of land values for inheritance taxation, (2) special treatment of 'long-term' agricultural land, (3) lock-in effects due to capital gains taxation.

There is however a counteracting tax incentive to build rental housing because (1) the loss from real estate business can be subtracted from other income and (2) capital gains are taxed at a lower rate than ordinary income. This is one of the reasons why there was an increase in rental housing construction in the 1980's. In the early 1990's tax regulations were changed to reduce distortions caused by inheritance taxation and special treatment of agricultural land. It remains to be seen whether these changes have significant impacts on the land market in Japan (Yoshitsugu Kanemoto(1997).

4.4.2. Tenure Choice Distortions: Taxes and Subsidies.

Owner-occupied and rental housing receive different treatment in taxes and subsidies which can be summarised as follows:

(1) Imputed rents of owner-occupied housing are not taxable, but income from rental housing is subject to a progressive income tax.

(2) Interest payments, depreciation, and local property taxes can be deducted from taxable income in the case of rental housing. However, they cannot be deducted in the case of owner-occupied housing. Furthermore, accelerated depreciation is permitted for rental housing that satisfies certain conditions on floor space and acquisition costs.

(3) Capital gains income from a house that has been used as the main residence is allowed a 30 million yen deduction from the capital gains tax. Furthermore, if the house is owned for longer than 10 years, the tax rate for the part exceeding the 30 million yen deduction is reduced to 14 percent (for up to 60 million yen) and 20 percent (for more than 60 million yen). Rental housing cannot receive this special treatment.

(4) Owner-occupied housing has a considerable advantage in inheritance taxes. Up to 200 m2, the residential land is permitted automatic deductions. The deduction rate increased over time to reach 60 percent in 1992. Rental housing does not receive any such special treatment.

(5) The largest housing subsidy in Japan is low-interest loans from the Government Housing Loan Corporation (HLC). The interest rates on the subsidised loans are two to three percent lower than the market mortgage rate. The upper limits of the loans vary between different types of housing (e.g. between detached houses and condominiums) and have changed over time, but they are somewhere between 15 and 29 million yen. Housing subsidies are provided both to purchasers and suppliers, where the suppliers here include developers and rental housing owners. The former is an implicit subsidy through loans at below-market interest rates provided mainly by the Government Housing Loan Corporation (HLC). The latter includes loans to developers and rental housing builders from the HLC and the Japan Development Bank.

4.4.3. Tenancy rights protection

In Japan, tenancy rights of land and housing are protected by a special law which restricts the liberty of contract. First, in order for the owner to terminate a contract the owner must have a 'just cause' which at most times may have to be decided by the courts. Secondly, rents are difficult to raise and any rent dispute must be resolved by courts on a case-by-case basis.

4.4.4. Transaction Costs

The market for used houses is very small in Japan. This is because the Japanese tax and subsidy systems favour new housing over used housing. First, a buyer of real estate must pay three types of transaction taxes – the real estate acquisition tax levied by prefectures, the national registration tax, and the stamp duty. These taxes are levied on purchases of new as well as used houses. In addition to these transaction taxes, a household which sells its house and buys another house must pay capital gains tax and this discourages frequent movement of owner-occupiers.

Furthermore, subsidised loans from the HLC also favour new housing over used housing, since (1) the upper limits of the loans are lower than those for new houses, and (2) houses that are more than 10 years old are not eligible for the HLC loans.
In sum, high transactions taxes, high capital gains taxes (especially for houses owned for less than five years), and unfavourable treatment of used houses in the HLC loans are (at least partially) accountable for the small size of the market for used houses in Japan.

4.4.5. Land Use Regulation and Infrastructure Provision

The government influences the housing market through land use regulation and infrastructure provision. First, developments are in principle prohibited in Urbanization Control Areas. Of course, development control of this sort has the effect of reducing housing supply. Second, local governments do not often welcome residential developments because they cannot expect sufficient tax revenues to finance required public services and infrastructure investment. Ironically, the favourable treatment of housing in property taxes is one of the main causes of this situation.

4.5. Lessons that Namibia can learn from the Japanese Policy

From the above, the following lessons have been learnt: (a) Housing should be a partnership between the central government that facilitates housing finance through targeted subsidies and loans, the local government that builds and rents houses and lastly the private sector; (b) Government housing policy should balance between home-ownership and housing rental otherwise there will be distortions; (c) The tax and subsidy regimes between renting and ownership should be carefully thought through as we have seen that tenancy laws that heavily protect tenants' rights may destroy the country's rental market. They can also influence choice between renting and owning housing; (d) Government subsidies should be available for both public as well as for private rental housing as long as certain criteria are met; and (e) Government develops and sells housing to the public at somewhat lower prices than the private sector.

5. Housing policies in China

China has had a chequered housing policy history, having moved from a socialist to a market-led economy. The concept of China's housing can only be understood as part of China's unique and dramatic land reform measures taken over the past half century. One of the major reforms was the nationalisation of land and property (including housing) that took place in 1949.

Unlike the market driven real estate markets in most western countries, the real estate market in China is established and nurtured by the government. It has not naturally evolved through economic development, but is an outcome of Chinese urban land reform, which has been advanced by the government step by step. Even when the government has resorted to housing market techniques, it has endeavoured in many ways to control and direct the market (Jianbo and Palomar (2006).

5.1. A Review of China's Housing Policy

In principle, four stages can be distinguished in China's housing system reform process (Ye, 2006):

5.1.1. Public welfare housing system - 1949-1978

China's traditional housing system was characterised by a highly centralised planning system in housing investment and supply, rigid administrative control over housing distribution, and welfare policy in housing consumption. Composition of housing factors in workers' wages was deducted by the state. At the same time housing investment funds as an element of basic capital investment financed by government budget expenditure, was allocated to various state-owned enterprises and institutions (work units) which allocated housing to their employees. Employees only had a bundle of rights of possession, use and benefit, but not of disposition. User-residents were only required to pay a nominal rent which in most cases was subsidised by the state. The low-rents policy stimulated great demand and prompted residents to seek more and better housing.

5.1.2. First Attempt at Housing Reform – Experiment Period (1978-1987)

As soon as the Chinese government launched its economic reforms in 1979, housing reform was put on the agenda. China took a gradualist approach to housing reform in the early stages since it did not have adequate resources to provide housing for all as per demand. From 1980 to 1987, several initiatives were experimented with in selected areas to test the feasibility of various public housing reform measures, such as rent adjustment (raising of rent) of public housing units and privatisation of the existing stock whereby public housing units throughout the country were to be sold to existing tenants at heavily discounted prices. Such a misguided policy has recently been copied and implemented in Zambia and Tanzania.

5.1.3. Second Phase of Reform- Comprehensive Reform period (1988-1998)

Based on the results of its experience during the Experimental Reform Period, the state took comprehensive measures to advance the progress of housing commercialisation. In 1994, the Chinese government issued The Decision on Deepening the Urban Housing Reform, which established a comprehensive framework for the next stage of housing reform. Within this framework, both supply-side and demand-side programmes were created to facilitate the development of a housing market. On the supply side, the government decided to build a multi-layer housing provision system for different income groups. Middle and lower income households, for example, would purchase subsidised affordable housing units produced through a programme called Economical and Comfortable Housing (ECH), while high income families would purchase regular market housing (State Council of Peoples Republic of China, 1998).

On the demand side, a dual housing finance system was also established to combine both social saving and private saving (Wang and Murie 2000). Potential home-buyers would get subsidised mortgage loans through a compulsory housing saving programme called Housing Provident Fund (HPF), as well as applying for commercial mortgage loans offered by financial institutions. While trying to bridge the gap between housing supply and housing demand, the government also continued its efforts to privatise the existing public housing stock, but with more carefully designed pricing mechanisms. For example, families who paid market prices for their units would get full property rights, including the right to resell their units on the open market, while families who paid subsidised prices would have partial ownership but face restrictions regarding resale (State Council of Republic of China, 1994).

Clearly, the overall objective behind all these efforts was to establish a functional housing market so that families could purchase housing directly from the market and work units would be relieved of their responsibilities. Unfortunately, this did not happen easily. Immediately after the 1994 reform, the country saw the rapid growth of a professional housing development industry and an unprecedented housing construction boom. Now, instead of being sold to individual urban families, most of the housing units were

purchased by work units, which then resold them at deeply discounted prices to their employees (Wang & Murie, 1996). Since most of the work units were state-owned and were not subject to stringent budget constraints, their purchase behaviour significantly distorted the emerging housing market (Lang Deng et.al, 2009 pg.4).

5.1.4. The Establishment of a Fully-Functioning Housing Market (1998-to date)

In July 1998, the central government decided to take decisive action to cut the link between work units and housing provision. It introduced a new measure prohibiting work units from building or buying new housing units for their employees. Instead they would have to provide monetary subsidies to their employees to help them buy homes on the open market. The new policy was aimed at establishing a housing market according to high, medium and low income groups – high income households should buy commodity housing, low and middle income households would buy ‘economical housing’ with prices limited by the government, and low income households would rent low-rent housing provided by the government. The government would no longer distribute housing to the public and would only provide low-rent housing to low-income households. Finally, it was hoped that the market would adjust to housing demand.
Although clearly the housing problems of the middle and/or low income groups, especially the lowest income bracket, were resolved to a certain extent in the development of the economy, some problems persist.

So, the significance of the 1998 reforms cannot be understated. The year marked the turning point of China’s housing reform. Despite some initial resistance and setbacks, China has finally established the market mechanism in both housing production and housing consumption. Today, open market housing transactions are normal for Chinese households. According to Ye et al (2006) from 2000 to 2004, China’s annual investment in real estate averaged about 746 billion Yuan and accounted for almost seven per cent of the nation’s GDP. As the housing industry became the engine of growth, urban residents’ living conditions have also significantly improved.

The rapid development of new housing is now a source of economic activity and a growing tax base for the Chinese government. As noted by Joyce Man (2011), a significant issue of China’s housing boom is a considerable increase in housing unit prices which poses enormous challenges at both central and local government levels. In recent years housing prices have risen much faster than incomes, making housing unaffordable for many. The government has taken steps to moderate housing prices by raising mortgage interest rates, increasing down payment requirements, taxing short-term capital gains from real estate, and constraining household purchases of multiple dwellings. The rapid rise in housing prices indicates that some recent housing demand has been speculative, resulting in urban vacancy rates that may be well above those required for a healthy housing market.

5.2. Conclusion

It is evident that throughout its housing reform, the Chinese government has adopted a decentralised approach in which the central government lays out the framework for housing reform, and local governments implement specific programmes (Huang 2004). Often, central government commits only very limited resources and local governments are asked to pay for most of the costs involved in the reform. As a result, there has been considerable local variation in the timetable and degree of reform (Wang, 2005).

6. Lessons learnt from the above international experiences

Many issues have surfaced in looking at the three case studies and are thus worth pursuing. First, the rights-based approach to housing is a complex and difficult one to achieve even in a socialist context like the case of China. For example, does equal access to shelter mean the supply and availability of adequately located serviced land that enables all individuals in society to have equal opportunities to access adequate housing within the city boundaries? Does this translate into the right to adequate housing?

Secondly, there are many factors that constrain the provision of affordable housing options for different social groups and particularly the poor (e.g. race in the USA). Assuming that the supply of serviced land at scale is a fundamental condition to boost the provision of affordable housing at a scale that can compete with the informal supply systems – thus preventing slum formation – what are the main bottlenecks in the land and infrastructure supply systems, and what needs to be done to overcome them? These are complex issues to consider.

Thirdly, the issue of affordability and mechanisms to enable access to housing are critical in any housing policy. Are there any measures (e.g. institutional, legal, financial, technical, etc.) that can be employed in order to prevent housing solutions targeted at low income households to be hijacked by economically stronger groups?
Furthermore, if house price-to-income ratios are disrupted, what are the policy, programme and technical instruments to bring housing prices down and increase the ability to pay for different housing options (e.g. housing allowances, subsidised solutions, serviced land, serviced land plus basic shelter, building materials credit, incremental guided land development, normative reforms to allow for smaller plots and houses, etc.)?

Fourth, what are the roles and responsibilities of different stakeholders in housing provision? In the case of Japan and the USA, the government, the private sector and the markets have played key roles in housing, unlike in China where the government

has been the main provider. Which roles must be played by governments, NGOs, private institutions, financing and micro-financing institutions and others in enabling housing provision? We have noticed an increase in private sector participation and land and property developers in the provision of different types of housing solutions for low income people in Japan and the USA. Is there a role for the private sector and what and how should they get involved?

From examining the above case studies, a number of policy lessons/interventions can be drawn and these have been summarised below.

(a) Should governments intervene in housing?

From the experience of the three countries, the answer is emphatically, yes! Because of transaction costs and frictions, the housing market is clearly imperfect and no ‘invisible hand’ will be able to restore efficiency through the market. In particular, the fact that poverty and segregation are rampant in most countries, including across Africa, the housing market is not functioning well and the government (at the local and/or national level) should intervene to correct imperfections. One has to be, however, careful with the types of interventions the government can implement. The main issue is what incentives and education/information do governments need in order to intervene in a way that promotes greater equity and efficiency.

(b) Should home-ownership be encouraged?

It is observed that policies encouraging home-ownership (as in the US and Japan), mainly favour middle and high income families, often at the expense of poor families. Furthermore, the two main drawbacks of such a policy is that (i) it makes households more vulnerable to financial crises (such as the recent one), especially home-owners belonging in the lower income segment, because of the lack of diversity of their assets, and (ii) it renders home-owners less mobile and therefore makes them more vulnerable to economic shocks and more likely to be unemployed. There are of course positive aspects to home-ownership, such as savings incentives, positive externalities, social capital, etc.

(c) Should more social housing be developed?

We have seen that there has been some trade-off between home-ownership and social housing. In particular, countries (like Japan, and the USA) that have subsidised home-ownership, tend to have neglected social housing. Social housing can be a good thing because it helps poor households to live in cheap but decent housing and still have enough money left to spend on health and education. It has, however, two main drawbacks. First, it induced segregation and distance to jobs. Indeed, by concentrating relatively poor families in areas generally located far away from jobs (this is true in the US), it reduces employment opportunities for these households. These areas eventually become economically depressed and characterised by ethnic minority concentration, poor quality education, high unemployment and high crime rates. The bulk of empirical literature on spatial mismatch (Kain, 1968; Ihlanfeldt and Ihlanfeldt, 2006; Zenou, 2009b) has shown that: (a) poor job access indeed worsens labour-market outcomes, (b) black and Hispanic workers have worse access to jobs than white workers, and (c) racial differences in job access can explain between one-third and one-half of racial differences in employment. Second, it reduces mobility since the entitlement of a social house located in a specific area is in general not transferrable to other areas.

(d) Should the government directly subsidise poor households?

Programmes, such as the Moving to Opportunity (MTO) implemented in the United States, which give housing vouchers to families that move from poor to richer areas, are directly targeted at poor families. The main advantage of such programmes is that they reduce criminality and tend to give more opportunities to people. We have also seen that the effects on employment and education are rather small because these programmes move people from very poor areas to poor areas. So, to be successful these types of programmes need either to move people from very poor areas to much richer areas and/or to be accompanied by other programmes that revitalise poor areas, especially in rural areas.

Regeneration policies or enterprise (empowerment) zone programmes (both implemented in the US and in Europe) could be a good complementary solution to the MTO.

(e) Are there alternative policies to housing that can help improve access to affordable housing and reduce the spread of slums?

As stated above, we believe that regeneration policies or enterprise (empowerment) zone programmes could be a good alternative and/or complementary policy to reduce poverty and the spread of economically depressed areas. MTO and EZ programmes are complementary policies since the former is a people-oriented policy while the latter is place-oriented policy.

7. Housing finance and the emergence of housing bubbles

A real estate bubble or property bubble (or housing bubble in residential markets) is a type of economic bubble that occurs periodically in local or global real estate markets. It is characterised by rapid increases in valuations of real property, such as housing, until they reach unsustainable levels and then decline. This is caused by a disconnect between the actual or real value of a property and the perceived value based on an over-excited market that bids up or inflates property values.
Causes of Housing Bubbles

Housing bubbles may occur in local or global real estate markets. In their late stages, they are typically characterised by rapid increases in the valuations of real property until unsustainable levels are reached relative to incomes, price-to-rent ratios, and other economic indicators of affordability. This may be followed by decreases in home prices that result in many owners finding themselves in a position of negative equity – a mortgage debt higher than the value of the property. The underlying causes of the housing bubble are complex. Factors include tax policy (exemption of housing from capital gains), historically low interest rates, tax lending standards, failure of regulators to intervene, and speculative fever (Laperriere, Andrew(2006),(Evans-Pritchard, 2006), (Levenson E, 2006).

While bubbles may be identified while in progress, they can be definitely measured only in hindsight, after a market correction, which began for example in the US housing market in 2005-2006.

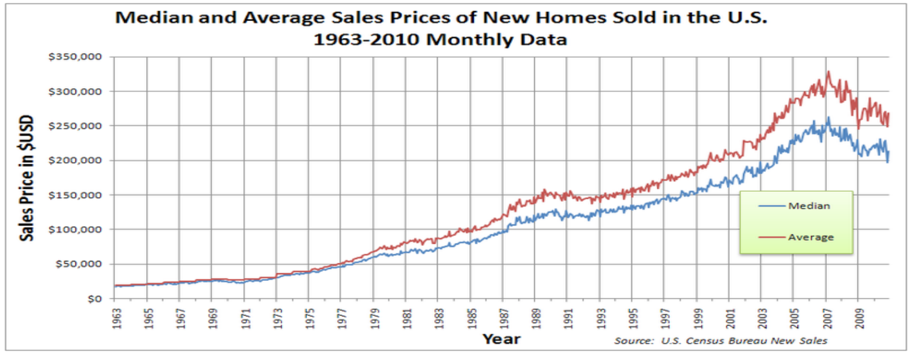
Impacts of Housing Bubbles on National Economies

Regardless of why asset bubbles arise, there is no doubt that they pose potential risks for financial stability, especially when they involve bank-provided debt finance. Asset bubbles can contribute to the build-up of financial imbalances which can unwind suddenly and can cause the collapse of the banking system, with serious consequences for the real economy (Gertrude. T, 2011). Real life impacts of housing bubbles on national economies are now presented for the three case study countries.

