

Subsidized Housing with Slum Externalities: Evidence from South Africa

Stefano Polloni
joint with Ben Bradlow and Will Violette

February 2017

Slums and Development

- ▶ Slum externalities → lasting poverty traps (Marx, 2013)
 - ▶ Poor infrastructure, high crime, health externalities
 - ▶ Weak incentives to invest in housing/public goods

Slums and Development

- ▶ Slum externalities → lasting poverty traps (Marx, 2013)
 - ▶ Poor infrastructure, high crime, health externalities
 - ▶ Weak incentives to invest in housing/public goods
- ▶ **Public Housing** → primary government response

Slums and Development

- ▶ Slum externalities → lasting poverty traps (Marx, 2013)
 - ▶ Poor infrastructure, high crime, health externalities
 - ▶ Weak incentives to invest in housing/public goods
- ▶ **Public Housing** → primary government response
- ① Direct Recipient Impacts
 - ▶ Health, Wellbeing, Employment, Redistribution
(Cateneo et al. [2009], Franklin et al. [2016], Galiani et al. [2017])

Slums and Development

- ▶ Slum externalities → lasting poverty traps (Marx, 2013)
 - ▶ Poor infrastructure, high crime, health externalities
 - ▶ Weak incentives to invest in housing/public goods
- ▶ **Public Housing** → primary government response
- ① Direct Recipient Impacts
 - ▶ Health, Wellbeing, Employment, Redistribution
(Cateneo et al. [2009], Franklin et al. [2016], Galiani et al. [2017])
- ② Neighborhood Development
 - ▶ “combating crime, promoting social cohesion... spatial restructuring”
South Africa Dept. of Human Settlements

Slums and Development

- ▶ Slum externalities → lasting poverty traps (Marx, 2013)
 - ▶ Poor infrastructure, high crime, health externalities
 - ▶ Weak incentives to invest in housing/public goods
- ▶ **Public Housing** → primary government response
- ① Direct Recipient Impacts
 - ▶ Health, Wellbeing, Employment, Redistribution
(Cateneo et al. [2009], Franklin et al. [2016], Galiani et al. [2017])
- ② Neighborhood Development
 - ▶ “combating crime, promoting social cohesion... spatial restructuring”
South Africa Dept. of Human Settlements
 - ▶ Little research on spillovers (Diamond and McQuade (2016))
- ▶ **Question**
What are the spillovers from public housing in developing contexts?

This Paper

- ▶ **Question**

What are the spillovers from public housing in developing contexts?

- ▶ **Positive:** Incentivize investments in housing/public goods
- ▶ **Negative:** Crowd in slum growth

This Paper

- ▶ **Question**

What are the spillovers from public housing in developing contexts?

- ▶ **Positive:** Incentivize investments in housing/public goods
- ▶ **Negative:** Crowd in slum growth

- ▶ **Approach**

Leverage precise timing/geography of large housing projects

- ▶ **New Data and Setting**

172 projects in South Africa combined with GPS property transactions and slum growth data

- ▶ **Initial Findings**

Housing projects depress home prices by 5% within 300 meters

- ▶ heterogeneity
- ▶ ballpark estimates

Public Housing in South Africa

- ▶ Over 4.3 million houses since 1994 (13% of pop.)
 - ▶ 50 to 500 houses per project
- ▶ Who gets a house?
 - ▶ Official Policy:
 - ▶ National/provincial waiting lists
 - ▶ No resale within 7 years
 - ▶ Citizens, new homeowners, married or dependents, inc/month <R3,500
 - ▶ In Practice:
 - ▶ Waiting lists/eligibility weakly enforced
 - ▶ Only 82% of houses occupied by initial owners within 5 yrs

Where are these houses built?

- ① **Greenfield projects** on undeveloped land near slums
- ② **In-Situ upgrading** replacing existing slums
 - ▶ insert picture here
 - ▶ Projects are fully serviced (roads, water, sanitation, electricity)

Conceptual Framework: Public Housing Impacts

- ① **Amenity Effect:** Upgrading housing stock/services
 - ▶ Increase value of neighboring homes (Rossi-Hansberg [2010])
- ② **Crowd-In Slums:** Reduce costs of informal housing
 - ▶ Overburden services, health/crime externalities
 - ▶ Reduce value of nearby houses
- ③ **Demographic Effect:** New people in the neighborhood
 - ▶ Taste-based discrimination (Diamond and McQuade [2016])

Measuring Public Housing and Spillovers

- ▶ Focus on Gauteng Province (includes Johannesburg and Pretoria)
- ① **Property Transactions** measure housing projects and price impacts
 - ▶ 500,000 deeds records (bottom 20% of formal housing market)
 - ▶ Buyer/seller name, GPS, price, date from 2002-2011
- ② **Building Census** identifies slum-growth and in-situ upgrading
 - ▶ 4 mil. residential buildings (50% informal) GPS in 2001 and 2011
- ③ **Population Census** measures demographic and economic impacts
 - ▶ Full census for 18,000 census blocks in 2001 and 2011
- ④ **Administrative Data** map projects (construction dates and costs)
 - ▶ Not comprehensive
 - ▶ Includes planned but unconstructed projects

Identifying Housing Projects

- 1 **Seller Identity:** match government names and housing authorities in seller-names from transactions

