GETTING SOUTH AFRICANS UNDER SHELTER:

An overview of the South African housing sector

David Gardner

August 2003
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1 INTRODUCTION

1.1 Objectives

This document provides an overview of the low-income housing sector in South Africa, meant to be easily accessed on the HFRP website. More specifically, its objectives are to:

• provide important, substantive, up-to-date housing-related information;
• present complicated information in an accessible format; and
• complement the resources on the HFRP website.

A secondary objective of this study is to begin sensitising its target market to current housing policy and delivery problems in South Africa.

1.2 Target market

The document is aimed at the following groups of users:

• housing practitioners wishing to navigate through South Africa’s complex housing field (international and local). The website will provide links to more detailed information offered by other (off-site) resources;
• housing consumers wishing to access information on housing-related topics, processes, and institutions; and
• students wishing to understand South Africa’s housing environment.

2 BACKGROUND

2.1 Overview

This section provides an overview of the history and current status of South Africa’s housing sector. The housing legacy inherited by the new government in 1994 is reviewed to illustrate the need for the substantial policy review that was undertaken between 1991 and 1994, and implemented from 1995. Thereafter, the progress with housing delivery over the last decade is outlined. This section concludes with a snapshot of the housing sector and its current performance.

2.2 South Africa’s housing legacy

In 1994, South Africa’s housing sector was in crisis. A severe housing backlog characterised by a rapid growth in informal settlement had been exacerbated by decades of apartheid city structuring that had created social and economic divisions in our urban spaces.
Housing policies and legislative frameworks, institutions and administration were divided on the basis of race and geography, leading to a plethora of institutions undertaking the same functions in parallel. A multitude of subsidy systems further confused the landscape, leading to inequities in the allocation of state support for housing, and an inability to sustain long-term housing subsidy programmes. As a result, private sector involvement in low-income housing delivery was minimal.

A very limited financial sector provided finance only to high-income people in the form of bonds. In the absence of any other credit alternatives except personal and revolving credit mechanisms, a majority of households were effectively unable to access credit for housing beyond their own savings and the takings from revolving credit mechanisms. Combined with low incomes, this meant that many households could not afford even basic housing. Civil unrest, as well as inexperienced housing consumers, further complicated the housing environment and pointed to the need for a normalised housing market.

### 2.3 Negotiating a new housing future

#### 2.3.1 National Housing Forum (NHF)

The NHF was established in 1991 as South Africa’s first consensus-based forum on housing. Participants from government, (then) extra-parliamentary political parties, civil society and the private sector deliberated jointly on a future housing approach for South Africa (Rust & Rubenstein 1996). Ultimately, participants to the NHF were instrumental in developing the basis of a future housing policy that was drafted into the White Paper on Housing (1994), and re-confirmed in the Housing Code of 2000.

#### 2.3.2 National Housing Board (NHB)

Post-NHF, non-state actors engaged on housing issues within the legislated framework of the NHB. The policy negotiation process continued within this structured environment, until the NHB was restructured into the South African Housing Development Board (See Section 5.3.1) that has new representation, roles and functions.

#### 2.3.3 State responsibility for housing policy

From this point onwards, responsibility for housing policy has been more closely managed by government, with ongoing bilateral discussions between government and industry representatives on key issues. However, important policy and delivery initiatives requiring the engagement of state, private sector and community actors continue to be a cornerstone of South Africa’s housing progress (for specific initiatives, see Section 3.4).

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Currently, no formal mechanisms exist for private sector and non-governmental participation in public policy development in the housing sector.
2.4 The ‘new deal’ for housing: South Africa’s housing strategy

2.4.1 Housing vision

The White Paper on Housing was released in December, 1994. At the core of the White Paper is the following vision for housing (DoH 1994).

... the establishment and maintenance of 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.

2.4.2 Housing strategy

South Africa’s housing strategy comprises seven strategy areas through which the housing vision will be realised. These remain the foundation for South Africa’s housing strategy, and are entrenched in the National Housing Code, 2000. Each strategy is outlined in more detail in Section 3.4:

- Strategy 1: Stabilising the housing environment (see section 3.4.1)
- Strategy 2: Mobilising housing credit (see section 3.4.2)
- Strategy 3: Providing subsidy assistance (see section 3.4.3)
- Strategy 4: Supporting the People’s Housing Process (see section 3.4.4)
- Strategy 5: Rationalising institutional capacity (see section 3.4.5)
- Strategy 6: Facilitating speedy release and servicing of land (see section 3.4.6)
- Strategy 7: Co-ordinating government investment in housing (see section 3.4.7)