7.1. The usa housing bubble and its impacts

The American bubble may be related to the stock market or dot.com bubble of the 1990s. This bubble roughly coincides with the real estate bubbles of developed countries like the UK and Spain. Below is a graph showing the median and average sales prices of new homes sold in the United States between 1963 and 2010 (Shiller, R. 2005).

Figure 1: Timeline of the United States Housing Bubble



Source: http://www.census.gov/const/uspriceann.pd

The US housing bubble affected many parts of the United States housing market. Housing prices peaked in early 2006, started to decline in 2007, and may not yet have hit bottom as of 2011. Increased foreclosure rates in 2006–2007 led to a crisis in August 2008 in the subprime, Alt-A, collateralised debt obligation (CDO), mortgage, credit, hedge fund, and foreign bank markets. In October 2007, the U. Secretary of the Treasury called the bursting housing bubble "the most significant risk to our economy" (Laperriere, Andrew (2006-04-10).

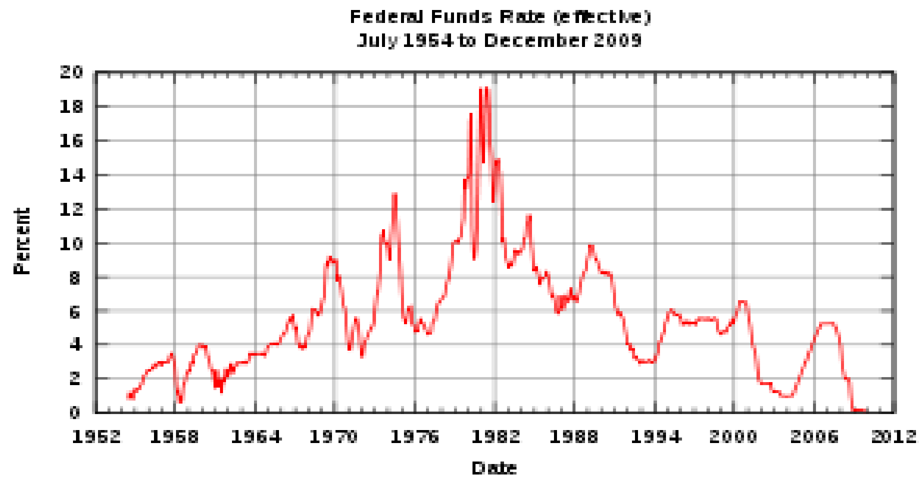
7.1.1. Causes of the Housing Bubble: Fundamental Flaws in the Housing Finance Market

The emergence of the American housing bubble is attributed to a number of factors, too numerous to discuss in full, as alluded to by many writers. These factors relate to misbehaviour, misjudgement, and missed opportunities – on Wall Street, on Main Street, and in Washington – all of which collided to push the economy to the brink of collapse. Several fundamental flaws in the USA housing finance system contributed to the crisis. In sum, one can say that, "The housing bubble was caused by an expansion of credit that enabled irrational exuberance and wild speculation. The expansion of credit came in the form of relaxed loan underwriting terms including high-debt-income ratios, lower FICO scores, high combined-loan-to-value lending including 100 percent financing, and loan terms permitting negative amortisation". The main causes include the following:

1. Crash of the dot.com bubble
Several economists have argued that the stock market crash, especially in the dot. com and technology sectors, in 2000 and the subsequent 70 percent (or so) drop of the NASDAQ composite index resulted in many people taking their money out of the stock market and purchasing real estate, which many believed to be a more reliable investment (Baker,2006).

2. Historically low interest rates issued by the Federal Reserve Bank
Another important consequence of the dot.com crash and the subsequent 2001–2002 recession was that the Federal Reserve cut short-term interest rates to historically low levels, from about 6.5 percent to just 1 percent and everyone used this as an indicator that it was a good time to buy a house. In reality, all the Fed did was to create a new bubble in their eagerness to escape the bursting of the dot.com bubble.

Figure 2: USA's historically low interest rates: 1954-2009.



Source: Wikipedia.org/wiki/federal-funds-rate. Accessed on 2/8/2011.

3. Return to higher rates
Between 2004 and 2006, the Fed raised interest rates 17 times, increasing them from 1 percent to 5.25 percent, before pausing (Creswell, Julie; Bajaj, Vikas, 2011) because of the concern that an accelerating downturn in the housing market could undermine the overall economy.

4. Risky mortgage products and lax lending standards
Poor consumer protection allowed risky, low-quality mortgage products and predatory lending to proliferate. These included:

5. Expansion of sub-prime lending
In finance, sub-prime lending means making loans that are in the riskiest category of consumer loans and are typically sold in a separate market from prime loans. Low interest rates, high home prices, and flipping (or reselling homes to make a profit), effectively created an almost risk-free environment for lenders because risky or defaulted loans could be paid back by flipping homes. Banks/lenders pushed sub-prime mortgages to capitalise on this. Sub-prime mortgages amounted to $35 billion (five percent of total originations) in 1994, 9 percent in 1996, $160 billion (13 percent) in 1999, and $600 billion (20 percent) in 2006 (Alan Greenspan, 2006).

6. Risky products

The recent use of sub-prime mortgages, adjustable rate mortgages, interest-only mortgages, and stated income loans (a subset of 'Alt-A' loans, where the borrower did not have to provide documentation to substantiate the income stated on the application. These loans were also called "no doc" (no documentation) loans and, somewhat pejoratively, "liar loans") to finance home purchases described above, raised concerns about the quality of these loans should interest rates rise again or the borrower is unable to pay the mortgage (Financial Times, 2007). In many areas, particularly in those with most appreciation, non-standard loans went from almost unheard of to prevalent. In March 2007, the United States' sub-prime mortgage industry collapsed due to higher-than-expected home foreclosure rates, with more than 25 sub-prime lenders declaring bankruptcy, announcing significant losses, or putting them up for sale.

7. An inadequate and out-dated regulatory regime failed to keep the system in check

Regulatory boundaries largely unchanged from the 1930s allowed large parts of the financial system that were deeply involved in housing finance to operate with virtually no oversight.

8. A complex securitisation chain lacked transparency, standardisation, and accountability

The market increasingly relied on an opaque and complex securitisation chain – comprised of mortgage brokers, originators, securitisers, ratings agencies, and investors – to provide the money that helped fuel the rapid rise in home prices. Brokers and originators could profit from selling poorly underwritten mortgages to securitisers without regard to the loans' future performance. Ratings agencies and investors failed to recognise that the deterioration in underwriting standards had undermined the quality of complex mortgage-backed securities. An overall lack of transparency and clear rules made it difficult for regulators and investors to track and identify risk as it moved through the securitisation chain.

9. Inadequate capital in the system left financial institutions unprepared to absorb losses

Systemically-significant financial institutions were not required to hold adequate capital against the true mortgage risk on their balance sheets because these institutions were allowed to hold less capital against securities backed by mortgages than if they kept the same mortgages themselves. When home prices started to fall and these institutions experienced substantial losses, they had inadequate capital to weather the storm, putting the health of the entire financial system and broader economy at risk. The servicing industry was ill-equipped to serve the needs of borrowers, lenders, and investors once housing prices fell. The servicing industry, which processes borrower payments and forwards the proceeds to investors who own the pool of mortgages, was unprepared and poorly structured to address the higher levels of default and foreclosure that occurred after the housing market collapsed. Servicing contracts did

a poor job defining the obligations of servicers to minimise losses on defaulting loans. Servicers' flat fee compensation structure also failed to provide appropriate incentives for servicers to invest the time, effort, and resources necessary to prevent foreclosure, even when doing so would have been in both the home-owner and mortgage investors' interests (US, 2011).

7.1.2. The aftermath of the US Housing Bubble

So far, we've looked at the factors that created the credit and housing bubbles and the beginning of their demise. As prices levelled off in 2007, speculators and borrowers who had sub-prime loans realised further appreciation was unlikely, so they simply stopped making payments and foreclosures rose. The possibility of this outcome appears to have been completely unforeseen by lenders because their models simply didn't account for the fact that borrowers might default and, even worse, that those defaults might lead to losses. In August 2007, lenders woke up and removed from the market the majority of the more aggressive home-loan products that had propped up home prices.

Much of the blame for the nearly unprecedented fall in prices that followed the removal of those loan products has been placed on foreclosures. But that blame is largely misplaced. The reality is that prices fell because without the aggressive interest-only and payment-option adjustable-rate mortgage (ARM) loan products (ARM loans have a floating rate tied to a short-term bond index. Monthly payments on optional ARMs reset after an initial low rate period, usually five years. The assumption is that interest rates would stay low to minimise the impact of the adjustments on borrowers.) very few people could afford to buy a home. Sales began to recover after prices dropped because buyers could once again afford to purchase a home, given their income and the loan products that remained available. As home prices naturally plummeted to levels home buyers could afford, consumer confidence plummeted as well.

7.1.3. Impacts of the bubble to the US Economy

Any collapse of the US housing bubble has a direct impact not only on home valuations, but the nation's mortgage markets, home builders, real estate, home supply retail outlets, Wall Street hedge funds held by large institutional investors, and foreign banks, increasing the risk of a nationwide recession (Laperriere, ibid). Concerns about the impact of the collapsing housing and credit markets on the larger US economy caused President George W. Bush and the Chairman of the Federal Reserve, Ben Bernanke, to announce a limited bailout of the US housing market and home-owners who were unable to pay their mortgage debts (Solomon, (2007).

Housing in Namibia

7.1.4. Lessons for Namibia and other African countries

As seen above, the key cause of the American housing bubble was the behaviour of the government, financial systems, and investor attitudes that fed into the bubble in four critical ways:

- Aggressive behaviour of financial institutions and poor risk management that ignored basic economic trends. In the United States, excessively optimistic expectations of future economic development led to poor investment decisions and a pervasive denial of obvious bubble trends.
- Monetary policy errors: Though the financial institutions played a key role in the booms and inevitable busts in the US, a critical root cause was monetary policy intervention. The central bank helped to set off a boom in asset prices by spurring an unsustainable credit expansion which drove interest rates to artificially low levels. This encouraged individuals and businesses to take on debt that they would not otherwise have and to make investments that they would not otherwise make.
- Other Destructive Government Policies: Fiscal policy and the regulatory structure of the United States played a role in the creation and eventual collapse of the asset and housing booms. There is currently a robust debate over whether the American crisis is rooted in too much or too little regulation. But this misses a key point, namely the role that existing regulations played in spawning the crisis.
- Government Housing Policy: The United States had explicit government policies that encouraged an unhealthy acceleration in land and housing prices. The American Federal Housing Administration policies have for years encouraged big expansions in mortgage lending, including sub-prime lending, particularly through Fannie Mae and Freddie Mac. This was done to expand home-ownership for low income families. Such policies span administrations of both political parties, from the Community Reinvestment Act enacted during the Carter administration in 1977 and strengthened during the 1990s under the Clinton administration to President George W. Bush's efforts to create a "home-ownership society." This had two big impacts. First, it greatly increased the number of buyers, driving up house prices. It also provided mortgages to a large number of people with a high risk of default.

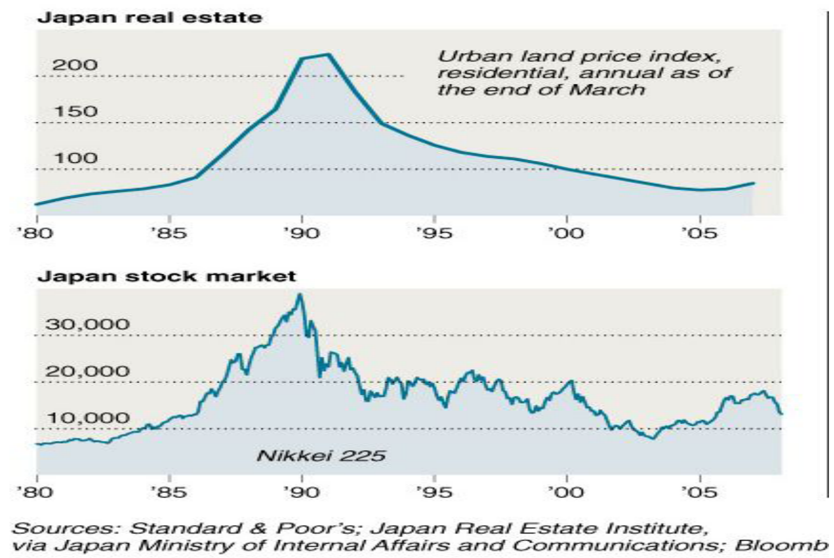
7.2. Japan housing bubble

The Japanese asset bubble grew out of an economic boom that began in the mid-1980s and lasted until the early 1990s. By November 1986, after several years of slow growth, eased monetary policy fuelled a boom of domestic investment and increased consumption. With access to easy credit, the economy shifted from its traditional economic activities, such as agriculture, to a higher value technology-based economy, chiefly in telecommunications, computers and finance. The Japanese asset price bubble contributed to what the Japanese refer to as the lost decade (Saxonhouse et.al, 2004).

7.2.1. A history of the asset bubble

In the decades following World War II, Japan implemented stringent tariffs and policies to encourage people to save their incomes. With more money in banks, loans and credit became easier to obtain, and with Japan running large trade surpluses, the yen appreciated against foreign currencies. This allowed local companies to invest in capital resources much more easily than their competitors overseas, which reduced the price of Japanese-made goods and widened the trade surplus further. And, with the yen appreciating, financial assets became very lucrative (Bank of Japan, 2009). So much money readily available for investment, combined with financial deregulation, over-confidence and euphoria about economic prospects, and monetary easing implemented by the Bank of Japan in the late 1980s resulted in aggressive speculation, particularly on the Tokyo Stock Exchange and in the real estate market.

Figure 3: Japan Real Estate



Prices were highest in Tokyo's Ginza district in 1989, with choice properties fetching over 100 million yen (approximately US$1 million) per square meter. Prices were only marginally lower in other large business districts of Tokyo. By 2004, prime "A" property in Tokyo's financial districts had slumped to less than one percent of peak, and Tokyo's residential homes were less than a tenth of their peak, but still managed to be listed as the most expensive in the world until being surpassed in the late 2000s by Moscow and other cities. Tens of trillions of dollars worth of value was wiped out with the combined collapse of the Tokyo stock and real estate markets. It was only in 2007 that property prices begun to rise. However, they began to fall again in late 2008 due to the financial crisis.

With the economy driven by its high rates of reinvestment, this crash hit particularly hard. Investments were increasingly directed out of the country, and manufacturing firms lost some degree of their technological edge and Japanese products became less competitive overseas. The Japanese Central Bank set interest rates at approximately zero. When that failed to stop deflation, some economists, such as Paul Krugman, and some Japanese politicians, advocated inflation targeting (Saving Japan. Paul Krugman.) The easily obtainable credit that had helped create and engorge the real estate bubble continued to be a problem for several years, and as late as 1997, banks were still making loans that had a low probability of being repaid. Correcting the credit problem became even more difficult as the government began to subsidise failing banks and businesses, creating many so-called "zombie businesses". Eventually a carry trade developed in which money was borrowed from Japan, invested for returns elsewhere and then the Japanese were paid back, with a nice profit for the trader.

The time after the bubble's collapse, which occurred gradually rather than instantaneously, is known as the "lost decade or end of the century" in Japan. On March 10, 2009, the Nikkei 225 stock index reached a 27-year low of 7054.98. Home-owners were among the biggest victims of the Japanese real estate bubble. In Japan's six largest cities, residential prices dropped 64 percent from 1991 to 2010. By most estimates, millions of home-buyers took substantial losses on the largest purchase of their lives.

7.2.2. Conclusion

The Japanese government's policies of expanding the money supply, driving interest rates to artificially low levels, and poor regulation, coupled with risky behaviour and ineptitude on the part of many firms in the financial sector, led to distortions in private sector investment that could not be sustained. These kinds of recessions are the unavoidable costs of years of an unsustainable boom fostered by government policy. While politicians would like to stave off the negative effects of the recession, such as the failure of businesses, bankruptcy, rising unemployment and a fall in house prices, it should be clear that liquidations and corrections are necessary in order to realign consumer preferences and the structure of production. The Japanese government was not willing to make the hard but necessary choice to let businesses fail and let the market correct itself. Instead, it lent trillions of yen to keiretsus businesses (taking that cash away from more productive ventures), passed counter-active tax laws and regulations that did not promote growth, manipulated the credit markets with poor monetary policy and spent trillions of yen on infrastructure projects that only increased unemployment and left the nation with massive debts. This short-term, static view attempted to prevent the economy from experiencing any negative effects from the correction, but it only prevented Japan from emerging from its asset bubble downturn and made the crisis worse.

7.2.3. Lessons for Namibia and other African governments

- Too much government intervention in the market: As seen above, after Japan's asset bubble burst in the early 1990s, its economy took a sharp downturn, prompting government to extend massive loans to banks and businesses while investing in infrastructure. The results led to a decade of economic malaise and recession. The Japanese government's response to the recession was a wide-ranging mix of fiscal policy, monetary policy and denial. In the face of rapid economic growth, the Bank of Japan erratically shifted interest rates, first up and then sharply down. The Ministry of Finance downplayed the degree of toxic debt banks were left holding when the bubble burst and instead encouraged more lending. And in an attempt to restart growth and stem unemployment, the government spent massive amounts of money on public works projects and stimulus checks to citizens.
- 2. Overly aggressive behaviour of financial institutions and poor risk management that ignored basic economic trends. The Japanese asset bubble was fuelled by a 51 percent average growth rate in housing prices and an 80 percent increase in average commercial property values between 1985 and 1991. This rapid growth trend created an over-confident investment culture in Japan that was not prepared for any kind of correction. Since the peak, asset values have fallen over 40 percent (as of 2008)
- Monetary policy errors. Though financial institutions played a key role in the booms and inevitable busts in Japan, a critical root cause was monetary policy intervention. In Japan, the central bank helped to set off a boom in asset prices by spurring an unsustainable credit expansion which drove interest rates to artificially low levels. This encouraged individuals and businesses to take on debt that they would not otherwise accept and make investments that they would not otherwise make.
- When a central bank inflates the money supply and drives interest rates below those that would exist without government intervention, this sends a false signal to businesses to borrow and invest more in capital projects and goods than they otherwise might. Similarly, consumers respond to the signal by taking on higher mortgage and/or credit card debt, saving less and spending more. Credit binges like this cannot last forever – when interest rates are increased again the mal-investments are revealed, and it becomes painfully clear that much of the credit that has been issued cannot be paid back.
- Other destructive government policies. Fiscal policy and the regulatory structure in Japan played a role in the creation of, and eventual collapse of, the asset and housing booms. Building regulations are very strict. Furthermore, Japan has explicit government policies that encourage an unhealthy acceleration in land and housing prices. A 2003 report by the Bank of Japan blames taxation and regulatory policies for an unnatural rise in asset values (Shigenori Shiratsuka (2009).

