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21 September 2017, Birchwood Hotel.

Finding Relevant measures of affordability and effective demand

Re-Imagining Housing Finance and Affordability measures for affordability

SHRA
Social Housing Regulatory Authority

Odandi Properties CC T/A
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Overview

Project description

- Current measure of affordability uses a ratio of payment to income to determine affordability
- DHS uses costs of material and labour to determine subsidy for housing stock development

Project methodology

- Taps on available, credible statistical information to measure affordability,- IES/PPLs and LCS by StatsSA

- Address the dimensions targeted in human settlements;

- The model determines affordable accommodation from income after deducting expenditure incurred by a family to meet other basic needs and the cost of shelter – the "residual" income approach;

› Key Issues with the ratio method:

- I&E issues on the demand side not adequately addressed;

- Does not consider impact of other basic living expenses on income;

- Ignores the sensitivity of low incomes to shifts in prices of food and non-food items;

- Calculation ignores Living Conditions of low income earners – income poverty vs. asset poverty (LCS available);

- Focus on supply, less on effective demand;

Project Description

Objective

- Achieve a transparent, objective money-metric to:
  - Ensure that housing developments are not counter-productive (e.g. increasing poverty);
  - Embrace housing and non-housing costs to determine affordability – the residual income approach.
  - Inform policy on effective demand for affordable housing per location;
  - Assess affordability objectively, and plan developments with inputs from the target market;
  - Dependable measures from regular, dependable national statistics – StatsSA;
  - Close the gap on understanding affordability between private sector and public sector

Facts

Housing availability is affected by:

- The macro economy;

- Income and Expenditure patterns (IES);

- Living standards (LCS);

- Levels of household financial commitments.

- Overall ability and willingness to pay – Dube hostel

- Commitment and trust relationship between funders/ developers/ government ;

- NB. Poverty lines are not for calculating remuneration WARNING - StatsSA

Procedure / Methodology

Use the UBPL as baseline to establish cash flows for loan / rental servicing;

Government subsidy and other welfare benefits full below the UBPL;

Product options based on above could include rental support or capital subsidy affordable (gap market);

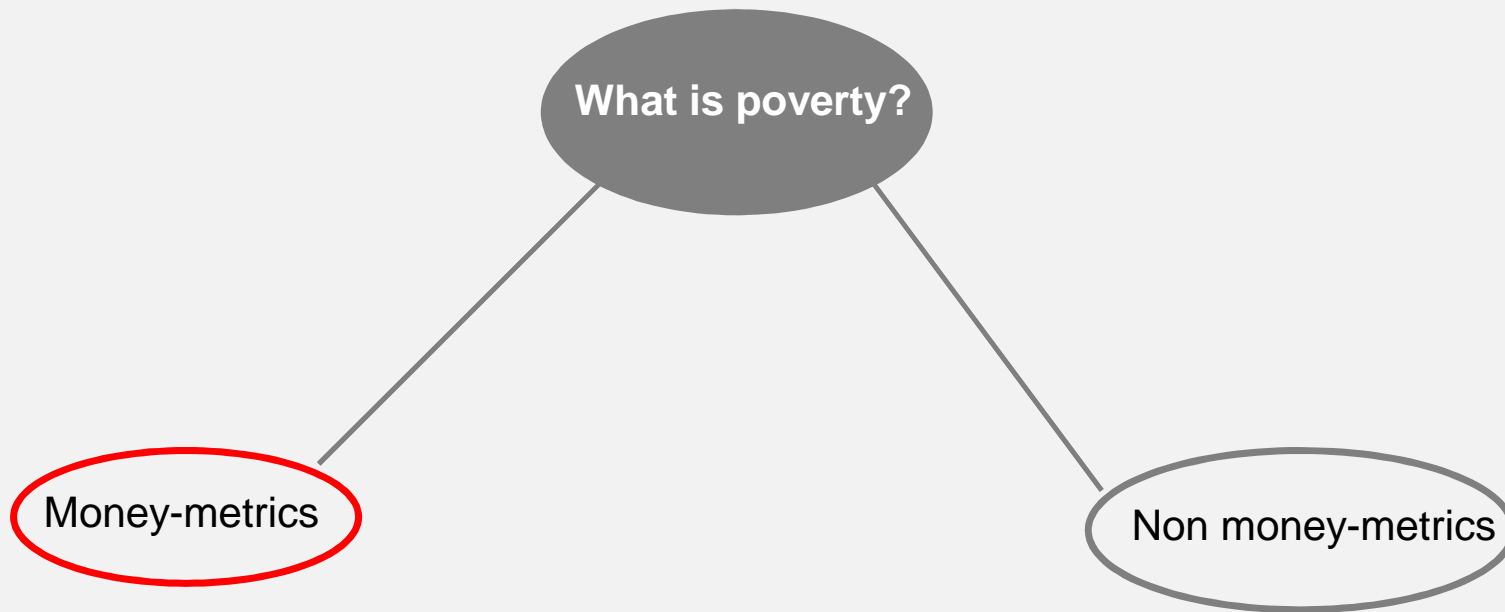Align product solution to local circumstances;