2.5 Housing delivery progress

2.5.1 Subsidised housing delivery

Many housing practitioners consider South Africa’s housing programme to be one of the most successful of any country in history. The publicly stated target was to develop one million subsidised houses within five years. In the end, reaching this target took six. On average 470 housing units were delivered in South Africa every day between May 1994 and May 2002 (Rust 2002b: 3). By February 2003 just over 1.5-million subsidised houses had been or were being completed in South Africa since June, 1994, (DoH 2003b), affecting the lives of over 6-million people (see Figure 1). Almost R23.5-billion of housing subsidy assistance has been released into the housing sector over this period (DoH 1999: 17; 2003).
2.5.2 Housing backlog

Even with the delivery of over 1.5-million houses since 1994, current estimates put the housing backlog in South Africa at between 1.9-million and 2.4-million households. It is estimated that subsidised housing delivery made in-roads into the backlog only in 1997, with the delivery of over 300 000 subsidised houses. Since 1994, rates of new construction have not kept pace with the growth in new families and the flow of foreigners into South Africa (see Figure 1). The housing backlog is still mainly located at the lower end of the income spectrum, although an important part of the backlog exists between the subsidy eligibility income cut-off (household incomes of above R3 500 a month) up to those households able to afford and access bond finance (household incomes of above R6 000 a month).

Figure 1: Household formation, housing delivery, and the housing backlog

Source: DoH (2003a: 2); DoH personal correspondence; Demographic Information Bureau.

2.5.3 National housing budget and housing expenditure

The housing budget for the 2002/03 fiscal year was R4.24-billion (or 1.5% of government expenditure). This is a 14% increase from the 2001/02 budget. However, during the 2003/04 budget year, only the North West and Western Cape provinces expect to
spend their full budget. Gauteng (84%), Mpumalanga (71%) and KwaZulu-Natal (89%) are likely to underspend, but have received increases in their allocations to provide for medium-density housing development.

The effects of inflation imply that the 1994 housing budget is less than the 1994/95 budget allocation (See Figure 2). An estimated 35% nominal budget increase is planned between the 2002/2003 and 2004/05 budgets (Khan and Thring 2003: ix). Government has set aside an amount of R13.5-billion for housing subsidy programmes over the next three fiscal years (2003/04 to 2005/06; Chalmers 2003).

![Figure 2: Housing budget, minimum housing standards, and inflationary impact (based on CPI)](image)

**2.5.4 Current housing delivery trends**

Since 1997, the average rate of subsidised housing delivery has decreased. Indications are that, after increasing to above 230 000 units in 2002/03, delivery is set to decrease again during 2003/04. There are many interrelated factors that have contributed to this, which are discussed elsewhere in this document. In summary, the key contributors to this seem to be:

- **Subsidy budget:** A relative decrease in the quantum of the national subsidy budget over the last eight years due to small absolute increases and the erosive effects of inflation. This has affected the housing sector’s ability to plan forwards and confidently scale up capacity with certain knowledge of future subsidy availability.

- **Erosion of subsidy value:** Discrepancies between the upward pressure on minimum housing standards and the relative decrease in the value of housing subsidies since 1995, due to inflation (until subsidies were increased in 2002). The resulting mar-
gin reductions have proved too much for many developers, and have also resulted in increased problems with the quality of subsidised housing.

- **Savings policy:** Recent changes to housing policy require individual contributions from subsidy beneficiaries in order to access subsidies. Few households have this level of savings readily available, and the lead times to establish Peoples’ Housing Process (PHP) projects are significant. The lack of a defined policy framework, as well as the time it will take to generate such levels of savings are creating a hiatus in delivery. In certain provinces, this has lead to a complete focus on fully-subsidised ‘special needs’ housing projects to circumvent the savings requirements.

- **Procurement-compliant regime:** The new ‘procurement compliant’ subsidy regime requires an expanded role for local government in the development process. Prior to this, local government capacity was one of the key constraints to speedy development, and the new policy will only exacerbate this.

- **Local government constraints:** Continued constraints on the land identification, packaging, release and township establishment processes, primarily due to local government capacity constraints and new administrative requirements in terms of Integrated Development Plans (IDPs).

Local government institutional capacity and financial constraints pose a significant threat to future subsidised housing delivery in South Africa. Local authorities face a subsidised housing dilemma: the more successfully they deliver subsidised housing, the quicker they potentially move towards bankruptcy due to high rates of non-payment of rates and service charges.

### 2.6 South African housing sector snapshot

A snapshot of South Africa’s housing market is given below. This considers current housing tenure and housing conditions, as well as the housing market performance over the last decade.