7.3. China housing finance and housing bubble

In this section we move on to briefly examine China's housing finance system and how it has been restructured through reforms. We will then describe China's emerging mortgage market and finally we will discuss how the Chinese government has regulated its housing finance sector and the efforts it has made to address concerns about real estate bubbles and how to stabilise the housing market.

China's housing finance system has been completely restructured by the housing reform earlier discussed. Before the reform, all economic power was concentrated in the central government. Housing was financed solely by the government through budgetary funding which had led to a serious housing shortage. By introducing market mechanisms, housing reform widened the funding avenues from individuals and work units, as well as introduced financial leverage through intermediaries, such as banks (Zhang, 2000). Most of the funds were distributed as development loans, with little left for housing consumption and this led to over-supply of commercial housing in several regional real estate markets.

In 1994, as part of the housing reform package, the Chinese government started to introduce mortgage loans to home buyers nationwide (Di et.al 2008), but banks were not comfortable providing loans to individual households and often imposed strict restrictions on loan origination. Most urban households could not meet these criteria. As a result, individual home mortgages remained only a small portion of all bank loans. The turning point came with the 1998 housing reform. The Chinese central bank published the Residential Mortgage Lending Regulations. The relaxed lending standards, coupled with the strong housing demand, led to unprecedented growth of the commercial mortgage sector and by 2005 China had become the largest residential mortgage market in Asia. All mortgages in China are adjustable-rate mortgages. The maximum loan-to-value ratio is currently set at 80 percent. The maximum mortgage term can go up to 30 years, but the typical term is about 10-15 years (Zhu 2006). Furthermore, there is no risk-based pricing mechanism in China's mortgage system (Deng and Liu 2009). The central bank announces the mortgage rate, which applies to all borrowers. Lastly, Chinese banks have ways to manage default risks by making various checks on applicants and it is interesting to note that overall, the number of default cases in China, compared to many countries, is very small (Land Deng et al. 2009).

7.3.1. The Chinese Housing Bubble

Since the late 1990s to date the Chinese housing market has seen a housing bubble that has necessitated intervention time and again. In 1992, there was a nationwide "development zone fever" and "real estate fever" in which real estate prices rose sharply and real estate speculation was widespread.

Figure 4: The Forgotten 1990s Real Estate Bubble In China

Source: National Bureau of Statistics

High inflation occurred at the same time as the real estate bubble, mainly in coastal cities in the south of China. The number of real estate developers in China increased from roughly 3,000 in the beginning of 1992 to more than 12,000 in just a year. Investments in real estate jumped 117 percent in 1992, compared to the previous year, and housing provision increased by 40.4 percent in 1992. By mid-1993, the number of real estate developers reached 20,000.

To tackle the overheating economy and high inflation, the Chinese government and the People's Bank of China introduced macro-economic regulation in the second half of 1993, tightening monetary policy, raising interest rates and controlling credit growth. The government also increased its scrutiny of the real estate market to stop speculation. Eventually, the real estate bubbles in various cities burst as some developers could not get funding from banks amid tightening. Bubbles finally deflated. A large number of buildings remained unfinished as the bubble burst (together with endless legal battles). These problems emerged as the real estate market went from red-hot to ice-cold, and they were unresolved for years.

Furthermore, since the 1997 Asian Financial Crisis, the Chinese government has made great efforts to stimulate domestic housing consumption. For example, from 1998 to 2002, it lowered the mortgage interest rate five times to encourage home purchases. Meanwhile, it developed policies favouring housing development, such as broadening the scope of development loans or allowing pre-sells. These policies did work and did somehow lead to the development of a bubble. From 1997 to 2005, annual housing investment in China increased by about six times (Ye and Wu 2008). The construction boom was also accompanied by unprecedented home purchases. As a result, from 2001-2004, almost every major city in China saw housing prices increase by at least 25 percent. In big cities like Shanghai, prices increased up to 70 percent (Deng and Fei 2008). It should be noted, however, that even in this favourable environment, the

Chinese central bank still required a mortgage down payment of no less than 20 percent.

Worried that the housing market could be overheated, in early 2004, the Chinese government began to issue a series of policies to regulate the housing industry, hoping to curb soaring housing prices and to discourage speculation. The government instituted strict management of land by tightening the supply of land for real estate on the one hand and severe supervision of credit, on the other. Meanwhile, the central bank also raised both the minimum mortgage down payment and the interest rate and allowed mortgage terms to differ between first-time home buyers and those purchasing multiple units, presumably investors. To further discourage speculation, the government also raised the transaction tax on foreign buyers. Finally, seeing that all these efforts failed to bring down housing prices significantly, the government decided to intervene directly in housing supply, by imposing development standards. The breadth and depth of government regulations were unprecedented. As a result, the period of 2004-2007 became known as the macro-regulation period in China (Ye and Wu 2008).

To overcome the recent fear of a bust, the government has of late taken a number of steps to rein in soaring housing prices that have become a major source of public dissatisfation in the country's biggest cities. A new nationwide real estate sales tax was introduced in China in late 2009 as a measure to curb speculative investing. In early 2010, the Chinese cabinet announced it would monitor capital flows to "stop overseas speculative funds from jeopardising China's property market" and also began requiring families purchasing a second home to make at least a 40 percent down-payment. A mortgage discount for first-time property buyers – fixed, five percent 20-year mortgages – was also eliminated. Finally, in early 2011 Beijing came up with 15 property rules to slow the market from overheating. These include the following: (a) Beijing banned the sale of homes to those who have not lived in Beijing for five years; (b) Beijing also limited the number of homes a native Beijing family could own to two, and allowed only one home for non-native Beijing families; (c) Non-Beijing residents must have paid their monthly social security contribution or income tax for five consecutive years before they are eligible to buy their first apartment in the city; (d) Beijing families who own just one apartment can only buy one more apartment; (e) Beijing's new rules say banks can further raise the down-payment requirements for apartment buyers and raise interest rates on mortgages. Experts consider the new rules a more stringent "upgraded version" of the national housing monitoring regulations. The rules would definitely limit investment purchases, but would not immediately affect housing prices. In conclusion, there is no doubt that China is experiencing a housing bubble. The question of course is how badly will it end when it bursts? It seems, however, that China is looking to Japan's experience as a way of moving forward.

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8. Conclusion

It has been clearly demonstrated that governments intervene in housing markets to enhance people's housing opportunities and to ensure equitable access to housing. Approaches and policy responses have evolved from strong government provision and public housing strategies towards broad institutional and policy reforms to enable housing markets to work more efficiently. These interventions include fiscal measures, such as taxes and subsidies; the direct provision of social housing or rent allowances; and various regulations influencing the quantity, quality and price of housing. However, in the majority of cases most policies favour middle and high income home occupiers whereas low income individuals sometimes do get marginalised.

Housing policies also have a bearing on overall economic performance and living standards, in that they can influence how households use their savings as well as residential and labour mobility, which is crucial for re-allocating workers to new jobs and geographical areas. Indeed, recent worldwide evidence shows that effectively supervised financial and mortgage market development combined with policies that enhance housing supply flexibility are key for macroeconomic stability. Lastly, the housing bubble experience from the three case studies contains many warnings. One is to shun the sort of temptations that appear in red-hot real estate markets, particularly the use of risky or exotic loans to borrow beyond one's means. Another is to avoid property that may be hard to unload when the market cools.

9. The way forward – Towards holistic shelter policies for all

This section of the paper concludes by looking at how housing policies should be designed to ensure adequate housing for all citizens, support growth in long-term living standards and strengthen macro-economic stability. It culminates by looking at how nations can avoid housing bubbles in the future by using preventive as well as curative approaches to bubble management. A range of possible housing policy options (OECD, 2011) are discussed and recommended for adoption and these include the following:

(a) Housing Policy Options: Housing policies should be designed to be efficient and equitable.

This can be done by governments taking the following steps:

- Remove tax distortions by taxing housing and alternative investments in the same way, this implies taxing imputed rents and allowing mortgage interest to be tax deductible. Tax treatment of owner-occupied housing is often favourable relative to other forms of investment, notably due to the fact that imputed rental income is generally not taxed, while mortgage interest is often deductible. Such tax treatment can have undesirable consequences for the allocation of savings and investment in housing and in other markets. Moreover, tax breaks tend to be capitalised in house prices, thereby preventing some financially-constrained households from owning their home. Mortgage interest deductibility also tends to favour the better off, since the propensity to own a house rises with income. However, most countries do not tax imputed rent – using recurrent property taxes as a substitute is not sufficient as these taxes are not large enough to offset the mortgage subsidy. In such circumstances a 'second best' approach could be either to remove mortgage interest relief or to scale up recurrent property taxes by levying them on cadastral values that are aligned with market values.

- Redesign regulations that bring rents far out of line with market values or tilt the balance of tenant-landlord relations disproportionally in favour of either party. Strict rental regulations are associated with lower quantity and quality of housing and their benefits for tenants are not certain. Indeed, there is no clear evidence that average rents in countries with stricter controls are lower. Moreover, especially if they are poorly targeted, rental market regulations may have undesirable redistributive effects among different categories of tenants.
- Use carefully designed, targeted social housing systems and portable rent allowances to ensure housing for low income households. Social housing systems which are directed at those most in need seem able to achieve their goals at a lower cost than less targeted systems, although they need to be carefully designed to avoid any adverse implications for social mix, mobility and associated labour market outcomes. Well-designed portable housing allowances may be preferable to the direct provision of social housing as they do not seem to directly hinder residential mobility.

In terms of housing access for the poor, a flexible policy environment that takes into account the reality of housing conditions will produce better results than strict enforcement of high minimum standards. Rigid housing and financing laws that establish high minimum standards that are unachievable for the poor will reduce rather than increase the quality and volume of available housing. Instituting regulations that reflect how the poor build can encourage lenders to develop innovative products, improve the quality of the guarantees taken by these institutions and allow the poor to improve their living conditions.

Ideally, there should be a variety of housing finance options for the poor that take into account their repayment capacity, their housing needs, and the legal structures for their homes. This means that financial institutions should also be able to offer profitable products that target as wide a population as possible, easily and flexibly, while ensuring the financial safety of clients and investors. This also means that housing subsidy and property policies should support both improvements in the living conditions of poorer citizens and private sector interventions to accomplish these improvements.

(b) Housing Finance Strategies.

A myriad of housing finance strategies can be adopted including the following:

- Innovations in mortgage markets should be coupled with appropriate regulatory oversight and prudent banking regulations. Financial liberalisation and mortgage innovations have increased access to credit and lowered the cost of housing finance. This has had positive implications for previously credit-constrained households, allowing them a better chance of owning their own home. But regulatory reforms in mortgage markets may also lead to an increase in house prices and in house price volatility. Moreover, deregulation can pose risks for macro-economic stability if it triggers a significant relaxation in lending standards and a subsequent increase in non-performing loans. This is why there is a need for regulatory oversight and prudent banking regulations in all countries.
- Housing supply responsiveness to demand can be improved in many African countries, but care is needed to avoid volatility in residential housing investment.
- Supply of new housing that is responsive to prices helps to avoid excessive volatility in house prices, but greater responsiveness can also translate into more volatile residential investment. Responsiveness can be increased by streamlining cumbersome construction licensing procedures and – in countries with a shortage of land for residential construction – by encouraging the use of land through better linking the assessment of property value for tax purposes to the market value.

Housing policies can facilitate residential mobility, better match workers with jobs and help the labour market recover from the recent crisis. For example:

- Easier access to credit is also associated with higher household mobility, because it provides access to more housing options and makes it easier to finance moving costs. However, high leverage rates can also pose risks to mobility as households with negative equity are often unable to move.
- Easing the relatively strict rent controls and tenant-landlord regulations that are found in some African countries could significantly increase residential mobility by improving the supply of rental housing and preventing the locking-in of tenants.
- Reducing the high costs involved in buying a residence in some African countries could also enhance residential mobility. This would include tax restructuring and removing or curbing regulations that limit competition among intermediaries involved in housing transactions (e.g. notaries and real estate agencies).

(c) Dealing with Housing Bubbles.

In order to avoid housing bubbles from developing and thereby adversely impacting national economies, countries are advised to adopt a holistic approach that has a two pronged strategy viz, 'ex-ante' or preventive and 'ex-post' or curative policies. These can be summarised as follows (Gertude 2011): First, it is necessary to improve the general monitoring and analysis of asset price developments and potential financial imbalances; Second, it is necessary to not only strengthen the micro-prudential regulatory framework through better liquidity and capital provisions, but also to build up a strong macro-prudential framework. The experiences since the 2007 crisis have taught us that ensuring the stability of individual banks is not enough for the stability of the system as a whole. Third, it is necessary to make use of monetary policy frameworks to combat financial imbalances that go along with excessive growth in money and credit.

'Ex Ante' or Preventive Policies

Any proposal to prevent bubbles from recurring in the residential real estate market must properly identify the cause, provide a solution that is enforceable, and allow for the unhindered working of the secondary mortgage market. Both market-based and regulatory measures need to be used.

Taking a cue from what happened in 2007 in the world, it is important to address the conditions of expanding credit. To start with, it is important to deal with low documentation standards. It is essential to do an evaluation of the viability of a mortgage note to know if the borrower actually has the income necessary to make payments. It is important to require income-based appraisals for lending purposes. Any remedy of the housing bubble must address the issue of poor documentation in order to facilitate the smooth operation of the secondary market.

Another factor that cannot be regulated is the crazy behaviour of borrowers caught up in a speculative mania. It is not possible to stop people from overpaying for real estate, but it is possible to prevent them from doing so with borrowed money. If people wish to risk their own equity in property speculation, it is their money to lose, but when lender money is part of the equation, the entire financial system can be put at risk, which it was during the housing bubble.

The long-term (say 30 percent) fixed conventionally-amortising mortgage, with a reasonable down-payment is the only loan programme proven to provide stability in the housing market. Other solutions could be limiting the debt-to-income ratio, this is critical to stopping loan defaults and foreclosures. Again, countries should avoid government action that support artificially low interest rates.

In addition, macro-prudential regulators throughout the world are acquiring new policy tools aimed at 'leaning against the wind' of financial imbalances and asset price bubbles. The most important examples of such tools are the counter-cyclical capital and liquidity buffers. Monetary policy also should be used to 'lean' against asset bubbles and building imbalances.

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Lastly, private markets – subject to strong oversight and standards for consumer and investor protection – should be the primary source of mortgage credit and bear the burden for losses. Banks and other financial institutions should be required to hold more capital to withstand future recessions or significant declines in home prices, and adhere to more conservative underwriting standards that require home-owners to hold more equity in their homes.

'Ex post' or A Curative Approach

Once a system is gripped by the collapse of a bubble, ex post policies are vital to restore confidence and prevent full-scale meltdown. However, it should be borne in mind that while ex post policies are an important part of policy-makers' toolkit, they are by no means a 'free lunch' as they carry a substantial fiscal cost which must be borne by the respective country.

Some of the policies that can be adopted include the following: First, deal squarely with credit default swaps – require those valuations to be disclosed so investors can evaluate the risk of investing in certain big companies, then let those investors bear the risks alone without taxpayers' backing; and, Secondly, make sure no financial institution is ever 'too big to fail'. Risk of failure ultimately makes companies stronger and none should be above it, especially at the expense of taxpayers.

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Government Policies and Programmes o Enhance Access to Housing: Experience From South Africa

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Abstract

The economic, social and spatial impacts of the national state housing programme in South Africa over the last fifteen years have been significant. And yet, the ability of the programme to produce settlements which can be described as 'sustainable' has so far been limited. This paper works from a description of some of the key strategic impacts of the programme, towards a vision for the future in which state-sponsored settlements will become more rewarding places to stay.

This paper is an updated and expanded version of an original paper presented to the Development Bank of Southern Africa in 2005, shortly after the introduction of the revised national housing policy. This version, therefore, discusses the impacts of this new policy over the last five years, especially on the resulting level of potential access by lower income households.

1. Introduction

When the South African Housing White Paper (Department of Housing, 1994) was written in 1994, the ultimate aims of the housing programme were articulated using the concepts current at the time. For instance, the word 'sustainable' did not carry the same weight or meaning as it does now, some 15 years later. Sustainability referred to the survival of the programme itself (i.e. sustained production and capacity growth) and was discussed predominantly in the frame of economic and fiscal programmatic sustainability. Rather than referring to the need to create sustainable human settlements as such, the programme outcomes at the time were to be:

- settlements which were 'human', 'integrated', and 'compact';
- houses which were 'habitable', 'adequate', 'secure', 'safe', 'healthy' and, of course, 'numerous'; and
- households and communities which were 'viable', and 'socially and economically integrated' (Department of Housing, 1994).

To be fair, what was delivered over the first decade of the programme should be measured against the original intentions which were captured in the 1994 White Paper and further developed in other key documents, such as the Housing Act (Department of Housing, 1997a) and the Urban Development Framework (Department of Housing, 1997b). However, from now on the performance of the housing programme should be measured against the broader concept of sustainable settlements as framed in new policy statements, such as the Department of Housing's "comprehensive plan for the development of sustainable human settlements", commonly referred to as the Breaking New Ground policy (Department of Housing, 2004).

During the period between 1994 and 2004, international attention focused more on the concept of sustainable settlements and housing, which meant many things to many people. The focus on the need for sustainable settlements has been such that the Departments of Housing and Provincial and Local Government have a local, shared definition of sustainable settlements, and this became the centre piece of the 2004 Comprehensive Plan for Housing. Sustainable human settlements were conceived as, "well-managed entities in which economic growth and social development are in balance with the carrying capacity of the natural systems on which they depend for their existence and result in sustainable development, wealth creation, poverty alleviation and equity" (Department of Housing, 2004).