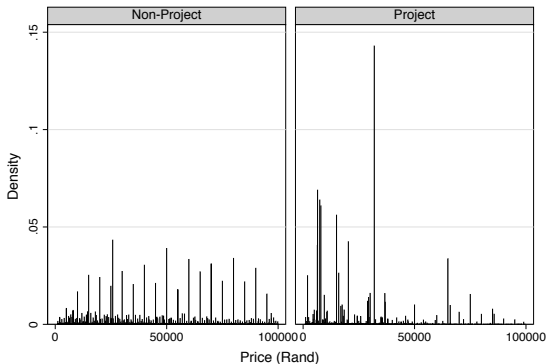
Figure: Top 5 Seller Names

Seller Name	Observations
Ekurhuleni Metropolitan Municipality	40,665
City Of Johannesburg Metropolitan Municipality	28,097
City Of Johannesburg	22,736
City Of Tshwane Metropolitan Municipality	22,367
Gauteng Provincial Housing Advisory Board	6,124
Total Observations	537,661

Identifying Housing Projects

- 1 **Seller Identity:** match government names and housing authorities in seller-names from transactions
- 2 **Subsidy Value:** exclude purchase prices R50,000 above subsidy value

Figure: Purchase Price Densities

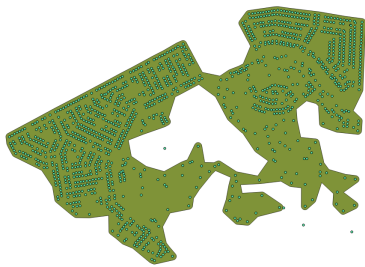


Identifying Housing Projects

- ① **Seller Identity:** match government names and housing authorities in seller-names from transactions
- ② **Subsidy Value:** exclude purchase prices R50,000 above subsidy value
- ③ **Pre-Existing Formal Dwellings:** exclude land plots with formal structures in 2001 building census

Identifying Housing Projects

- 1 **Seller Identity:** match government names and housing authorities in seller-names from transactions
- 2 **Subsidy Value:** exclude purchase prices R50,000 above subsidy value
- 3 **Pre-Existing Formal Dwellings:** exclude land plots with formal structures in 2001 building census
- 4 **Spatial Clustering:** collect nearby houses into projects with density-based clustering algorithm



Identifying Housing Projects

- ① **Seller Identity:** match government names and housing authorities in seller-names from transactions
 - ② **Subsidy Value:** exclude purchase prices R50,000 above subsidy value
 - ③ **Pre-Existing Formal Dwellings:** exclude land plots with formal structures in 2001 building census
 - ④ **Spatial Clustering:** collect nearby houses into projects with density-based clustering algorithm
 - ⑤ **Temporal Clustering:** include clusters with $>50\%$ of transactions during modal year
- Overlaps well with completed projects from admin. data

Identifying Planned but Unconstructed Projects

- ① Admin. data have “planned,” “proposed,” “implementing” projects
 - ▶ Exclude projects with identified project transactions
 - ② Assign projects an expected completion date
 - ▶ Fuzzy-string match budget data (with start-dates) on project names
 - ▶ Add avg. diff. between transaction-date and start-date for completed projects
- ▶ Why are projects canceled/delayed?
- ▶ Legal disputes, service delivery backlogs, funding complications
 - ▶ Delays often exceed 12 years

Housing Projects

Table: Housing Projects and Building Growth

	Completed	Uncompleted
Formal Density: 2001	242.5	293.1
Formal Density: 2011	1,321.2	880.1
Informal Density: 2001	387.3	1,720.1
Informal Density: 2011	875.9	2,437.7
Median Year (est.)	2006	2006
Total Projects	80	159

Density is building number per square kilometer.

Measure outcomes in close neighborhoods

- Focus on 1.2 km buffers around housing projects



Housing Price Descriptives

Table: Price Descriptives

	Completed Project	Completed Buffer (<1.2 km)	Uncompleted Project	Uncompleted Buffer (<1.2 km)	Other
Purchase Price (Rand)	24,421.2 [21,999.5]	181,435.7 [149,871.1]	164,106.1 [113,829.7]	164,700.8 [147,593.1]	168,848.8 [169,768.3]
Plot Size (m3)	280.9 [127.7]	389.7 [1,019.8]	299.4 [592.2]	469.0 [1,136.7]	772.0 [2,606.0]
Sold At Least Once	0.136	0.413	0.582	0.537	0.319
Median Purchase Year	2005	2006	2007	2006	2006
Observations	39,048	113,223	11,288	99,745	138,567

Census Descriptives

	In Buffer but No Overlap		0% < Overlap ≤ 50%		50% < Overlap	
	Completed	Uncompleted	Completed	Uncompleted	Completed	Uncompleted
Flush Toilet: 2001	0.78	0.84	0.74	0.66	0.69	0.16
Flush Toilet: 2011	0.79	0.90	0.86	0.74	0.93	0.23
Piped Water: 2001	0.39	0.36	0.38	0.31	0.23	0.09
Piped Water: 2011	0.52	0.54	0.57	0.47	0.52	0.17
Owner: 2001	0.48	0.52	0.51	0.41	0.44	0.39
Owner: 2011	0.73	0.78	0.76	0.63	0.73	0.56
House: 2001	0.50	0.56	0.52	0.41	0.35	0.32
House: 2011	0.52	0.63	0.61	0.54	0.64	0.32
Rooms: 2001	3.30	3.39	3.16	3.14	2.85	3.01
Rooms: 2011	3.44	3.57	3.49	3.49	3.32	3.12
Observations	1,196,080	996,443	356,975	131,708	567,633	225,675