



HOME LOANS  
DIVISION

## ESKOM AND OTHER HOME COST EFFECTS

*– While the debate rages as to how much we're going to pay for power and other utilities, it's time to start planning for the consequences*

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### ESKOM AND OTHER HOUSING-RELATED TARIFF INCREASES – IMPACTS GO FAR BEYOND SHORT TERM ECONOMIC GROWTH, AND SO SHOULD THE DEBATE

In recent times, power utility Eskom has been occupying much of the media space, and the debate surrounding the proposed tariff hikes has been heated to put it mildly. Will the tariff hikes be 45%? Is it now 35%? We don't know yet, and we'll only get some certainty early next year.

In the mean time, there are certain realities surrounding power as well as other property-related costs that we need to start considering more seriously.

What is apparent regarding energy in South Africa is that if there is not some combination of investment in additional capacity along with demand management of power, it will probably not be too long before the so-called "reserve capacity" runs out.

What we also know is that there is a big environmental debate surrounding energy consumption and supply, and especially coal-fired power stations (predominant in SA) are not exactly the "flavour of the month" with environmentalists. From this point of view, too, it would appear that energy production and consumption habits will be required to change in future.

In addition, it isn't only the area of electricity supply where under-investment has caught up with us. Transport, water and sewage in some areas also require urgent attention, which would probably imply more costs coming the way of the household sector.

Now there are various models for financing increased power supply capacity and other infrastructure, including greater private sector involvement, and hopefully we won't have to pay quite as much as the proposed hikes suggest. But the reality is that the cost of operating a home is already rising steadily, and Eskom is only one contributor to that. If one looks at the most recent available consumer price inflation numbers for October, the CPI sub-index for electricity used in homes showed year-on-year inflation of 24.1%. In other words, high electricity inflation is already happening.

The CPI sub-index for "water and other services", which includes refuse removal, sewage and assessment rates showed year-on-year inflation of 9.4%, also well-above overall consumer price inflation. Mediocre "actual rental" inflation of 5.4%, along with estimated "owner occupied rental" inflation of 4.7% assisted in curbing the overall rate of inflation for the CPI sub-index for housing and utilities to 7.4%, but that still leaves the housing costs sub-index inflating at above the 5.9% overall consumer price inflation rate.

This does not include the cost of insurance, and the CPI sub-index for insurance, which includes amongst others housing and household insurance, showed year-on-year inflation of 12%.

What will the probable response be to the steadily rising costs of operating homes, in which councils and utilities look set to play an important but not the only role? In the short term, it would predominantly be to cut back on usage of services such as power and water where possible. Such options are often limited in the short term, because the size of the property and its built in facilities (swimming pools for instance) cause it to consume significant quantities of electricity and water. In the longer term, however, the demand-side options become more significant, because over time the design of new properties can change.

Increasing urban land scarcity, often related to limited investment in new infrastructure, especially in the area of transport, has already caused some densification of urban living through the development of new homes on smaller-sized stands. Now, more significant increases in costs related to household operation, often aimed at funding the growing infrastructure shortfalls, threatens to speed up this densification process – i.e. higher home operating costs means we ultimately buy and build "less house" on average.

And so, while not ignoring economists' (justified) short term concerns regarding the negative impact that possible Eskom tariff hikes can have on overall near term economic growth, there is a more complex longer term problem of how we re-arrange our cities to become more efficient in the use of not only energy, but also water and space (and even air, with pollution issues coming into play).

The following are some of the probable longer term implications of rising real costs of operating homes:

- An increasing portion of the population will go for smaller sized homes on smaller-sized stands, a process already under way but which rising utilities costs and assessment rates could help to speed up

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- This implies more people in less space, as opposed to the urban sprawl of yesteryear, and implies the more efficient use of existing space as opposed to the creation of new space. For transport, it needs to imply the steady shift to mass public transport. For health and recreation it implies the need for more safe public open areas to compensate for a diminishing number of housing units with their own private open areas. For the utilities, it should mean increasing the capacity of distribution networks in existing areas, from electricity to water to sewage, not to mention healthcare and education facilities.
- From an employment point of view, the long term densification and household operating cost increases could have a negative impact on the domestic worker segment of the labour force. Less gardens means less gardening services required, while the combination of smaller-sized housing units along with the long term home operating “economy drive” could imply a move away from the common practice of home domestic workers. The resultant need to re-skill and up-skill what is a significant part of the labour force presents a further challenge.

I'm sure I have only scratched the surface when it comes to the implications of the above-mentioned cost increases. But, while the detail of how much extra we are going to pay for utilities still has to become more clear, the reality is that these and other costs related to home operation (and with that the “time and stress costs” associated with rising urban transport congestion) have already been steadily rising for some time, in part causing a steady change in the way we live in our urban areas. It is necessary that urban planning and design changes keep up with the trend, and for urban densification not to be allowed to proceed in its often chaotic way.

Well-planned and well-run cities can be great attractors of skilled labour, thus contributing to higher economic growth. Conversely, badly planned and managed cities can conceivably repel skills and be a drag on the economy.

I believe the reality is that home operating and related costs will rise significantly in real terms in coming years, with not only Eskom but other utilities, councils, transport costs, and even some home-related private sector services costs contributing to significant changes in the way we live in response to these cost increases. But the ultimate extent of the cost to the economy has the potential to go far beyond the magnitude of tariff increases, depending on what the urban planning response will ultimately be to the resultant densification process already in progress.

So, while the debate regarding how much extra we're going to have to pay for this infrastructure investment is a useful one to have, perhaps it needs to be rapidly extended to thinking about the far-reaching consequences of resultant home operating cost increases already in progress.

### THE CHANGING WAY WE LIVE