The definition was extended as follows

"The present and future inhabitants of sustainable human settlements, located both in urban and rural areas, live in a safe and secure environment and have adequate access to economic opportunities, a mix of safe and secure housing and tenure types, reliable and affordable basic services, educational, entertainment and cultural activities and health, welfare and police services. Land utilisation is well planned, managed and monitored to ensure the development of compact, mixed land-use, diverse, life-enhancing environments with maximum possibilities for pedestrian movement and transit via safe and efficient public transport in cases where motorised means of movement is imperative. Specific attention is paid to ensuring that low income housing is provided in close proximity to areas of opportunity. Investment in a house becomes a crucial injection in the second economy, and a desirable asset that grows in value and acts as a generator and holder of wealth. Sustainable human settlements are supportive of the communities which reside there, thus contributing towards greater social cohesion, social crime prevention, moral regeneration, support for national heritage, recognition and support of indigenous knowledge systems, and the on-going extension of land rights" (Department of Housing, 2004, italics added).

This then is the current broad definition or vision of what the housing, and other government, programmes seek to produce through the investment of national resources in South Africa. In reviewing past performance the original aims are considered as a fair yardstick but in the redesign of housing delivery instruments for the future it is necessary to apply the expected outcomes which are framed using the more contemporary concepts.

As is evident from the description above, the concept of access to shelter, land and services is central to the programme. As the state delivers these goods, the way in which the settlements are planned and located then leads to access to other broader opportunities and amenities such as jobs, transport and social amenities (clinics, schools, community facilities etc.).

2. Historical context

The context in 1994 was outlined in the original housing White Paper. It highlighted the following conditions prevailing in the housing sector at the time, with particular focus on the poor. It was estimated that over 28 million people (66 percent) of South Africa's population was functionally urbanised. This implied that approximately 14.5 million people (34 percent of the total population) resided in rural areas, many of whom would spend part of their working lives in the urban areas.

Many South Africans did not have adequate security of tenure over their homes or land. Approximately 58 percent of all households (4.8 million households) had secure tenure (ownership, leasehold or formal rental contracts), whereas an estimated nine percent of all households (780,000 households) lived under traditional, informal/inferior and/or officially unrecognised tenure arrangements in predominantly rural areas. The tenure situation, which is an indication of the patterns of distribution of physical assets, was further characterised by an unequal spread of home-ownership according to income, gender and race.

An additional estimated 18 percent of all households (1.5 million households or 7.4 million people) lived in squatter settlements, backyard shacks or in overcrowded conditions in existing formal housing in urban areas, with no formal tenure rights over their accommodation. This pattern of insecure tenure was undoubtedly one of the salient features of the housing crisis in South Africa in 1994.
After reviewing patterns of poverty and inadequate housing in South Africa, it was estimated that the urban housing backlog in 1994 was approximately 1.5 million units. The consequence of this backlog was physically reflected in overcrowding, squatter settlements and increasing land invasions in urban areas. Due to the high rates of population growth and low rates of housing provision, it was estimated that the housing backlog was increasing at a rate of around 178,000 units per annum. Hassen demonstrates that although delivery has been impressive in numerical terms, the increase in numbers of households each year has meant that the backlog has only been reducing very slightly each year (Hassen, 2003).

To redress the housing situation in which the poorest were housed in the least adequate housing located furthest from economic opportunities, the South African government embarked on addressing the challenge of "Housing the Nation". The national Department of Housing's main aim was to assist households most in need, who were inadequately housed, through progressive access to secure tenure. This meant that the emphasis would be on creating an enabling environment which would allow people to access housing opportunities of various kinds. As Mary Tomlinson has pointed out, the programme was originally based on government acting to create this enabling environment while the private sector drove delivery, a situation which has altered significantly over intervening years to favour more government-led delivery with a lesser role for larger corporate interests in the private sector (Tomlinson, 2005). This took place partly because the state realised that if the private sector drove development, new settlements could not easily be built in improved locations thus integrating people into urban areas. On the private sector's side, there was wide withdrawal from the sector between 1999 and 2004 because of low profit margins and slow payment practices by provincial and local government. This affected the viability of construction companies, especially smaller operations (see further discussion in section 4.2).

In the last five years, government is again interested in private sector involvement, but with a stronger lead from the state in terms of the type and location of projects to be built.

3. Policy and institutional framework

In the face of these challenges, the original government housing programme set itself the task of establishing and maintaining "habitable, stable and sustainable public and private residential environments to ensure viable households and communities in areas allowing convenient access to economic opportunities, and to health, educational and social amenities in which all citizens and permanent residents of the Republic will, on a progressive basis, have access to:

- permanent residential structures with secure tenure, ensuring internal and external privacy and providing adequate protection against the elements; and
- potable water, adequate sanitary facilities and domestic energy supply" (Department of Housing, 1997a).

Since 1994, housing policy and practice have evolved steadily through large scale delivery, the development of a coherent legislative and regulatory framework, and extensive institution and capacity building. The first few years (1994-1998) of the housing programme were characterised by policy formulation, restructuring of the numerous housing departments into a single department and addressing a range of other issues that had historically limited efficient housing delivery. This restructuring helped to establish a successful development process that facilitated rapid delivery from 1996 onwards. It was only as the successes and limitations of the first dispensation of delivery became clear that the country re-entered a policy making period in which delivery instruments were reshaped to achieve redefined outcomes.

The 1994 Housing White Paper, which continues to provide the basis for national housing policy, contained the following seven thrusts:

- Stabilising the housing environment;
- Support for a people-driven housing delivery process;
- Mobilising housing credits and savings;
- Providing housing subsidy assistance;
- Rationalising institutional capacities within a sustainable institutional framework;
- Facilitating the speedy release of land; and
- Co-ordinating development by facilitating co-ordinated and integrated action by the public and private sector.

The Housing Act, 1997 (Act 107 of 1997), and further amendments, established a rationalised institutional framework, redefined the roles and functions of the three spheres of government and repealed all racially based housing legislation as well as creating a single housing fund from which the Government could finance its housing assistance programme.

Sectoral interventions were undertaken to mobilise housing credit, such as the establishment of:

- The National Housing Finance Corporation (NHFC) (providing wholesale capital for intermediaries lending to the target group); and
- The National Urban Reconstruction and Housing Agency (NURCHA) (providing guarantees for the housing development sector to ensure access to capital).

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The Home Loan and Mortgage Disclosure Act and the Office of Disclosure, together with the Community Reinvestment Bill published in 2002 (but not approved by Cabinet and then subsumed partly by the voluntary commitments contained in the Financial Sector Services Charter), aimed to promote lending by financial institutions in the low income housing market. Under the Charter, which was in effect between 2004 and 2008, the commercial banks committed to originating R42 billion in the target market of households earning R3,500 to R7,500, measured in 2004 terms. This was largely achieved and the Charter period has now come to an end and new deals are being discussed (see section 6).

The following interventions were initiated to stabilise the housing environment:

- The Masakhane Campaign (restoring payment for services);
- The Mortgage Indemnity Fund (guarantees for lending risks for certain rehabilitated areas);
- Servcon Housing solutions (rescheduling for mortgage loans and relocation assistance);
- Thubelisha Homes (providing stock for relocation purposes); and
- The National Home Builder's Registration Council (regulating quality standards in housing construction).

The housing institutions that were established in support of housing policy and strategy, including the People's Housing Partnership Trust, the Social Housing Foundation and those referred to previously, all to a greater or lesser degree addressed the capacity gap. Many agencies have now gone through a process of re-mandating and re-aligning their activities with the next dispensation, and only the National Home Builder's Registration Council has remained active.

The National Housing Subsidy Scheme, introduced in 1994, evolved into a comprehensive programme providing a wide array of housing subsidies to a broad spectrum of eligible beneficiaries. These include project-linked subsidies, individual subsidies, institutional subsidies, consolidation subsidies, rural subsidies (catering to informal land rights) and relocation assistance.

The programme allowed for a range of tenure options on an individual or group basis in urban as well as rural areas and was enhanced to include families in rural areas who only have functional security of tenure in terms of the Interim Protection of Informal Land Rights Act, 1996. More recently, additional types have been added such as the emergency housing subsidy and the informal settlement upgrading programme discussed further in the closing sections of this paper.

The housing subsidy programme is used mainly to fund the planning, acquisition and local servicing of land and to build "top structures", or houses. It provides for secure tenure, access to provision of basic services and construction of housing units. With the introduction of the scheme in 1994, the maximum subsidy was R15 000. Initially the subsidy amount was not increased annually, but since 2002 it has been increased to try and keep pace with rising building and labour costs. By April 2003, it had increased to R25 580, by April 2005 to R31 929 (Department of Housing, 2005), and by April 2010 to R55,706 (Department of Human Settlements, 2011a).

There are a range of possible subsidies depending on income. The maximum subsidy amount is available to the aged, indigent and people with disabilities. For a time households accessing the subsidy were expected to make a contribution of R2 479 or to contribute their sweat equity through the people's housing process support programme. Households earning less than R1 500 are now exempt from the contribution.

4. Performance of the programme

Over the first decade the performance of the housing programme was largely predicated, and was indeed virtually synonymous with the effectiveness of the housing subsidy programme. Although the sectoral interventions through housing institutions mentioned above have significant impacts (even if they are difficult to measure), the greatest visible impact is the housing subsidies. Indeed much of the expertise of government was oriented towards supporting subsidy disbursement. There is a more recent shift towards emphasising the upgrading of informal settlements (discussed below in section 6), which means that as the housing programme becomes less focused, through subsidies for house building, then other types of capacity will be needed in government. What then was performance and impact like during the first ten years?

4.1. Funding inputs to the programme

Over the first decade the Housing Vote on average amounted to considerably less than the National Housing Goal of five percent per annum of total state expenditure, which meant that the achievement of the ambitious goal of a million houses completed in five years was realised a year after the five year target date. In terms of the Medium Term Expenditure Framework, an amount of R3, 8 billion was allocated to the South African Housing Fund for the 2002/2003 financial year and R4,2 billion allocated for the 2003/04 financial year. As the scale of the challenge became increasingly clear around 2005, there was added attention to spending on housing, and by 2011 the budget for 2011/12 "increased to R22.5 billion, a 38 percent increase from 2010/11 and is expected to grow to R26.6 billion in 2013/14" (Department of Human Settlements, 2011b).

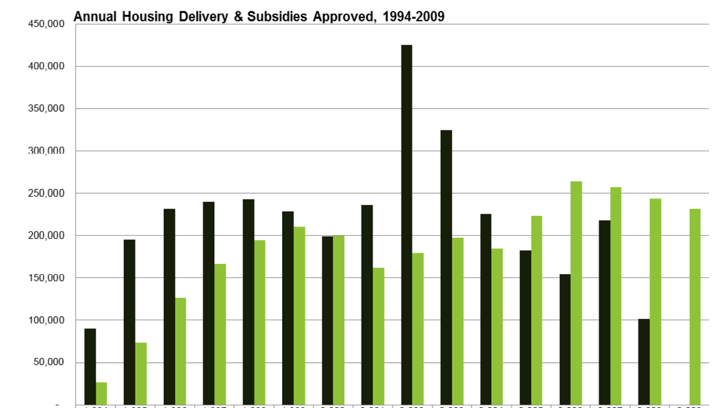
4.2. Outputs of the housing programme

The most publicised and measurable output of the housing programme relates to the construction of housing units. The annual delivery figures up until 2009 are illustrated in the following graph, which includes both the number of households allocated subsidies and the number of houses built or under construction each year.

By March 2009, the total number of houses completed and under construction was 2.9 million (FinMark, 2011) and by 2011 the Human Settlements Minister indicated that three million houses had been built since 1994 (Department of Human Settlements, 2011c). Since the original target of one million houses to be built in the five years from 1994, annual targets have varied. The current target for 2011/12 is 200,000 subsidised houses and housing opportunities (including rental units and shack upgrades) (Department of Human Settlements, 2011c). This level of housing production, which is successfully targeted at the poorer households, has been internationally recognised as significant.

When compared to 1996 Census figures, the production of 1 502 406 units by 2003 already represented an addition of 17 percent to the total national housing stock. If housing production up until March 2001 is compared to the increase in housing stock in the country according to the 2001 Census, then government-supported low income housing accounted for more than half of national housing production.

Figure 1: Annual housing delivery and subsidies approved, 1994 – 2009. Source: FinMark 2011.



	1,994	1,995	1,996	1,997	1,998	1,999	2,000	2,001	2,002	2,003	2,004	2,005	2,006	2,007	2,008	2,009
Number of subsidies approved	90,107	195,232	232,025	240,079	242,808	228,467	198,838	236,470	424,843	324,882	225,865	182,664	155,012	217,848	100,826	-
No of houses reported completed/under construction	26,502	73,321	126,147	166,218	194,705	210,821	200,058	162,226	179,465	197,604	184,613	223,145	263,865	257,798	243,260	231,543

It is clear from Figure 1 that housing delivery peaked during 2006. In general, delivery has stabilised at an average of just over 220,000 per annum. Gauteng Province and KwaZulu-Natal delivered the most units, also being the provinces to receive the largest allocations of housing funds, which allocations are calculated according to housing needs and shortages.

To get an idea of the housing types that the subsidy was funding, by 2003, of the total number of approved subsidies, approximately 76 percent were project-linked, 11 percent were consolidation subsidies (completion of houses on land already serviced), eight percent supported hostels redevelopment, three percent were institutional (rental housing), two percent were individual subsidies, and the balance were relocation subsidies (0.2 percent) and rural subsidies (0.1 percent).

There was a slight dip in delivery between 1999 and 2004.

The reasons for this included:

- the withdrawal of the so-called large construction groups from the low income market and the unwillingness of developers to undertake development in rural towns;
- low profit margins for the private sector in the subsidised sector (inter alia due to a mismatch of high standards and insufficient funds);
- stalled projects as a result of inflation erosion;
- a slow introduction of emerging contractors to the subsidy market combined with insufficient delivery capacity and technical expertise;
- the inability thus far of the People's Housing Support Programme and the Social Housing programme to deliver at scale;
- high land costs in advantageous locations;
- high building costs in areas where land is more affordable but geological and topographical conditions are not ideal;
- a general shortage of housing sector capacity and expertise, especially (but not exclusively) at municipal level, combined with an unwillingness by many municipalities to take on the full management of housing subsidies; and
- an unwillingness by the private (financial) sector to invest in the low income housing market, including the provision of bridging finance to emerging contractors.
- Once housing policy was revised and was allocated larger budget amounts, delivery picked up between 2005 and 2009 (see discussion in section 6 below).

4.3. Effectiveness in the targeting of housing

One of the foundational aspects of the South African subsidy scheme is the targeting of households most in need. The delivery of three million houses to households with low incomes means that approximately 11.4 million people have benefited (at an average of 3,8 people per household).

In terms of the allocation of subsidies to male and female headed households, by 2003 when this analysis was done, some 49 percent of subsidies were allocated to female-headed households (Housing Subsidy Scheme July 2003 data). The highest percentages of subsidies were allocated to female-headed households in the provinces of KwaZulu-Natal (55 percent), Mpumalanga (57 percent) and Limpopo (54 percent). However, the percentage of female-headed households which owned formal housing throughout the country was approximately 30 percent. The figures therefore imply that

significant strides are being made to achieve gender equity in asset ownership through the housing subsidy scheme.

4.4. Impacts

There are at least two types of impact which result from the housing programme. The one relates to direct spin-offs of the programme such as the number of jobs created, and the degree of skills transfer. The other relates to the lasting benefits that are left with beneficiaries of the programme, such as substantive improvements in quality of life which can be linked to secure tenure, structurally sound housing, and access to services such as water, sanitation, and energy supply, social amenities such as health, education, recreation, and economic opportunities. Many of the more general impacts on beneficiaries are not exclusively linked to housing supply, and improvements in quality of life, for example, are often the cumulative result of many programmes of government (which then constitute a social safety net of a kind). This section therefore focuses on a few key issues, also acknowledging the fact that impact is generally not comprehensively nor consistently measured.

4.4.1. Sectoral impacts

In 2002, it was estimated that R3 billion of government housing investment would generate or sustain about 48,000 direct job opportunities in the building industry and 45,000 indirect job opportunities in the building materials and components industry. The number of direct jobs created varies each year according to the level of subsidy expenditure (Department of Housing, 2002). This would mean very roughly that with R27.6 billion of investment over the first ten years of the programme, some 441,600 direct jobs and 414,000 indirect job opportunities had been created. Job creation was further monitored through the government's Expanded Public Works Programme, but it is not clear how the housing programme contributed in the broader category of government infrastructure projects (see Department of Public Works, 2009).

The high level of delivery through the project-linked subsidy mechanism (76 percent of all subsidies) indicates a high level of construction sector involvement. As outlined above, with the reduction in the real value of the subsidy during the first seven years there was a general withdrawal of the large construction companies from the sector which increased the need to emphasise support for smaller scale construction organisations. The next four years (2000-2004) saw significant emphasis on small contractor support, and more recently government has attracted private sector involvement through loan origination by commercial banks, which has led to some housing production in the low end of the market, for households who do not qualify for the state housing subsidy. This was structured through the Financial Sector Services Charter commitments by banks to finance low income housing. The targets under this voluntary agreement between banks and the state have been achieved, although new targets are now being set for the future.

Low income housing delivery includes a significant component of emerging contractor participation. Almost 80 percent of projects sampled in an investigation drew on emerging contractors in sub-contracting roles and 20 percent used established builders (Department of Housing, 2002).

4.4.2. Socio-economic impacts

Post-occupancy surveys of housing remain fairly rare. However, some comment is possible from the disparate studies which have been done by a range of research organisations. A direct, and possibly inevitable, social impact of housing policy is that the qualification criteria for subsidies tend to influence the structure of households. For example, a subsidy applicant may partner with another individual or with dependents in order to qualify for the subsidy. This impact would not always be permanent, but can lead to the reduction in household sizes as people position themselves to increase their chances of qualifying. This in turn increases the demand for housing assistance from government. The national reduction in household size, which became evident in the 2001 Census, makes this generally true not just of households qualifying or positioning for the housing subsidy, but also for the beneficiaries of state assistance in general.