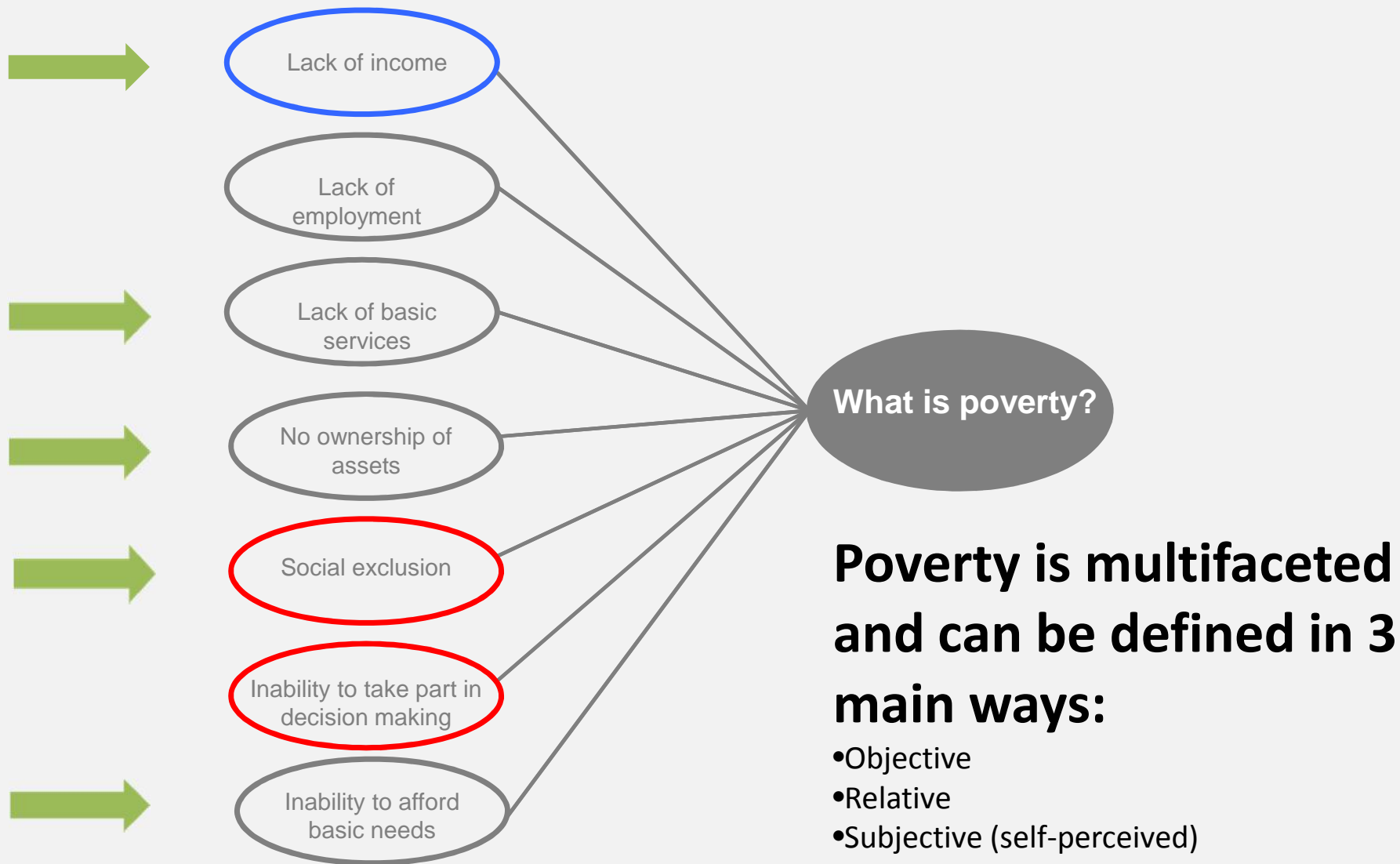Obtain update information every 5 years, where needed;

Adjust subsidies accordingly – sliding scale;

Private sector participation enhancement.

