



Housing and the urban premium



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ABSTRACT

Housing policy is experiencing a revival in many countries of the South after a period of neglect. There is a risk that mass housing projects may produce inefficient, exclusive and environmentally-damaging urban outcomes. Human settlements policy should serve a broader purpose than constructing more housing units. A carefully-designed approach can help to lift households out of poverty by creating opportunities for people to become more productive. It can help urban areas to function more efficiently, and expand economic activity, investment and jobs. For housing to contribute to the urban premium, it should be situated within a broader city-wide development strategy, with density, connectivity and diversity as core objectives. Implementation is challenging and requires a range of institutional reforms to facilitate coordination and capacity-building.

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1. Introduction

Access to decent housing is vital to human health and well-being. The availability of affordable and durable housing also affects whether neighbourhoods are liveable and cities inclusive. This in turn shapes whether societies are dynamic and successive generations are better off than their predecessors. Yet many cities in the South do not have adequate dwellings for most of their citizens. About one billion people occupy makeshift structures within crowded 'slums' lacking basic services and susceptible to hardship and hazards (UN-Habitat, 2003, 2012; UNDESA, 2013). The scale of the challenge is growing because of spiralling urban populations (UNEP, 2013; World Bank, 2013). This is part of the justification given for a revival of housing policy after decades of neglect, following the demise of traditional public housing projects and sites-and-services schemes (Gilbert, 2004; Tibaijuka, 2009; Woetzel, Ram, Mischke, Garemo, & Sankhe, 2014). Buckley, Kallergis, and Wainer (2015) identify 16 developing countries in which governments have launched multi-billion dollar housing programmes in recent years (see also Grant, 2015; OECD, 2013a; UN-Habitat, 2014; Watson, 2014).

Efforts to expand the housing stock are clearly important where the need is growing and the existing methods of provision fall short. Preventing the projected increase to three billion slum dwellers by 2050 (UNDESA, 2013) would transform the material welfare of a large section of global humanity. However, slum

housing does not exist in isolation of other socio-economic problems, and there are risks in responses which ignore why the housing system has under-performed. Housing shortfalls are partly the result of poor households migrating to cities in search of jobs. Their weak housing demand reflects high unemployment, precarious earnings and an undeveloped housing finance system (Buckley et al., 2015; Hammam, 2015; Tibaijuka, 2009). Supply-side obstacles are usually important as well, including poorly-functioning urban land markets, high construction costs and inappropriate building regulations (Collier & Venables, 2015; Durand-Lasserve, Durand-Lasserve, & Selod, 2015; Napier, Berrisford, Kihato, McGaffin, & Royston, 2013). Lasting solutions need to address these issues and not plough ahead regardless.

State policies to boost the volume of housing can have unintended consequences. There are many examples from around the world of mass housing programmes that have gone awry (Balchin, 1996; Bradlow, Bolnick, & Shearing, 2011; Buckley et al., 2015; Gilbert, 2004). A focus on delivering bricks and mortar can become a numbers game that relegates other qualities of housing, such as the need for diverse solutions to meet variable household needs. Vital aspects of functional urban settlements, such as density and connectivity, tend to get sacrificed when the short-term economics and politics of construction dominate. Much of the value of housing is derived from the access it affords to jobs, without which people cannot pay for basic services or maintenance of their homes, let alone essentials like food and clothing (Hammam, 2015). Yet an industrial approach tends to mean building beyond the urban fringe where land is cheap, unit costs are lower and delivery can be

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fast-tracked. The outcome has often been soulless dormitory suburbs, unpopular public housing estates, and even abandoned homes (Buckley et al., 2015; UN-Habitat, 2014; Watson, 2014).

A case is made in this paper for housing policy to serve a broader purpose beyond the provision of shelter for unspecified beneficiaries. Housing in cities has the potential to support two related objectives:

- (i) providing sustainable routes out of poverty by creating more inclusive and liveable environments in which people can become more skilled, and
- (ii) expanding economic and social opportunities by ensuring that cities function better, thereby raising productivity, output and investment.

These are vital objectives considering the scale of urbanisation that is still to happen in the South and the imperative to plan and manage the process better than in the past (Angel, 2011; Collier & Venables, 2015; Glaeser & Joshi-Ghani, 2014; UN-Habitat, 2014). However, these aims are unlikely to be achieved by stand-alone national housing programmes. According to the Global Commission on the Economy and Climate (GCEC) “to unlock a new wave of sustained, long-term urban productivity improvements, we need a systemic shift to more compact, connected and coordinated development” (2014, p.29).