A wide-ranging study of housing implementation states: “Experience from low income settlements shows that the process of social segregation is hard to reverse: once an area is classified as low in status, more affluent people move out” (Hifab International Ab., 1998). These factors resulted in relatively homogenous profiles of communities in terms of income and other factors such as household composition because of the subsidy criteria. This in turn influences the housing market in an area and often undermines the ability of households to trade their houses at a reasonable market or real value (Shisaka Development Management Services, 2004).

With the variety of subsidy instruments available, it is possible to achieve a greater mix of profiles but often the shorter term advantages of scale delivery of single subsidy types outweigh the desire to achieve more viable communities in the longer term. Measures to improve how state subsidies are coupled with private finance are addressing this issue. The broadening of subsidy schemes to include subsidies, loans and savings is crucial (Hassen, 2003). In the last ten years a number of projects which include a range of housing types and income groups have been developed, including Cosmo City in Gauteng (see below, section 6).

Another early impact of the housing policy was that the bundling together of tenure, infrastructure and top structure into a single household subsidy set up the tensions between collective and individual assets in early projects (Huchzermeyer, 1999). This was partially resolved by the introduction of minimum norms and standards in 1999 which limited the minimum amount of funding which could be spent on the house, or ‘top structure’, so that participative processes were not lengthened by negotiations of the division of the subsidy amount between the individual house and the shared services. Recent moves to focus all of the subsidy amount on the house and prevail upon the budgets and programmes of other departments to deliver services have been

evident in ministerial pronouncements, and have been implemented in some provinces and cities.

Some reviewers have pointed out that the subsidy was insufficient to provide a freestanding house of proper size and quality in the first place. As such, the subsidy was only intended to start the housing process, but the social impact of the delivery of small houses is gradually being recognised in places where people struggle to extend the house (see discussion of consolidation below). Again, with the introduction of minimum norms and standards in 1999, the issue of the minimum size of houses was addressed and a minimum size of 30m2 was introduced to align with the National Building Regulations. In people-driven processes, larger house sizes are often achieved (Napier, 2003). The minimum house size was increased to 40m2 in 2004 in some provinces.

4.4.3. Beneficiary views

A number of studies capture beneficiary views of government housing, and this evidence acts as an important source of information for the performance and impact of the housing programme.

In an early study of beneficiary views of the housing process, it was shown that residents’ perceptions on whether they had been consulted during the delivery process were critical in determining whether households were satisfied (Tomlinson, 1996). Where service levels were high but houses relatively small, expressions of dissatisfaction about the house were common. Where houses were larger but services rudimentary, the situation was reversed. The most commonly expressed reason for beneficiary satisfaction in government sponsored projects was that a new house, with freehold tenure, granted independence and freedom. This was particularly the case for households moving from freestanding and backyard shacks.

A significant factor that determined levels of satisfaction with services installed was the dependability of those services. Frequent electricity interruptions, or water cuts, led to expressions of dissatisfaction (Stevens et al, 1998).

In certain instances, the housing subsidy accentuated economic disadvantage by locating people too far from transport routes and other urban opportunities on which they had previously constructed their livelihood strategies (Friedrich Ebert Stiftung and National Housing Forum Trust (1999). It was concluded that housing provision could potentially mitigate some of the effects of poverty but if this were to be properly realised then there needed to be attention to careful beneficiary targeting to improve affordability, better location relative to economic opportunities, coordinated delivery of social infrastructure with housing, and further empowerment of emerging contractors. People were well informed about the subsidy mechanism but the size of demand for housing meant that beneficiaries were rarely presented with a realistic choice of settlement, location and house type. However, most beneficiaries felt that they were in a better position than previously, and identified strongly with the new residential areas in which they now lived. It was reported that there was "an overwhelming sense that home ownership has empowered and dignified many people" (Zack and Charlton, 2003).

4.4.4. Consolidation and the secondary housing market

The housing policy is based on a subsidy which was intended to enable households to embark on the process of achieving adequate housing. An important indicator of the positive impact of the policy is the degree to which households are adding to housing or, alternatively, realising a realistic value for their housing in the secondary market.

Limited numbers of studies have shown that significant consolidation takes place in government subsidised housing areas within the first years after occupation (Durban Metro Housing, 1998). Other studies which reviewed consolidation levels after longer periods showed that the quality of housing extensions varied significantly from project to project depending on a variety of local factors, but that small builders played a significant role in all extension activity (McCarthy et al, 1995; Smit and Mbona, 1996; Napier, 1998).

The impact of house size on levels of crowding is the indicator that needs to be carefully monitored if the impacts of the government housing programme are to be properly understood. More widespread data is required, but a study of consolidation processes in two core housing projects showed that extensions significantly reduced overcrowding (Napier 1998), which was consistent with findings in other countries (Tipple, 2000). The production of extensions by residents represents the production of additional housing stock, and the level of support or enablement by local authorities for consolidation processes is significant in influencing the quality of this stock. Levels of investment by households in their housing often outstrip the initial investment by government within a few years of occupation.

4.4.5. House prices and affordability

An alternative to extending a house to meet the needs of a resident household is for households to move house. In many places there is a very limited secondary housing market, at least of formally transferred properties, and households are generally unable to realise a reasonable price on their properties (Friedrich Ebert Stiftung and National Housing Forum Trust, 1999; Shisaka, 2004). On average, subsidy houses are sold for close to R49,000 (FinMark Trust, 2011) while it costs more than R100,000 per unit to build the houses and provide local services (water, sanitation, electricity, and roads).
While an important goal is to improve the value of the housing asset so that housing can be exchanged for market-related values, government holds the view that it is their responsibility to extend some form of protection for beneficiaries against downward raiding where higher income buyers purchase property at lower than production cost, thus undermining the goal of the programme to target people living in conditions of poverty. However, it is important that trading of houses to improve mobility takes place and there is a need to remove many of the barriers to formal trading (see FinMark Trust

recommendations in Shisaka, 2004).

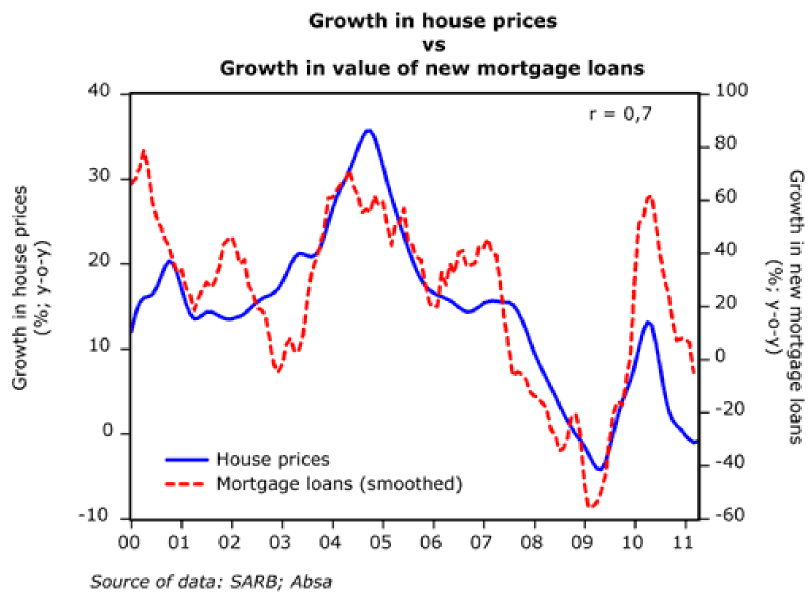
In a current investigation of sales of subsidy houses, only 0.2 percent of new houses are traded per annum. The older township stock built prior to 1994 is turning over at 0.8 percent per annum (FinMark Trust, 2011). There is more movement of people in and out of houses than these figures imply. Transfers of new subsidy houses, based on 2007 research, were estimated at 2.2 percent per annum, which included a majority of households trading houses without the formal transfer of title deeds (Urban LandMark, 2007).

In the market as a whole, there is a clear gap between what is provided in the state housing programme, and accommodation which is available for sale on the open market. This makes it difficult for people to make the jump from state-produced housing to other types of housing.

The residential market as a whole reflects the domestic and international economic trends. Overall, while houses may be trading for less in the current recessionary conditions, and therefore may seem more affordable, the volumes of trade are also down meaning that people are not able to easily purchase the more affordable houses, also because of the same recessionary conditions.

But there are few houses on the market which cater to the affordability levels of working class people, who do not qualify for the housing subsidy or who want to move away from subsidised housing (see Rust, 2006 and 2009). Figure 2 illustrates recent trends in the residential market as a whole.

Figure 2: House prices versus value of new mortgage loans (Rode and Associates, 2011)



5. Settlement outcomes

The performance of the components of the programme have been discussed, with an emphasis on the housing subsidy, but what has emerged in terms of settlements during the first decade of delivery? Can the gains achieved by the programme be assessed as successful against the original descriptors of ‘human’, ‘integrated’, and ‘compact’ settlements, and are these settlements supportive of ‘viable’, and ‘socially and economically integrated’ households and communities? And what of the economic outcomes? As Hassen says, the original aim of the housing programme was also to stimulate the economy and to “reconstruct localities” (Hassen, 2003).

The location of low cost housing has continued to be on the periphery of urban (and rural) economies (whether spatially, economically, or socially) and an impact of this has been that new settlement development has continued to exacerbate urban inefficiencies, both for individuals and for organisations responsible for urban management (examples being the extended transport and service infrastructure systems necessary to serve such settlements).

The rapid delivery of housing was not matched in pace by the coordinated supply of social infrastructure such as schools, clinics, sports and recreation facilities, etc. Added to this, the continued growth of informal settlements, also largely without concomitant social infrastructure development, leaves many communities in settlements in which it is very difficult to sustain their own livelihoods, and therefore where poverty is common (Human Sciences Research Council, 2005). Where social infrastructure is developed, the operational costs associated with managing and providing the services was not easy to secure.

The ability of local government to facilitate the establishment of sustainable housing environments has been threatened by a lack of capacity to:

- effectively package and align departmental funding streams;
- employ innovative planning principles;
- acquire affordable inner-city land; and
- sustain a dedicated group of housing officials.

Despite the scale of delivery, the changing nature of demand has meant that the size of demand has increased in the face of the obdurate growth of informal settlements. The overall backlog has hardly been reduced. Even with the achievement of the original full delivery targets the backlog is likely to have remained static. A recent speech by the current Minister for Human Settlements pegged the national backlog at more than 2.1 million housing units (approximately 12.5 million people) (Department of Human Settlements, 2011c).

The informal settlement figures (between 1.1 and 1.4 million households currently living in informal settlements) demonstrate that the large number of housing units that have been delivered have had the effect of limiting the growth of such settlements. The growth of informal settlements beyond declared urban edges also effectively exclude people from urban planning. In addition, informal settlements are often addressed through the predominant approach of relocating communities to new housing areas and in the process coping strategies that have been evolved by the very poor are often disrupted by these formal interventions. This policy has recently changed to address the needs of people living in informal settlements more directly, and the effects of the change will emerge over the next decade (see discussion below, section 6).

The demand for housing has changed and the housing market has also changed but the benefits of a buoyant higher-end property market between 1994 and 2004 were not felt by the poor. The sale of second-hand houses was highly profitable for the rich, but often constituted a loss for the poor, particularly those with subsidised housing. Refocusing the housing programme too far upmarket from the current target group to the detriment of the traditional target group, while it may make narrow investment sense (more self-funded housing stock and the inclusion of ‘bankable’ people), will probably exacerbate this situation rather than more equitably distributing benefits. If wealth creation is to be stimulated, then the housing asset needs to have functional value (a usable physical asset to create social and human capital) and exchange value (an ability to create financial capital), and this depends on investment in inner-city, township and informal settlements so that the property market works for everyone. Significant public investment and substantial private sector collaboration are called for.

6. The new housing vision with sharper instruments

A revised housing plan (referred to as “the Comprehensive Plan” or “Breaking New Ground”) was taken to Cabinet towards the end of 2004 (Department of Housing, 2004). It sought to redevelop housing policy and instruments to more effectively deliver sustainable settlements and respond to the housing context as it had changed over the last decade.

The Comprehensive Plan restated the vision of the Department of Housing as being “to promote the achievement of a non-racial, integrated society through the development of sustainable human settlements and quality housing”. Very importantly, the mandate of the Department was expanded to include the entire residential sector or “residential housing market”, meaning that its emphasis on mechanisms which address the needs of low income (or no income) households would shift to include an added area of activity around interventions at the higher end of the market.

This was captured in its statement of the two key objectives of the plan:

- “Utilising housing as an instrument for the development of sustainable human settlements, in support of spatial restructuring”; and
- “Supporting the functioning of the entire single residential property market to

reduce duality within the sector by breaking the barriers between the first economy residential property boom and the second economy slump".

The subsequent slump at the top end of the market took place a few years after these statements were made.

The other key objectives were listed as:

- Accelerating the delivery of housing as a key strategy for poverty alleviation;
- Utilising provision of housing as a major job creation strategy;
- Ensuring property can be accessed by all as an asset for wealth creation and empowerment;
- Leveraging growth in the economy;
- Combating crime, promoting social cohesion and improving quality of life for the poor

This is summarised in the figure 3, and grouped according to whether the objective was motivated primarily by social, economic or spatial/ environmental influences.

There was some debate about whether the new plan constituted a significant departure from previous policy direction (Tomlinson, 2005; Dewar, 2005), and more to the point, whether the instruments mooted in the plan would be capable of delivering significantly more sustainable settlements than had been the case.

Figure 3: Summary of key objectives of the Comprehensive Plan

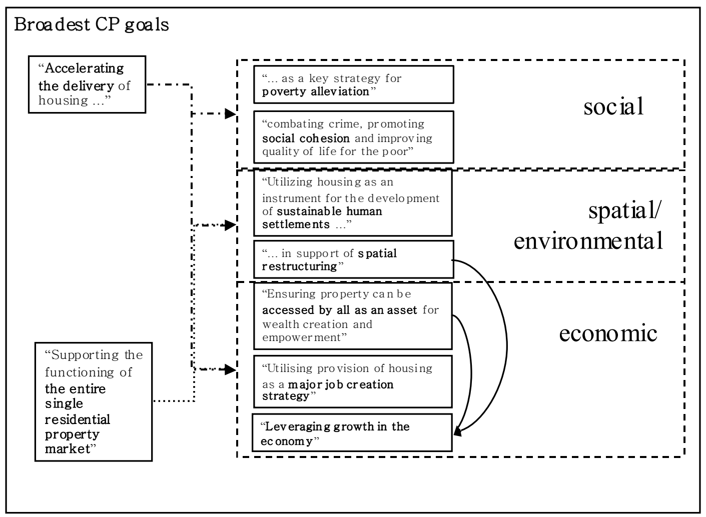


Figure 3: Summary of key objectives of the Comprehensive Plan

The aspects of the Comprehensive Plan which represent significant shifts in the programme included:

- moving beyond the provision of basic shelter and emphasising the ultimate joint achievement of sustainable settlements within functional urban and rural economies;
- shifting the focus of the housing programme to address the needs of whole communities and supporting coordinated area-wide approaches which have the impact of restructuring cities, towns and regions to be more efficient, equitable and integrated;
- giving greater emphasis to instruments which are responsive to demand for housing and location;
- introducing a phased development approach to housing projects which allows the extension of the basic elements of secure tenure, services and primary social facilities, in the shortest time spans feasible, to provide the basis on which long term consolidation (of housing and livelihoods) can occur;
- devolving a greater amount of responsibility for directing housing investment to municipalities; and
- renewing the focus on partnerships, harnessing the resources of the community by placing them at the centre of the development process, enhancing the participation of non-government organisations in support of communities, and recapturing the contribution of the private sector (e.g. the construction and financial sectors in particular), all in partnership with the public sector and its parastatals in order to achieve fast track delivery and to deliver at scale.

Tomlinson believed the Comprehensive Plan was a significant departure given that there was an emphasis not only on scale delivery but also on the quality of the housing and settlements (the shift from 'breadth' to 'depth') and that housing demand should drive the direction of delivery with government being prepared to share risk with the private sector (Tomlinson, 2005).

The state's ambition to see more delivery (indicated in the government's call for 'rapid housing delivery' in 2005) and better quality housing, led to greater budget allocations for the housing programme at a national level from 2005 onwards. This has been sustained and escalated since, as indicated in the recent budget allocations quoted above (section 4.1).

The new agenda is quite clear in the way that targets have been set over the last two years. Instead of just setting targets for the building of houses, there are now commitments to release land, to upgrade informal settlements, to partner more with the private sector (e.g. banks, developers, construction companies), and to create a more extensive rental sector.

To illustrate this shift, here is an excerpt from the 2010 housing budget speech

"In the field of housing opportunities, the target is 220,000 units per year between now and 2014. Additionally, we are acquiring 6,250 hectares of well-located state land for human settlements development and an enabling environment is being created for the provision of 600,000 new loans in the affordable housing sector. In addition, 500,000 informal settlement dwellings are being upgraded. We must emphasise that such upgrading does not detract from government's long-term objective of eradicating slums. The combined effect is that by 2014 we will have made significant inroads in our mission of ensuring sustainable human settlements and an improved quality of household life" (Department of Human Settlements, 2010).

These types of targets were then formalised in delivery agreements between the South African President and the various department Ministers. The respective department Ministers then assigned responsibilities for delivery to various provincial departments and state-run agencies.

One of the key interventions was to establish a new Housing Development Agency, responsible for acquiring and releasing better located land for housing at scale, and to provide project management services for the development of these settlements (see http://www.thehda.co.za/). This Agency is now in place and has started to assemble the land and the capacity to address the targets outlined in the government budget speeches. The first priority is to assemble available land from state departments and state owned enterprises. The acquisition of private land for housing is currently based on purchasing the land at market prices. A National Upgrading Support Programme has also been developed to champion and coordinate the upgrading of informal settlements (see http://www.upgradingsupport.org/index.html) within the context of a revised code for settlement upgrading.

There has also been an on-going process of mandating some of the local municipalities to manage the housing subsidy directly rather than this being done at provincial level, as has been the case until recently. This is referred to as accreditation and some municipalities have not been accredited to manage the housing subsidy. Achieving spatial outcomes (e.g. the social integration of people and income groups) is more feasible if housing projects are planned and driven by local authorities.