› Key assumptions
  – Improve information asymmetry;
  – Using a comprehensive measure for affordability will avoid the risks of adding to the monetary poverty;
  – A poverty line is a monetary cut-off point below which a person is deemed to be poor.
  – The UBPL is the absolute line below which households become poorer – use as baseline for measuring affordability;
  – StatsSA continue to adjust lines in line with cpi;
  – Lines are rebased every 10 years, to take account of changes in spending patterns of consumers;
  – A poverty line measure provides statistical standards and a systematic approach to reporting monetary poverty indicators;
  – **Rentals or loan payments are below market rates.**
  – **Property developments follow best practise to reduce admin costs.**

What is poverty?

Money-metrics

Non money-metrics

Lack of income

Lack of employment

Lack of basic services

No ownership of assets

Social exclusion

Inability to take part in decision making

Inability to afford basic needs

What is poverty?

Poverty is multifaceted and can be defined in 3 main ways:
•Objective
•Relative
•Subjective (self-perceived)

Why Poverty Lines?

- Statistics are required to understand the poverty situation and to assess progress in addressing monetary poverty;

- A poverty line measure provides statistical standards and a systematic approach to reporting monetary poverty indicators;

- Stats enable evidence-based policy-making; and,

- Improve ways of measuring or reasonably predicting potential outcomes, thus–
  - Evaluating impact on effective demand for various housing interventions;
  - Planning appropriate interventions based on objective evidence *including beneficiary/ consumer input;*
  - Reduce information assymetry

Upper-Bound Poverty Line

R992

Threshold of relative deprivation below which **people cannot afford the minimum desired lifestyle by most South Africans**

Lower-Bound Poverty Line

R647

Austere threshold below which one has to **choose between food and important non-food items**
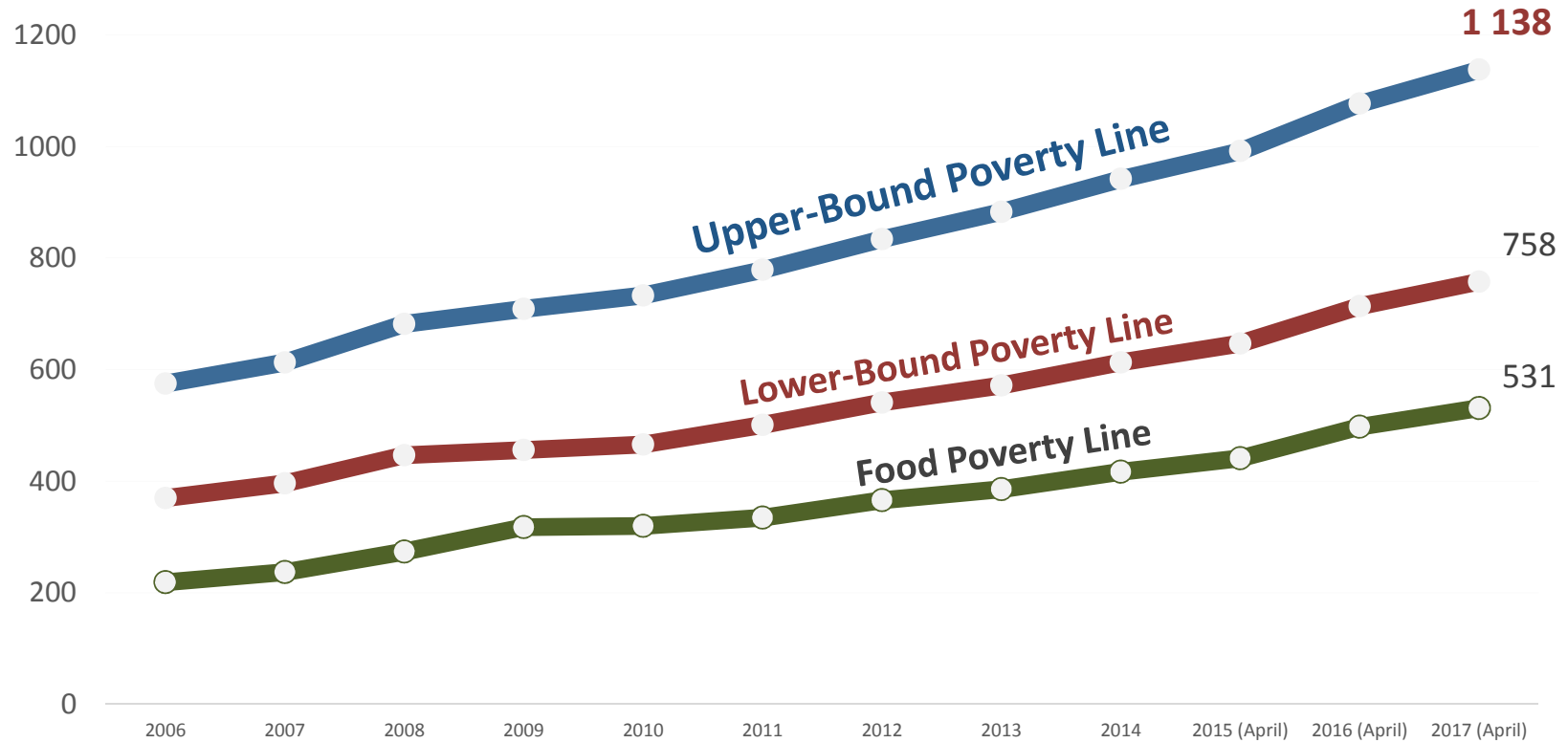
Food Poverty Line