The ‘urban premium’ encapsulates the idea that well-structured cities generate higher level economic and social outcomes. It is an attempt to formulate a more synthetic, integrative perspective on urban development, signifying the positive value created by the coherent spatial organisation of households, firms and public infrastructure – higher density, mixed-use activities clustered around key nodes and transport corridors. For housing to contribute to these benefits, investment decisions need to be made within a broader urban framework in which qualitative issues (such as mobility and access to employment and education) feature alongside the quantum of construction. Housing is the largest user of urban land, so it can impose serious economic, social and environmental costs if its purpose is reduced to adding physical stock, and if it is delivered in a way that produces a sprawling, haphazard urban form that is difficult to service with public transport, bulk infrastructure and other services (Glaeser & Joshi-Ghani, 2014; GCEC, 2014; Litman, 2015). Such effects are difficult to rectify after development has occurred given the inertia, sunk costs and social resistance associated with investment in the built environment. They can lock-in inefficiency, exclusion and high energy consumption for decades, leaving a costly legacy for future generations.

The structure of the paper is as follows. The next section disentangles the implications of housing for living conditions and urban economies. Section three introduces the notion of the urban premium as a way to capture the wide-ranging benefits from well-organised human settlements. The fourth section discusses the various sources of the urban premium. Section 5 explores the interaction between these mechanisms. The sixth section considers significance of urban density for prosperity and inclusion. Section 7 outlines additional considerations that are important in realising the potential of cities.

2. The social and economic impacts of housing

Housing is a multi-faceted phenomenon with far-reaching implications for human welfare and life chances (Hamnett & Ward, 2012; Smith, 2012; UN-Habitat, 2003). Everyone needs a home to protect them from the elements and to provide a safe environment in which to develop. People living in shacks have to spend more time safeguarding their property and procuring basic services, and

are more vulnerable to the spread of disease, fire, flooding and other disasters (Franklin, 2011; Huchzermeyer, 2011; Hunter & Posel, 2012). Decent homes offer privacy and self-respect, and space for study and social interaction. Housing helps people to become more productive and provides an asset to invest in for security.

Housing’s contribution to living standards helps to explain why it is often a focus of national policy attention. It accounts for why political transitions from traumatic wars or authoritarian regimes to stability and democracy have often been accompanied by a boost to house-building as a tangible benefit to the poor (Balchin, 1996). In post-apartheid South Africa, housing was given priority as a means to restore dignity, citizenship and a better life to poor communities after decades of exclusion (Bundy, 2014; Presidency, 2014). Approximately 2.8 million free houses have been built since 1994, costing perhaps as much as US \$30–40 billion in today’s prices. About 10 million people have benefited, lifting the proportion living in formal housing from 64% in 1996 to 78% in 2011. Continuing expectations mean that the emphasis on quantitative delivery persists. The government recently announced a new, more ambitious target to build another 1.5 million houses by 2019. The aim is to achieve economies of scale and fast-track procedures by focussing on ‘mega-projects’. This has sparked controversy because of the weak economic rationale, financial risks and isolated locations of the new schemes (Turok, 2015).

Housing also has far-reaching consequences for the economy, both directly and indirectly, and through forward and backward linkages (Tibajjuka, 2009). House-building, repairs and maintenance, and all associated infrastructure are major sources of construction activity and generate sizeable demand for cement, bricks, steel, roofing materials and other physical inputs and labour. This is a substantial value chain with potential for domestic production and job creation. Housing also supports consumption through the demand for furniture, home appliances, consumer electronics and other household goods. In addition, houses provide space for people to undertake home-based enterprises and small-scale trading activities, and assets to be used as collateral for entrepreneurs seeking to borrow capital from banks. Rudimentary housing (such as shacks) is unlikely to have anything like the same economic impact in any of these respects (Collier & Venables, 2015).

Recognition of the sizeable multiplier effects of house-building and home consumption has prompted many countries to use housing as a vehicle to stimulate economic recovery following the global recession. This was one of the main reasons Brazil launched its public housing programme *Minha Casa Minha Vida* (My House, My Life) in 2009, aimed at building three million additional houses (UN-Habitat, 2014). Within the first two years a million homes had been built at a cost of about US \$18 billion (Buckley et al., 2015). Both middle- and low-income households have been targeted.

China has encouraged housing investment in recent years to sustain national growth and rebalance its economy from export-oriented production towards domestic consumption (OECD, 2013b). This is an about-turn from the government’s traditional view of housing as an unproductive form of investment required to accommodate an expanding urban workforce. Greater emphasis has also been placed on inland cities in order to narrow regional economic disparities with the coastal belt. Success at fostering consumer-driven growth depends on rural migrant households becoming more secure and integrated in the cities, and adjusting their behaviour from saving to spending (Miller, 2012). This necessitates a new approach to urban development, to create more inclusive, liveable and consumer-friendly places, while avoiding excessive car travel and environmental degradation (GCEC, 2014). It also elevates the status of housing investment from a subordinate position relative to industrial production into a more strategic role.

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