Another policy mechanism that has been discussed but not yet fully implemented is inclusionary housing. This draft policy contemplates the possibility that private sector developers, when building higher-end market residential developments, would be incentivised or obliged to also produce a proportion of those houses (e.g. 20 to 30 percent of the total units being built) for lower income residents. Development permission, rezoning or sub-division approval by the municipality would be granted if a developer achieved specified inclusionary requirements. The municipality could then also award more favourable development rights (e.g. by granting density bonuses), enter into land delivery agreements, or invest in bulk and connector infrastructure as an incentive. The aim is to socially integrate residential areas by achieving a mix of incomes within traditional middle and higher income areas.

Housing in Namibia

Some municipalities in partnership with private sector organisations have also championed mixed income, mixed density housing projects. These include a proportion of government subsidised houses, some of which are partly subsidised and partly bank-financed, and others which are fully bank financed. An example of this is Cosmo City in Gauteng which is an integrated social housing project, the first of its kind in South Africa, which makes provision for subsidised, bonded and rental housing (see Urban LandMark, 2010).

To realise the commitment to extend more mortgage loans further down-market, the government in 2005 introduced a Finance Linked Individual Subsidy Programme, which funds a portion of the deposit required on a mortgage loan for prospective home owners earning between R3,500 and R7,000. There has been slow uptake of this incentive due to limited funds allocated to this subsidy mechanism, a slow housing market, and the administrative complexity of accessing the fund. With the Financial Sector Service Charter agreement coming to an end, the government has recently announced a Mortgage Default Insurance backed by a R1 billion government guarantee. According to the Department, "This insurance has a strong potential to contribute towards the attainment of the 600,000 loans of our strategy" (Department of Human Settlements, 2011b). The aim of the mortgage insurance is to facilitate access to affordable housing finance, by offering protection against default risk to the lenders. It is hoped that this will stimulate confidence in the finance market and improve the responsiveness of the private sector to increasing housing demand. The target for this programme are individuals whose salaries are too high to get a government subsidy but who earn too little to qualify for a bank mortgage loan under current conditions. This intervention is in early stages of design, and will require that government and financiers take to heart the earlier experiences from the implementation of the Mortgage Indemnity Fund, which was designed to address perceived political risk relating to defaults on bank loans and the repossession of houses. The programme was wrapped up in 1998. A new insurance will have to balance realistic incentives (or guarantees) to the private sector with what the South African government is seeking to achieve.

These recent institutional and programmatic innovations under the Breaking New Ground policy are being implemented, and it is still too early to measure their impacts on access to housing for the poor. Even so, they will substantially shift the way that people without adequate shelter access government benefits.

7. Commentary

The swing away from the dominant emphasis on the production of houses towards directly addressing the challenge of growing informal settlements has been an important development in the last three to five years in South African housing policy circles.

Because the housing policy has been driven by the provision of housing subsidies to households who qualified according to income and other criteria, it started as a well-targeted programme, as the evidence in this paper demonstrates, and has become an important form of political patronage at the local and national level. At a general level, the housing subsidy (and the houses it produces) is a key component of the social wage. The social wage, targeted at poor or indigent people or households, also includes state pensions, various welfare grants (e.g. disability and child grants), health care, education, free water and electricity, subsidised public transport and the like.

The provision of housing, which is still not commonly backed by bank financing, is part of this social wage, and provides an important safety net for people whose incomes are low and often very insecure. People are therefore generally not in danger of losing their houses if they should default on mortgages. But the way the programme has been implemented also means that it is difficult for people to sell their houses at a reasonable price if they need to move, or for buyers to finance the purchase, and so informal sales prevail.

Politically therefore the government is able to visibly demonstrate its commitment to address the needs of the poorest through delivering houses. But as a programme of this kind becomes more entrenched, the number of people subverting the system and unlawfully accessing the government funded product becomes more of a problem. The Department of Human Settlements has acted strongly to penalise government officials who access subsidy housing but who do not qualify (see Buanews, 2010).

At community level, the involvement of elected councillors in the allocation of houses to beneficiaries can also be a source of tension and may become a form of patronage, where certain community members are allocated houses and others are excluded (see Pithouse, 2009).

Ironically, the effective delivery of houses and services through the state programme also leads to greater demands and expectations on the part of South African communities. Because the need is so great, not all neighbourhoods get what is perceived to be equal delivery, and social protests have often arisen around an expressed demand for housing (Pithouse, 2009; Mangcu, 2009).

The new dimension in the housing programme is that government is now clearly devoted to significant amounts of settlement upgrading. This implies that people currently still living in informal settlements are not just on a waiting list for formal houses that may be built on new vacant land elsewhere. It implies that many settlements which can

be upgraded will receive urban services on those same sites. This is also politically significant because it means that the upgrading process is a longer term commitment (it is quicker to demolish shacks and build new houses on empty land) and that shack settlements are only going to change into formal housing areas over a longer time span. But upgrading settlements (rather than relocating communities) means that the households who live there can keep the social and economic networks they have already established without disruption. A case by case approach is being used where the needs of each community and settlement are assessed before final decisions are made about appropriate state intervention/investment. The development of the rental sector also remains a significant challenge, which has not been fully addressed in this paper.

8. Conclusion

The main challenge in the upcoming period (as existing housing delivery instruments are amended and new instruments and agencies designed and rolled out) is whether this will alter the form and location of the settlements (and influence urban form), improve access to land and housing (and finance) for poorer people, and ultimately through this influence, the fortunes of the residents whom the programme targets.

Within this aim, whether government-initiated supply of housing can truly be responsive to housing need and demand remains to be seen. This will also hinge on whether the national and provincial departments are able to think beyond the subsidy approaches which have come to dominate the state project. The developmental state approach being embraced in the second decade dispensation suggests a more present and active state machine devoted to fulfilling a housing and poverty alleviation mandate.

But the question remains whether the style of government intervention will be such that the reinvented housing programme will open up real choice to allow people to locate themselves in ways which suit their livelihood strategies (i.e. whether the demand-led approach will really succeed).

Success will also depend on which way government leans in terms of the deepest fissure which runs right through the identity of the housing programme. To state it dualistically, this revolves around whether the South African housing programme from here on out is primarily to continue to be oriented around the transfer of a social welfare good to the poor, vulnerable and spatially marginalised, or whether it is also about urban regeneration and renewal, functional markets and economic development. If it leans towards the latter and the state gathers to itself the knowledge and expertise to deliver a productive social and economic good in ways which improve access for the poor to markets, then the current decade of housing delivery will look very different to the first.

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Housing in Namibia

Government Policies and Programmes to Enhance Access to Housing: Response to Two Papers

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Abstract

This paper has been prepared as a response to two papers prepared for the Bank of Namibia's Symposium on Housing in Namibia, taking place on 29 September 2011. The Symposium seeks to answer the question: has the situation changed 21 years after independence? To provide some input towards the question, the Bank of Namibia commissioned two papers. The first, by Professor Aloysius Clemence Mosha, considers the experiences of the USA, Japan and China relating to access to housing finance and financial sector stability. The second, by Dr Mark Napier, considers experiences from South Africa's housing programme. This paper considers these two inputs by first setting out a set of key concepts against which to consider the role of the state in housing markets, and then using these concepts to recommend a particular approach. In this regard, the paper explores the nature of the housing asset, and the nature of the housing market, drawing on concepts of filtering, pools and flows, and the housing value chain. The concluding section explores how Namibia might approach the very real challenge of housing affordability, especially in the current economic context of the country and bearing in mind the lessons set out by Mosha and Napier.

1. Introduction

Towards a Symposium being hosted by the Bank of Namibia, two papers were commissioned. Professor Aloysius Clemence Mosha was commissioned to prepare a paper on international experiences relating to government policies to enhance access to housing and financial sector stability. Mosha (2011) reviews the housing policies of the United States, Japan and China to explore the role that the state might play in supporting access to housing finance, and the potential risks of housing market volatility as experienced in those countries. He concludes that "badly designed government housing policies can have substantial negative effects on the economy, for instance by increasing the level and volatility of real house prices leading to bubbles" and undermining housing and labour mobility. Mosha also notes the significance of well-designed policies that can support macroeconomic stability and economic growth. Dr Mark Napier's (2011) paper is necessarily much more specific, as he was commissioned to focus explicitly on the impact of South Africa's subsidised housing programme, which has been underway since 1994 and has led to the delivery of upwards of three million housing units across the country. While South Africa's delivery statistics are impressive, Napier questions the sustainability of the settlements created. The paper documents the impacts of the programme and notes the current shift towards informal settlement upgrading as a positive development responding appropriately to the reality of South Africa's urban spaces.

In both papers, a key question relates to the role of the state in facilitating access to affordable housing – or, the extent to which the state must make up for the affordability constraints of its population that limit the access of households to adequate housing supplied through normal market processes. This is a particularly pertinent question on the African continent, where affordability constraints are such that only three percent are estimated to have incomes viable to support a mortgage (Walley, 2011), and housing backlogs are among the most pressing concerns facing national and local governments. Napier concludes with an important insight that broadly reflects the issues raised in both papers and perhaps should form a central consideration in the Namibian context. He writes: "Success will also depend on which way government leans in terms of the deepest fissure which runs right through the identity of the housing programme. To state it dualistically, this revolves around whether the South African housing programme from here on out is primarily to continue to be oriented around the transfer of a social welfare good to the poor, vulnerable and spatially marginalised, or whether it is also about urban regeneration and renewal, functional markets and economic development." This is, in fact, the challenge faced by virtually every government on the African continent – whether to participate in the housing economy as a supplier, as the South African government has done for the past 17 years, or to participate as a facilitator of market-based economic processes that are inclusive and extend down-market. The sustainability challenges being faced by the South African government offer a clue to the answer. The extent of affordability challenges in African economies, whether in relatively rich countries like South Africa and Namibia, or in poorer countries like Malawi or even Ghana, mean that government cannot afford to act on its own if it hopes to address the extent of the need. Housing policy must draw in all players, whether in the public, private or non-governmental sectors, in such a way that catalyses these collective efforts towards the national goal of realising adequate and affordable housing for all.

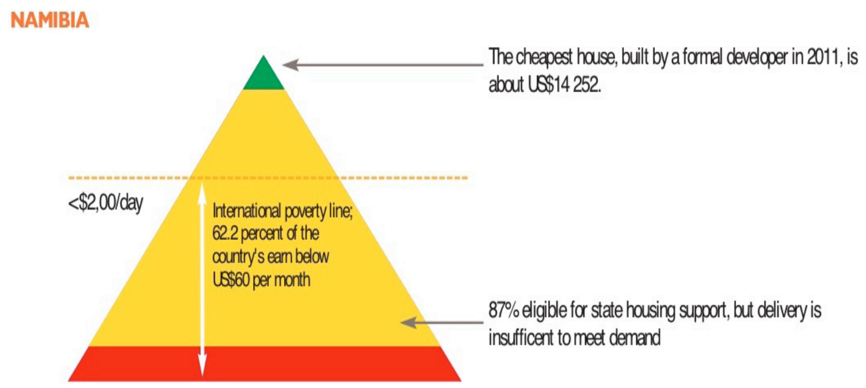
2. Background: the Namibian Context

Namibia is a middle-income country with a GDP per capita of $4,267. The national economy is robust, with an estimated 4.2 percent GDP growth rate in 2010. The main growth driver is the mining industry, especially with respect to diamonds and uranium. In 2011, the economy is expected to grow by 4.8 percent. Inflation has been under control in recent years, hovering around five percent per annum – it is expected to hit 6.1 percent in 2011 and 5.5 percent in 2012 (African Economic Outlook, 2011). The discovery of oil off the coast of Namibia in July 2011 promises to change the country's fortunes dramatically.

Namibia's housing finance system is also strong. With strong links to South African financial institutions, the banking system is mature and efficient. At 20 percent, Namibia has the second highest mortgage to GDP ratio in Africa, following South Africa's ratio of 30.6 percent (World Bank data). The infrastructure to facilitate mortgage lending is fairly well developed. In terms of the World Bank's depth of credit information index, Namibia scores 5 out of a possible 6, as the country has three private credit bureaus that include data on approximately 58.5 percent of the adult population. The judicial system scores 8 out of a possible 11 on the World Bank's strength of legal rights index (World Bank, 2011). Access to non-mortgage housing finance is also developing, and various programmes are in place to support the growth of a microfinance sector that addresses the needs of lower income earners.

While the housing markets in the higher income bands have done well, Namibia has an affordable housing shortage. State housing is driven by the National Housing Enterprise (NHE), which targets low-income, formal housing. It acts as developer, provides loans for the purchase of its own developments, and lets out units that have not been sold. Financing is provided to households based on their ability to make repayments. The scale delivery of such housing has been a challenge, however. For example, from 2000 to 2006, the NHE supplied only 3,245 houses (CAHF, 2011). Housing affordability is also negatively impacted upon by the scarcity of land suitable for housing developments. According to the FNB House Price Index, there has been a higher price per square metre for entry-level houses when compared to the price per square metre for medium and high income market houses. Also, as a result of the non-availability of developed land for housing, the monthly delivery of housing in towns in particular has reduced. For example, in Windhoek in 2006, about 50-60 new houses were delivered per month. By 2011, the number has declined to about 8-10 housing units per month. Current demand, however, is estimated at about 250 housing units per month (Heita, 2011).

Housing affordability in Namibia is seriously constrained. According to the FNB House Price Index (October 2010), a small housing unit is priced between N$231,667 in central areas and N$275,000 in coastal areas (US$32,300 – US$38,300). Over a term of 20 years, this would cost between N$2,500 and N$2,950 (US$350 – US$410) a month. As 87 percent of the population earn less than US$200 a month, a small house in Namibia is not available to the vast majority of the population. The Centre for Affordable Housing Finance in Africa suggests that even the cheapest house, built by a formal developer for about US$14,252, is not affordable to the majority of Namibians, as illustrated below.



Source: 2011 Yearbook – Housing Finance in Africa. A review of some of Africa's housing finance markets. Published by the Centre for Affordable Housing Finance in Africa, a division of the FinMark Trust, September 2011.

Affordable housing presents the opportunities of an untapped market together with the many challenges that have restricted its growth up until now. The opportunities are not only with respect to people for whom there are no mortgage products, but also a section of the population which may qualify for mortgage loans, but who are unable to access suitably priced housing. The successes of the Shack Dwellers Federation of Namibia, through its group savings and lending methods, incremental approaches to housing, and the use of land laws such as the Flexible Land Tenure System, all suggest a high potential for the growth of housing microfinance. Some worry that commercial banks are over-exposed to mortgages relative to other credit (Kalili et al 2008). Challenges relating to the provision of infrastructure at the municipal level have also been cited. Of course, the opportunities arising from the discovery of oil can only be imagined at this stage. The Department of Mines and Energy has identified 44 billion barrels of potential off the coast. This would have a dramatic effect on the national economy, and would increase considerably the country's capacity for addressing the challenges in its housing and housing finance sectors.

Overview

This paper is structured in three sections: this introduction, a section setting out a theoretical framework, and lastly, concluding thoughts on making housing markets work in Namibia. In presenting these ideas, reference is regularly made to the two source papers by Mosha (2011) and Napier (2011), as well as other research.

3. Theoretical framework

At the centre of any housing system are two broad concepts. First, the notion of housing as an asset – something that has value, may be traded, and which influences behaviour, is central to any housing policy supporting access to home-ownership. In adopting a particular housing policy position, a government is expressing its expectations of how this housing asset will perform – the role it will play in the broader socio-economic environment that defines the country. Second, because the house has an asset value, it is part of a market, the demand and supply of goods and services that together constitute the environment in which housing is delivered, whether affordably or not, to families in the country. In this market, houses are traded and through this process of filtering, households can improve their asset wealth. The houses themselves are part of an extensive value chain, from the delivery of serviced land on which the housing unit stands, through to the provision of finance for the construction and purchase of the house. Housing delivery depends on the broader macro-economy, as well as the activities of local authorities, the availability of building materials, and the existence of skilled contractors, developers and other housing sector professionals. These components together comprise the housing value chain. This section explores these two concepts with specific reference to the ideas raised by Mosha and Napier.

3.1. Understanding the housing asset

Both Mosha (2011) and Napier (2011) refer to the predominance of homeownership policies in the countries they reviewed. In the US, Mosha explains, "the ultimate lifetime aspiration of most Americans is to own a home rather than renting one". Napier shows how South Africa's housing programme promoted the delivery of housing units to qualifying beneficiaries, in part as an approach towards land restitution, given that country's apartheid past. The policy revision of 2004 (Breaking New Ground) explicitly set out the following as an objective: "Ensuring property can be accessed by all as an asset for wealth creation and empowerment."

The notion of a housing asset can be considered as comprising three points of a triangle (Rust, 2008).

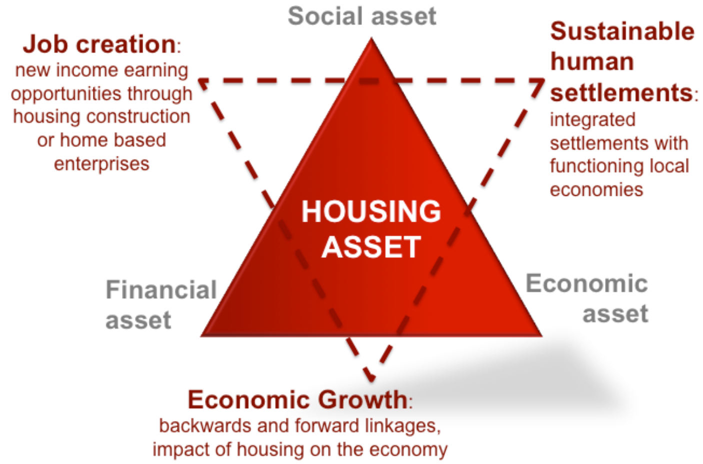
Housing is a social asset, in that it provides a social safety net for family members, and contributes towards citizenship building by offering the resident household an address and linking them with the local governance system. Around housing units, neighbourhoods consolidate, providing access to all sorts of other social benefits including networks, community support, and so on.