R441

Threshold of absolute deprivation. The amount of money required to purchase the minimum required daily energy intake

* Based on 2015 prices

Poverty lines at current 2017 prices

Importance of Poverty Lines

› A poverty line is a monetary cut-off point below which a person is deemed to be poor.

› statistics are required to understand the poverty situation and to assess progress in addressing monetary poverty;

› a poverty line measure provides **statistical standards and a systematic approach** to reporting monetary poverty indicators *(can inform affordability standards)*

› Stats enable evidence-based policy-making; and,

› Improve ways of measuring or reasonably predicting potential outcomes.

Take Note...

› *"PPL do not replace or affect existing criteria for other poverty alleviation programmes,*

› *Nor can they be used to determine wages or remuneration of any kind;*

› *Designed for use alongside existing administrative poverty measures implemented by government departments and other public sector agencies.*

› *To monitor and evaluate the collective impact of all poverty and inequality reduction programmes, it is necessary to capture changes in the circumstances of potential beneficiaries;*

› *To assess overall progress in achieving the goal of poverty reduction (in, say, a particular dimension), explicit poverty status is required." StatsSA-Tech. Report, Nov. 2008)*

PRIVATE SECTOR RISK ASSESSMENT MODEL

Figure 1: Visual Summary of Risk Concepts

The Absolute/ Basic Poverty Line

The second type of poverty line, an absolute poverty line, is explicitly linked to a specific welfare level. Anchoring the poverty line in this way allows one to make comparisons over time or across groups. Most countries that have officially recognized poverty lines define these in an absolute sense, interpreting them as a fixed standard of living. Particularly in developing countries, the notion of some level of living below which one can considered poor in an absolute sense (as opposed to being disadvantaged relative to the rest of society), would seem to have some empirical relevance.

Source: Lanjouw J (2001:2)

Usefulness - Updating the lines

The value of an absolute poverty line is driven by two major factors:

- Prices of food and services
- Consumption patterns

› With time, both factors change at different rates and in different ways

  › Prices change much faster in the short term and the Consumer Price Index is used to update poverty line annually

  › Consumption patterns change much slower unless there are drastic changes in society (social, political, environmental and economic)

    - Updating consumption patterns requires detailed household expenditure data, usually from Income and Expenditure surveys
    - Updates are usually performed when such data are available

      › Update was done using data from the Income and Expenditure Survey (IES) AND;

      › The changing costs of basket of goods used for cpi.

Development of a poverty line

- **Food and non-food poverty lines**

  - The nonfood component is obtained taking the average non-food expenditure of 2 types of reference households:

  - Chronic poverty line (lower-bound poverty line)
    - The 1st reference group: the average nonfood expenditure of households whose total expenditure is close to the food line:
    - Adding this nonfood expenditure to the food line: a lower poverty line is obtained

  - Basic poverty line (upper-bound poverty line)
    - The 2nd reference group: the average nonfood expenditure of households whose food expenditure is close to the food line:
    - adding this nonfood expenditure to the food line: an upper poverty line is obtained

Statistics
South Africa

Conclusion

› Component Information to build Affordable Housing is available;

› Local government level data – can use provincial or aggregate household/ individual level data

› Internationally technological tools are available to track:
  - Who receives government benefits;
  - What type and
  - How much; and thus,

› Can track effective demand based on clear identifiable needs;

› Most of all, includes end-user level data;

› Affordability measurement does not replace need for sustainable housing developments.

› Co-ordinated innovative planning, efficient administration, supporting sustainable projects and user monitoring for changes in patterns important.

Questions & Discussion