Hernando de Soto (2000) has popularised the notion of housing as a financial asset, as something which can be traded or against which mortgage finance can be accessed. When traded, the value of the transaction contributes towards a household's actual wealth and can then be re-invested in better quality or more appropriate housing for the family's individual circumstances. De Soto emphasised the potential of using housing as security against a loan for business purposes, and suggested that this was an important strategy for low-income households to improve their overall wealth.
The value of the financial asset is not realisable, however, until it is either sold, or leveraged to access finance. When the market is thin, or when households are nervous to take on mortgage finance and risk losing their homes, the financial asset is little more than a virtual concept. The house may be worth money, but the household will never feel that value unless they sell their home or take out a loan against the value of the home.

How, then, can low-income households maximise the value of their housing asset? How does housing address poverty alleviation if the financial asset is not realisable? It is in this context that the third corner of the triangle is so important. Housing can be an economically productive asset when it is used to generate income. The home is commonly used as a base from which economic activity is undertaken. Research conducted by FinMark Trust in 2006 found that small scale landlords in South Africa are offering well located, affordable rental housing to over 1,8 million low income people with an average income of R1,800 (US$250) per month, and collectively earning an estimated R420 million (US$58,3 million) per month or just over R5 billion (US$694 million) annually. Home-based entrepreneurs were estimated to be generating about

R476 million (US$66 million) per month, operating in residential areas, enhancing access to services and products to resident low income households.

These three corners of the housing asset triangle relate to how the house performs as a household or private asset. The impact of the housing asset is also felt wider, as it performs within the context of the national economy and contributes towards the sustainability of human settlements. In this way, housing is also a public asset, again, with three elements.



The role of housing in economic growth is significant. Housing sits at the center of a chain of backward and forward linkages with other parts of the economy – backwards to raw materials (wood, cement, iron), land, infrastructure, and financial services; forwards to so-called 'white goods' (fridges, TVs, ovens), furniture, construction materials for home improvement, and so on. In a recent book on housing finance, Chiquier and Lea (2009) report that "residential investment is a major component of GDP, typically amounting to 4-8 percent of GDP and 20-30 percent of total investment." In South Africa, the construction sector comprises 3.5 percent of GDP, while the finance, real estate and business services sectors make up 20.6 percent of GDP. The construction, sale and ongoing maintenance of residential housing are critical components of national economic performance.

Job creation is a fundamental output of a healthy housing sector, at all skill levels. Housing construction is a labour-intensive exercise and an increase in housing delivery can lead to substantial job creation, both skilled and unskilled. Napier (2011) reports that "in 2002, it was estimated that R3 billion of government investment in South Africa would generate or sustain about 48,000 direct job opportunities in the building industry and 45,000 indirect job opportunities in the building materials and components industry". Mosha (2011) also raises this as one of his key lessons. Beyond the direct construction of housing and infrastructure, the potential for SMME development in the home improvements industry is also significant. This in turn contributes back to economic growth as working individuals become consumers with their additional income, creating greater demand for goods and services, and so on.

Finally, it has long been understood that housing plays a critical role in the production and maintenance of sustainable human settlements. When housing is well integrated with the services and functioning of municipalities it serves both to integrate individuals into the community (social inclusion) and as a point of engagement with governance structures (citizenship). Residents in sustainable neighbourhoods pay rates and taxes and contribute to their municipality's capacity to deliver more services. This is an issue that Napier does not address in his review of the South African case. By virtue of the deemed value of their housing, subsidy beneficiaries in South Africa do not pay rates and taxes to the municipality. This has created substantial and growing long-term pressure on municipality finances as they struggle to service a population that is not giving them any revenue. The delivery of subsidised housing settlements is ultimately a drain on municipal resources, undermining municipal capacity to do the kinds of infrastructure investment and maintenance that growing populations require.

Of course, these various ways of understanding the housing asset apply differently over time, and variously from one household or one government to the next – households may start with an expectation that their housing fulfill their social and economic goals, and only develop an expectation that the house also perform as a financial asset over time. A government may wish to support the development of sustainable human settlements in the first instance, and see job creation or economic growth in relation to their housing policy as secondary. When policy makers understand the housing asset in this multi-dimensional way, both as a private and a public asset, they can better formulate their interventions to relate to the specific deficits that exist in their system. Failure to acknowledge any one facet of the housing asset may mean that its potential is squandered, or worse, undermined.

3.2. Understanding the housing market

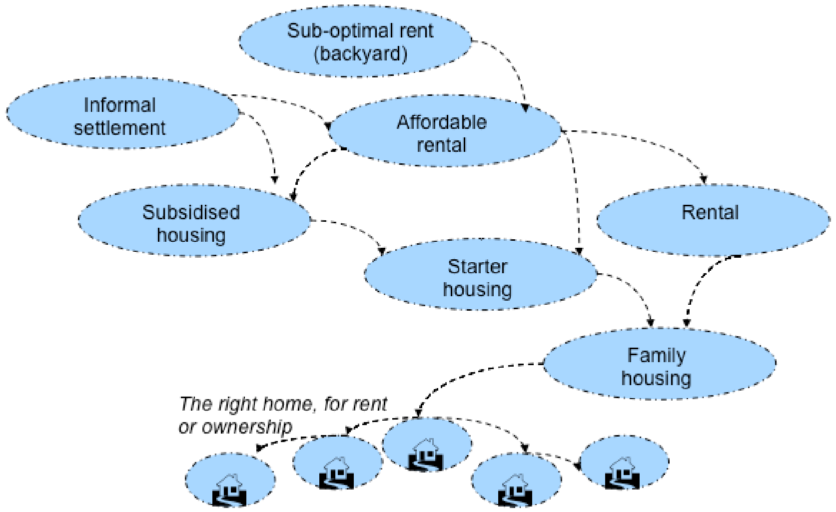
Because the housing asset has value, it exists within a market. The efficiency and effectiveness of that market to address the needs of especially the poorest is influenced by two factors – the opportunity for filtering through pools and flows, and the strength of the various links in the housing value chain. These are addressed below.

Pools, flows and filtering

Traditional definitions of the 'housing backlog' have conceived it as a static number that, while it grows, is in and of itself absolute. That households 'flow' in and out of different 'pools' of housing stock, depending on their individual circumstances at different times in their lives, is nuance that is overlooked.

The figure below roughly illustrates the concept. Essentially, all households live in a variety of housing circumstances. Over time, they will need to move into different housing circumstances as their housing needs change. Their ability to do so will be determined by the availability of supply in their housing destination, and their affordability

to make the move. The provision of subsidies by the State bridges households with limited affordability, to enable them to access adequate housing. Thus, a household in an informal settlement pool can only move into subsidised housing or affordable rental (or whatever other housing they may seek) if such exists. If it doesn't, they remain in their current housing situation, which by default becomes the best they can access and afford.

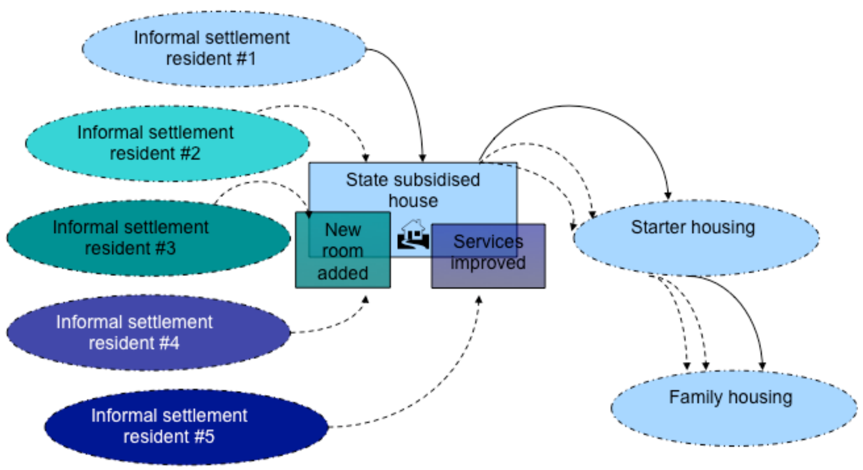


To carry this further, if it is the state's intention to 'drain' the informal settlement pool (that is, improve the housing circumstances of households living in inadequate accommodation), it needs to facilitate the flow to the better option. This flow, however, depends on supply – whether through the delivery of new accommodation in the desired pool, or through the draining of households in the desired pool (i.e. the making of housing in that pool available) by households moving to another pool. If there is a backlog in supply (either through a dysfunctional secondary property market or limitations in the delivery of new housing), even if the pool in question is high up the income pyramid, this undermines the movement of households lower down the income pyramid into this pool, and ultimately undermines households even at the very bottom of the pyramid from finding adequate housing that is affordable to them.

The challenge to the state, therefore, is to ensure sufficient housing supply in each of the pools, relevant to the affordability parameters of the population. The state should emphasise the flows – improving annual delivery performance at all levels so that households can flow from one pool into another, and housing mobility is smoothed without interruption in pools. This implies setting targets differently, because it means focusing not only on the pools that affect the lowest income earners, but rather on all pools or blockages in the entire housing market. The goal should be that housing conditions are continuously improved – so that pools drain to better options, rather than worse ones (backwards draining is otherwise known as downward raiding) – and that ultimately, all households can afford to live in the right home for their purposes, whether as tenants or owners.

Linked to the concept of pools and flows, is the concept of housing filtering. An important goal of a nation's housing policy is to support the social mobility of its households. In this, it is expected that households will move from one home to another over the course of their lives, improving their housing circumstances as they grow. While they do this, however, the houses they occupy at various times, whether on a rental or ownership basis, remain fixed. Houses vacated by households moving to other accommodation become part of the supply for other households.

Thus, when an initial subsidy beneficiary decides to leave their subsidised house and move into some other accommodation (such as starter housing), their subsidised house becomes new supply for another subsidy beneficiary or low income purchaser. As households filter up, houses filter down, becoming new housing opportunities for households lower down the property ladder. Over time, the house in question might change – a room might be added, or the servicing quality improved. This improves the long term durability of the housing stock, while also improving its value for the owner at the time.

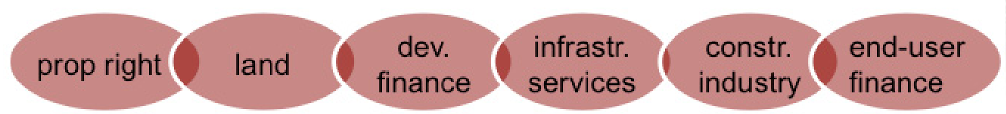


Napier (2011) illustrates how such consolidation has occurred in South Africa's housing programme, and highlights studies that have shown that within just a few years after occupation, considerable home improvements take place. This aspect of housing market performance creates some opportunities for the state. Subsidised housing delivered in the past can continue to operate as housing supply, as this year's subsidy beneficiary moves up the housing ladder and purchases houses delivered by the private sector. Ultimately, the state will no longer need to build new subsidised housing, rather, it will just need to provide support to households moving into existing subsidy-affordable stock. This is something that the South African housing policy has not recognised however, and has in fact actively discouraged. Napier notes the prevalence of informal trade as a consequence – a lost opportunity for the state as the household that moves into the subsidised house on an informal basis still constitutes part of the official housing backlog because they are unable to realise formal tenure over that property.

The enhanced value that can be realised from home improvements provides an incentive for gentrification and consolidation of the built environment even in the lowest income neighbourhoods. This will contribute significantly towards the sustainability of human settlements. It also means that the state will need to ensure that the array of housing opportunities being offered, whether publicly or privately, is appropriate for its population, and specifically, that housing delivery is targeted at the needs of segments of the population that are expected to grow. For instance, if housing supply does not keep pace with the housing needs of the expected growth of middle class families, pressure could be put on the delivery of subsidised housing, as households with higher levels of affordability 'downward raid' to access the next best accommodation that is available. Insufficient housing supply would also decrease housing affordability, as property prices would rise in response to the higher levels of demand. Mosha's analysis of the housing bubbles in the US, Japan and China also relates to this point. The over-emphasis in those markets on delivery at the top end led to the initial risk and then collapse of high-end housing markets, which in turn undermined the supply of affordable housing at the bottom-end.

The housing value chain

The delivery of housing takes place through a value chain of activities from the framing of property rights and the cadastral system of the country, through to the delivery of end user finance to purchase housing that exists on serviced land and which was developed by the construction industry with various forms of development finance. Each of the components in the housing value chain fits together as links in a chain (Hoek-Smit, 2006).



Source: Hoek-Smit (2006) Housing Finance and the Role of Government: Incentives without Distortions.
Presentation to the FinMark Forum, 16 November 2006, Johannesburg.

Hoek-Smit's (2006) six links in the housing value chain can be described as follows:

- Legally defined property rights, set in an established and secure cadastral system, are essential for the functioning of the property market. Only when property rights are secure, and when the municipality has the power to govern on the basis of those rights, can private investment in the property and surrounding infrastructure happen, and can credit be extended. The mortgage instrument is dependent on the legal capacity of the property to be used as collateral. If the lender cannot secure a legal right to repossess the property in the event of default, they will either increase the risk premium attached to the loan to support the higher level of risk, or decide not to lend at all. De Soto (2000) also notes the importance of title in encouraging even low income families to invest in their housing and realise asset value from such investment.

- The availability of well-located and efficiently governed land is critical for housing development. As Napier (2011) outlines, the performance of the housing asset depends on its location – access to social and economic opportunities improve not only the social and economic asset performance, but also the performance of the house as a financial asset due to increasing land values. The state can play an important redistributive role simply by prioritising good locations in its housing subsidy programme. Mosha (2011) raises the importance of sound and appropriate land administration systems, as these impact on the participation of the private sector and the ultimate cost of housing. His arguments were confirmed recently by the Managing Director of Cosmopolitan Projects Group, Anton Crouse, speaking at a conference on affordable housing in Johannesburg. Crouse reported on delays in four different township applications taking place in four different councils in the South African province of Gauteng. The application for a services agreement in Ekurhuleni took 22 months when the scheduled time should have been between 3 and 4 months. Another services agreement in another city took 34 months. For a rezoning and subdivision application in Tshwane, South Africa's capital, the process took 47 months for the rezoning and 29 months for the subdivision, when it should have only taken a year for both (Crouse, 2011). Crouse argues the absence of delegated powers, the non-availability of senior management or the senior legal advisor to meet with the developer, and the failure of the municipality to appreciate the impact that timing has on costs, and therefore affordability, are all reasons for the delays. In this environment, costs rise, undermining the affordability of the units, and the developer's margin falls, undermining the developer's interest in participating in this market. Mosha (2011) adds that in the absence of efficient land administration systems, people revert to informal markets, which then contribute towards the rise of informal settlements and slum housing conditions. This spatial form then undermines further formal development, leads to land price depreciation, and exacerbates the inequalities that the land development process should in fact have the capacity to address.
- Development finance creates the possibility for development at scale rather than on a house-by-house basis. When developers can access affordable finance, this makes their developments viable and supports the delivery of affordable housing. The State can target some of its subsidies in the development finance space. South Africa's supply-side housing subsidy, for example is a form of development finance.
- Constraints relating to infrastructure are significant across Africa. Historically, the provision of bulk infrastructure is a municipal role – municipalities finance infrastructure over generations by raising bonds on the back of their rates revenues. However, with the tremendous growth of the population at the poorest end of the income spectrum, and municipal incapacity often to collect taxes from those who owe, municipal finances cannot support the bonds required to finance infrastructure, and so the investment is left unmade. The Financial Mail recently estimated the annual infrastructure backlog across Africa to be $93 billion. The response of developers in this context is to develop the infrastructure of their own project, financing it over the length of the project and limiting its scope to the project boundaries. As a result, project costs increase and the cost of housing delivered is so high it is often out of reach of even the middle class. It is not clear what such islands of service, such as Tatu City in Nairobi or Lilayi in Lusaka, will have on the overall infrastructure landscape of their cities, but the approach has meant that housing for low income earners is not being developed. At a recent conference of the African Union, on housing finance, the MD of HFC Bank in Ghana reported that in his country, where affordable housing is being developed, it is at the expense of infrastructure. This undermines the lender's capacity to lend against the assets, and ultimately exacerbates inequality and undermines the effectiveness of the housing market.
- Of course, development will not be possible if the country does not have a construction industry with the capacity and interest to participate in the scale delivery of housing. Construction capacity relates to the number of firms, the size of their balance sheets and the experience they've had in the sector, as well as the human resources they employ. In the presence of incentives for delivery, the construction sector can often build up capacity relatively quickly. The interest of the construction sector to work in residential construction, as opposed to any other form of construction (shopping malls, soccer stadiums, etc.), however, is a critical factor. Municipalities can influence the relative attractiveness of residential construction by imposing limits and regulations on other forms of construction. Understanding that the construction sector will work where it can predict its income with relative certainty and maximise its profits in this context, municipalities can offer expedited approval processes, additional capacity support and other measures as incentives to make the business more attractive.
- The last link in the chain often gets the most attention and it is also highly complex. The ability to provide housing finance is determined by the financial market and how it operates within the broader, macroeconomic framework of a country, the risk management practices and requirements that prevail, various balance sheet constraints (influenced by both national and international fiscal policy, as well as by bank strategy), functioning property markets and foreclosure potential, investor interest and competing asset classes, and market infrastructure (Walley, 2011). Because of this complexity, housing deparments must work closely with finance departments to ensure that incentives and regulations are aligned to encourage lending down market. Further, it is critical that the housing finance sector consider a range of housing finance options. The mortgage loan is only relevant to income earners with stable, long term employment and secure title, and is only affordable to higher income earners. Other forms of finance, including pension-backed loans and housing micro loans must not only be included in a nation's housing finance framework, but also emphasised as critical components.

Hoek-Smit emphasises that a housing value chain is only ever as strong as its weakest link. Just one problem along the chain can weaken the effectiveness of the housing market. When the effectiveness of the housing market is undermined, no matter where along the chain the weakness may be, the ability and willingness of the private sector to participate is diminished, the costs of such participation is increased, and the delivery of housing that is affordable to the population is undermined. Developers that remain in the market then gravitate upwards, catering for richer households, leaving poorer households unserved, and the responsibility of the state. In many cases, the state then responds to such a situation with direct subsidisation of the poorest. Hoek-Smit argues, however, that it is more effective to fix the links in the housing value chain than to engage in direct subsidisation to overcome problems that market efficiencies would address anyway with better designed incentives and regulations.

Mosha's paper highlights the interconnectedness of the housing value chain, noting how specific interventions by the state in terms of tax or subsidy can distort the market and lead to unintended consequences that create new problems while addressing the old ones. He notes, for example, that tenancy laws that heavily protect tenants' rights may destroy the country's rental market. He also notes how the various links in the chain perform differently for different segments of the population. A housing policy must address all of these links with a sense of market segmentation so that the principle of equity is achieved.

Government's main roles are therefore to make sure that its institutions and legal/regulatory system allow each part of the chain to work well so that private production markets can expand; to create the right alignment of incentives and regulations without distortions that encourage the private sector to move down market; and to assist those households who cannot be helped by markets.

4. Making housing markets work in Namibia

The affordability challenges that Namibia faces, given the 62.2 percent of its population that earn less than the US$2,00 per day international poverty line, and the 87 percent of the population who earn less than US$200 per month, are significant. In this context, housing subsidisation of some degree will certainly be necessary if all Namibians are to be able to access adequate housing. Indeed, housing subsidies already exist in this market, although they do not address the scope of the demand. The question then arises: What sort of subsidy system and how should it be implemented?

Napier's paper offers insights – South Africa has had an internationally celebrated housing subsidy programme that has delivered a significant number of housing units to its population. Originally a supply-side model, the subsidy has been amended over time to include some demand-side characteristics, making it somewhat of a hybrid approach.

While Napier addresses many of the challenges the subsidy scheme has faced, from the delivery of well located land to the challenges of the financial sustainability of the offering, he does not address the wider market impacts which currently pose a serious threat not only to the success of the programme, but also the stability of the nation. In South Africa's current market context, households that earn too much to qualify for the subsidy but too little to afford the cheapest newly built house, comprise at least 20 percent of the population. These are the key public sector workers, such as teachers, nurses, police officers, administrative officials, and so on, on whom the nation depends. They are also entry-level private sector workers, including bank and office clerks, and the very labourers who build subsidised housing. In the past few years South Africa has seen an increase in labour union strikes in both the public and private sectors. A key demand on all fronts has been for wage increases to enhance housing affordability, or for housing subsidies to be targeted specifically at this market. Ironically, as wages increase, the costs of production for housing also increase, and the subsidy demands on the state grow out of control. Lessons from the United States, as set out in Mosha's paper, confirm the dangers of a "big-budget, one-size-fits-all, bureaucratised federal housing programme". Mosha recommends the value of partnerships, which are able to "direct more and better resources to state and local agencies, to community-based non-profit organisations, and to qualified, for-profit developers." This recommendation is borne out by both the US and Japanese experiences, which have shifted from a state-driven approach, to a more facilitated framework in which state interventions catalyse private market activity.

Given the nature of the housing value chain and the inter-connectedness of policies, regulations and systems that exist between what are traditional silos of governance (finance, housing delivery, infrastructure delivery, etc.), housing subsidies, or state support, should act as incentives to stimulate market activity that would otherwise not happen, by lowering the opportunity cost or otherwise increasing the potential benefit of such activity (Hoek-Smit, 2009). Hoek-Smit argues that there are three broad goals that a housing subsidy programme might address, and that the state must understand which of these is paramount in its own situation so that it can design its programme effectively. Housing subsidies can be used to improve public health, by improving the quality of housing for low income earners; to improve justice and fairness, as a redistributive mechanism that provides access to those otherwise excluded; or to improve market efficiency by addressing blockages that undermine the private sector from serving certain market segments. In meeting these goals, housing subsidy programmes may operate either on the demand side, enhancing housing affordability; or on the supply-side, stimulating the supply of affordable housing. Again, the state must understand which approach best suits the particular local context and best responds to the problems creating the need for subsidies in the first place.

One challenge faced by all systems reviewed by Mosha and Napier, is the role of rental or social housing in a nation's housing framework. Home-ownership policies can have the effect of undermining the delivery of rental housing (whether subsidised or not), which is critical to ensure housing mobility and enable easy filtering of households through the housing market. Not all households have a need for home-ownership at their current life stage – the stability of home-ownership and the relative illiquidity of the housing asset can undermine their capacity to follow economic opportunity or respond to other pressures their family might be facing. Rental housing offers much more flexibility to households going through transition, and is a critical part of any housing framework. In South Africa, the constitutional provision for a right to access to adequate housing has been misinterpreted as a right to ownership. The housing subsidy eligibility criteria include a requirement that the beneficiary has never previously owned property – this means that if they satisfy all the other criteria, but currently live in adequate, affordable rental housing, they are still effectively part of the housing backlog. This puts terrible pressure on the state and necessarily shifts its focus to the delivery of subsidised housing over the delivery of rental housing.

Both Mosha and Napier outline the dangers of spatial segregation and show how this was not overcome in any of the countries surveyed, policy attention on the matter notwithstanding. A key challenge in this regard, is the cost of well-located land. To this, Mosha's suggestion of regeneration policies that are pro-poor, inclusive from the beginning when land is undervalued, is useful. This is something that some cities in the US have tried, as well as in South Africa. Like Namibia, South Africa has the ironic benefit of low-density cities, which offer opportunities for urban infill and densification as part of the regeneration process. This process can maximise urban efficiencies and the value derived per square meter of well located land.

Mosha's paper outlines some of the questions that the state should consider in the design of its approach:

- What are the policy, programme and technical instruments to bring housing prices down and increase the ability to pay for different housing opportunities e.g. housing allowances, subsidised solutions, serviced land, serviced land plus basic shelter, building materials credit, incremental guided land development, normative reforms to allow for smaller plots and houses, etc.?
- What are the main bottlenecks in the land and infrastructure supply systems, and what needs to be done to overcome them?
- Are there any measures e.g. institutional, legal, financial, technical, etc. that can be established in order to prevent housing solutions addressed to low income households to be hijacked by economically stronger groups?
- Does equal access to shelter mean the supply and availability of adequately located serviced land that enables all individuals in society to have equal opportunities to access adequate housing within the city boundaries? Does this translate into the right to adequate housing?
- What are the roles and responsibilities of different stakeholders in housing provision?

These questions speak directly to the interconnectedness of the links in the housing value chain and the opportunities for state intervention at multiple levels, not only

through subsidy, but also through other interventions, including administrative and regulatory reforms, tax and other incentives, municipal zoning and approval processes, and so on. The Namibian policy process must consider these questions carefully, to understand and make transparent the precise target of each of its interventions, and to maximise the efficiency and effectiveness of its subsidisation choices.

Of course, recent global economic developments and especially the recent housing crisis in the US, suggests that the risks are not insignificant should a government make the wrong choices with its housing policy. Mosha (2011) shows how the housing crisis in the US was preceded by a similar housing crisis in Japan, and was also echoed in a housing crisis in China. In each of these cases, the problem had to do with the creation of a housing bubble – "rapid increases in the valuations of real property until unsustainable levels are reached relative to incomes, price-to-rent ratios, and other economic indicators of affordability. This may be followed by decreases in home prices that result in many owners finding themselves in a position of negative equity – a mortgage debt higher than the value of the property." Both the US and Japanese examples, Mosha argues, arose because of excessive state intervention in the market and a general failure of monetary policy – whether through the virtual abandonment of mortgage underwriting standards in the case of the US, or the excessive investment of the state in failing businesses together with knee-jerk shifting of interest rates in Japan. In both cases, overly aggressive behaviour of financial institutions also contributed substantially to the crisis – although this was possible because of the state of monetary policy. China's housing bubble (or bubbles, as it would seem) has been carefully monitored by the state, which has reacted with monetary policy interventions to either ease or tighten the flow of finance, as well as other government regulatory interventions, some of these drastic (Mosha, 2011).

Interesting, perhaps, for the Namibian context, is the Chinese government's fear of international land speculation and the impact that this could have on property prices. This is an important issue for Namibia to consider given the recent discovery of oil – 44 billion barrels have been estimated – and the substantial impact this will have on foreign participation in Namibia's economy. The case of Angola is illustrative.

In 2011, Mercer's Cost of Living Survey named Luanda, the capital of Angola, as the world's most expensive city for expatriates, followed by N'Djamena, Chad, which ranked third globally (How we made it in Africa, 2011). Africa's ten most expensive cities – generally cities with oil and other commodity resources – are among the top 45 most expensive cities in the world. The main reason behind Luanda's ranking is the high cost of rental accommodation, given the high demand by expatriates resident in Luanda to support its oil industry. The focus of formal developers has been on developments in the higher income category. At the same time, the majority of housing is self-built, by low income Angolans, for themselves. The disparity between the high-end housing occupied by wealthy Angolans and foreigners, and self-built low income housing occupied by the majority of Angolans, is clearly visible.

The recent economic slowdown, however, has put some pressure on the high-end markets and led to some developers shifting their focus downwards. This presents the Angolan government with an excellent opportunity to build a more sustainable and relevant housing sector to meet the needs of its entire population (CAHF, 2011). With its recent discovery of oil, Namibia has the opportunity to learn from the lessons highlighted by Mosha, and seen in Angola, to implement appropriate housing finance systems that support efficient market functioning and avoid the bubbles and exclusive property market dynamics seen in other countries. Mosha warns governments to "avoid property that may be hard to unload when the market cools". Namibia would do well to use the oil benefit – and the concomitant demand that will create for expat rental housing – to support the delivery of affordable, well located housing for the breadth of its population. How it regulates the consequences of the oil investment will have a significant bearing on its housing futures.

5. Conclusion

The two papers commissioned for the Bank of Namibia Housing Symposium provide interesting lessons regarding the potential of the state to work with markets in ensuring that the entirety of its population has access to adequate housing. These lessons must be understood in their own local contexts – the United States, Japan, China and South Africa are all very different countries, with very different population sizes, income distributions, social and economic capacities and pressures, and regulatory frameworks. South Africa is perhaps the most similar, given the overlapping history with Namibia and the prevalence of South African companies in especially Namibia's financial system. It too, however, faces vastly different pressures, and has different capacities to respond. Quite critically, Namibia must develop its own housing sector profile including within it chapters that address the institutional and policy framework; the legal and regulatory frameworks; an assessment of housing needs and demand, including an assessment of housing rights and the impact of the housing sector with respect to gender, HIV/AIDS, the elderly and the youth; and an assessment of housing supply, including attention to urban land supply for housing and basic infrastructure provision, the building materials industry, the construction industry and employment issues (UN Habitat 2010). From such a profile, the government can then specifically target its policy responses to particular and specific problems, using sharp, targeted instruments rather than broad and blunt ones which necessarily bring with them a whole set of unintended consequences.

Mosha's concluding section sets out a series of housing policy options that span not only the housing domain but also the financial and fiscal framework and taxation framework. Across the breadth of these very good suggestions, the focus on the housing affordability constraints of the majority of Namibians and the impact this has on the sorts of housing options available, is especially important. Napier has shown that notwithstanding extraordinary political will and budgetary capacity over 17 years, the housing backlog in South Africa has not been overcome – in part because it continues to grow in response to the housing entitlement offered by policy. Mosha's recommendation for "a variety of housing finance options for the poor that take into account their repayment capacity, their housing needs, and the legal structures for their homes" must be emphasised. It may be worth watching some of the shifts taking place in South Africa, where the growth of informal settlements has necessitated a policy approach towards upgrading that seems, at this stage, to prioritise land and services over top-structure provision (Napier, 2011). This approach offers the potential for maximising locational choices already made and managed by informal settlement residents. It remains to be seen, however, whether this new approach will ultimately change the overriding housing subsidy system, the financial and political sustainability of which is already in serious question, or whether expedient policy implementation will see the approach towards informal settlements simply as an add-on to the current arrangements.

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Lastly, the need for good data, also raised by Mosha, cannot be over-emphasised. Housing policies cannot be adjusted without data that clarifies their impact. This has been a serious problem in South Africa, where the state can still not say, conclusively, how many houses it has built, and where lenders have been unable to pinpoint the particular risk levels of different market segments. Mosha also raises the importance of property market data, to provide regulators with the information necessary to monitor the possible development of housing bubbles, while also ensuring broad-based access to property market performance. Data collection, management and review strategies must be implemented from the outset and are equally as important as the policies themselves. Good policy intentions can get lost in poor implementation, and without data, no one will notice until it is too late. On the flipside, good data, shared transparently across the market, provides a level platform from which market players and the state can act in partnership towards their common goal of extending housing opportunities across the breadth of the population.

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Policy Issues Emanating from the 13Th Annual Symposium

By Bank of Namibia Research Department

The 13th Annual Symposium of the Bank of Namibia took place at the Windhoek Country Club Resort & Casino on 29 September 2011 under the theme: Housing in Namibia – Has the situation changed 21 years after independence? The symposium was informed that house prices quadrupled over the last decade and the housing backlog persists in Namibia. In summary, the key factors that led to rising housing unit prices include rising costs of building materials, unavailability of serviced land, high rates of urbanisation, high borrowing costs and uncoordinated development of related infrastructure, amongst other factors.

There are three main issues of concern in Namibia's housing market – the affordability of available houses; availability of serviced land; and inadequate housing stock. There is also a general policy disconnect in the housing market, as the existing set of policies pertaining to the housing market are not holistically designed to meet the needs of individuals in different income groups. Finally, the role of government and its stance towards provision of basic housing/shelter as a human right is not clearly defined. Below are the key policy issues that emanated from the discussions during the symposium.

1. Partnerships in the provision of housing

Deliberations at the symposium emphasised the importance of partnerships in the provision of housing.

These include:

- Cooperation between central government and local authorities, whereby the former could provide targeted subsidies and assist in servicing land for housing purposes and the latter focuses on housing construction and administering the sale and rental thereof. Housing subsidies need to be targeted to the low and ultra-low income groups, with necessary conditions being attached to ensure that subsidised houses are not traded for profit-making purposes. Presenters at the symposium emphasised that cooperation between the ministries responsible for housing, lands and finance is critical, both in the formulation of housing policy and effective implementation thereof.
- Public-Private Partnerships (PPP) is another avenue for accelerating housing delivery, although this tends to be more effective in the provision of housing in the middle to upper income segments.

2. The role of Government in housing

The Symposium was informed by both presenters and discussants that the housing market needs regulatory oversight and assistance in the provision of social housing . Moreover, various measures aimed at curbing speculative transactions in the market need to be introduced, e.g. setting conditions that a house acquired through social housing interventions may not be resold within the first five years after the initial purchase date. Further, the symposium proposed that the whole chain of the housing market should be regulated – from developers, valuators to estate agents. This is to ensure that house prices are not artificially inflated and that profit margins are fair, especially in the provision of social housing.

3. The need to remove bureaucratic bottle-necks in the acquisition of virgin land for housing purposes

The symposium expressed concern about lengthy processes in acquiring and registering land for housing. This requires that laws related to the housing market be reviewed, i.e. the Deeds Office Act, the Township Board and NAMPAB laws, amongst others. Furthermore, getting land to be part of local authority land is usually a challenge, partly due to out-dated compensation structures for those who need to vacate land, especially in communal areas. The symposium resolved that these processes need to be streamlined, starting with the review of out-dated legislation and possible merging of legislation dealing with land acquisition (in particular the Ordinance Act's of 1954 and 1963).

The symposium stressed the need to do away with multiple institutions and to make NAMPAB more effective by increasing the frequency of its meetings, amongst other issues. It further emerged from the symposium that measures are under way to merge the Township Board into NAMPAB and to do a way with the condition that requires the services of lawyers for the transfer of properties.

4. Provision of rental housing

There is need to consider high density developments and rentals as an alternative to the prevailing skewedness towards home ownership. The symposium recommended that Namibian initiatives such as the Build Together Programme and the NHE should consider providing rental housing on a greater scale to cater for those who find home-ownership unaffordable. Presenters indicated that alternative types of housing should be viewed as intermediate stages before acquiring the ideal house and thus renting could be one stages that families could make use of. Namibia is further urged to devise legislation that protects tenancy rights in line with international standards.

5. Need to consider incremental housing

In order to deal with the challenges of affordability, it was proposed at the symposium that Namibia should consider a system through which borrowers could access microloans for building houses in stages. This proposal needs to be thought through carefully and the modalities for implementation should be holistically designed to match the needs of low income households in particular. In the current set-up, micro-loans may not be a viable option due to high interest rates charged by micro financiers.

6. Consider a moratorium on purchases of land and houses by non-residents

The participation of non-resident buyers in the Namibian housing market is believed to have partly contributed to the drastic escalation in prices for both land and houses. It is therefore proposed that a limited period moratorium on the purchase of land and houses by non-residents be considered until the prevailing housing backlog has been reduced significantly. This would involve making provision for such a measure in the relevant legislation. It emerged from the discussions that it would be possible for non-residents to only be availed the option of leasing land, as already practiced in countries such as Tanzania. The proposed moratorium would restrict the acquisition of land and houses by people who are not domiciled in Namibia and further restrict the indirect acquisition of the same through institutions.

7. Regulate, monitor and restrict second-home buyers and cash buyers

It is also believed that high demand for houses is exacerbated by second and multiple home buyers – investors who enter the real estate market betting on upward valuations in order to profit from price increases. This may be accomplished through imposition of higher transfer costs and higher capital gains taxes when second and more houses are traded. In addition, cash purchases of houses should be regulated and monitored as this may undermine other housing objectives, e.g. non-residents and speculators may acquire houses through cash transactions.

8. Coordinated infrastructure development

Housing infrastructure requires other types of infrastructure development. These include roads, water and sanitation and critical services of health and education. The involvement of the Central Government is therefore necessary to ensure coordinated

provision of essential infrastructure needed with housing. At the moment, local authorities are left to do what they can and developers and contractors, such as the NHE, wait until infrastructure is in place before constructing houses. It is proposed that Central Government should provide finance for such infrastructure development, including for the servicing of land.

9. Provide tax incentives for home-ownership

Namibia’s income tax system has already incentives for home-ownership, as housing allowances are partly exempted from income tax. It is therefore proposed that local authorities should provide a waiver on property taxes for struggling home-owners for specified periods. This is in line with the fact that many poor home-owners are losing their houses due to non-payment of such taxes. It was also proposed that the threshold for exemption from property transfer duties be revised upwards from the current N$400,000 in line with high house prices.

10. Improve access to finance

The symposium proposed that the security of tenure in communal areas and utilisation of pensions as collateral need to be explored further in order to improve access to housing finance.