#### 2.6.1 Housing tenure overview

A snapshot of the housing tenure arrangements of South Africa’s people is outlined in Figure 3. Thereafter, more detail of the performance of different housing market sectors are reviewed.
Figure 3: Overview of South Africa’s housing sector

<table>
<thead>
<tr>
<th>No</th>
<th>Housing / Tenure Category</th>
<th>Rural (H/Holds)</th>
<th>Urban (H/Holds)</th>
<th>Total (H/Holds)</th>
<th>Subcat (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ownership</td>
<td>3,038,651</td>
<td>3,351,999</td>
<td>6,390,650</td>
<td>100.0%</td>
<td>58.9%</td>
</tr>
<tr>
<td></td>
<td>1.1 Registered Title</td>
<td>1,926,960</td>
<td>3,281,040</td>
<td>5,208,000</td>
<td>81.5%</td>
<td>48.0%</td>
</tr>
<tr>
<td></td>
<td>a) Freehold</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b) Sectional Title</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>c) Deed of Sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2</td>
<td>Traditional Dwellings</td>
<td>1,111,691</td>
<td>70,959</td>
<td>1,182,650</td>
<td>18.5%</td>
<td>10.9%</td>
</tr>
<tr>
<td></td>
<td>a) Tribal Tenure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b) Communal Tenure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Rental</td>
<td>1,046,266</td>
<td>2,328,085</td>
<td>3,374,350</td>
<td>100.0%</td>
<td>31.2%</td>
</tr>
<tr>
<td></td>
<td>2.1 Formal Rental</td>
<td>341,775</td>
<td>1,285,725</td>
<td>1,627,500</td>
<td>48.2%</td>
<td>15.0%</td>
</tr>
<tr>
<td></td>
<td>a) Private Sector Rental</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b) Public Sector Rental</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>c) Public Sector Hostels</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>d) Institutional Rental</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.2</td>
<td>Employer Rental</td>
<td>342,535</td>
<td>102,316</td>
<td>444,850</td>
<td>13.2%</td>
<td>4.1%</td>
</tr>
<tr>
<td></td>
<td>a) Company Villages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b) Company Hostels</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.3</td>
<td>Informal Rental</td>
<td>262,353</td>
<td>746,697</td>
<td>1,009,050</td>
<td>29.9%</td>
<td>9.3%</td>
</tr>
<tr>
<td></td>
<td>a) Formal Backyard</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b) Informal Backyard</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>c) Room Rental</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.4</td>
<td>Other Rental</td>
<td>99,603</td>
<td>193,347</td>
<td>292,950</td>
<td>8.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td></td>
<td>a) Caravans, Tents, Etc</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Informal Settlement</td>
<td>177,723</td>
<td>809,627</td>
<td>987,350</td>
<td>100.0%</td>
<td>9.1%</td>
</tr>
<tr>
<td>3.1</td>
<td>Squatters</td>
<td>177,723</td>
<td>809,627</td>
<td>987,350</td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Other</td>
<td>29,295</td>
<td>68,355</td>
<td>97,650</td>
<td>100.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>4.1</td>
<td>Other?</td>
<td>29,295</td>
<td>68,355</td>
<td>97,650</td>
<td>100.0%</td>
<td></td>
</tr>
<tr>
<td>TOTAL: All Households</td>
<td>4,291,935</td>
<td>6,558,066</td>
<td>10,850,000</td>
<td>100.1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.6.2 Primary housing market performance

South Africa’s primary housing market is substantially focused on producing accommodation for ownership. Developers, contractors and institutions are responsible for the majority of formal housing development activity in South Africa. Commercial developers...
and contractors service the vibrant higher-income market for products of over approximately R120 000.

A substantial ‘credit and delivery gap’ exists for affordable housing products costing between R26 000\(^5\) and R120 000, which is only partially filled by limited instalment sale-financed projects and more limited subsidised rental and social housing available in inner-city areas through housing institutions.

2.6.3 Subsidised housing market

In the subsidised housing submarket, commercial and non-commercial developers and housing institutions produce fully-subsidised (and limited partially-subsidised) housing units, mostly through large-scale projects\(^6\). These are generally clustered around the price range of R25 580. New delivery is currently focused on the fully-subsidised ‘subsidy giveaway’ and ‘special needs’ products that require limited additional savings and credit\(^7\).

2.6.4 Secondary housing market (housing resales) performance

Apart from the higher income sub-market, a very limited, functioning secondary market for housing exists in South Africa. This is primarily due to the shortage of accommodation for sale, as well as the low perceptions of value attached to ‘giveaway’ subsidised housing. However, resale of subsidised housing at well below replacement cost is known to occur, and some estimates put this as high as 20% to 40% in new housing developments (Baumann 2003: 3). Facilitating secondary markets in South Africa’s low and middle income areas is an important challenge. This would provide underlying security required to enable households to perceive and realise value invested in housing, resulting in potentials for capital accumulation, effective resales and ‘upward trading’ as well as justifications for greater investment in consolidation and upgrading (Porteous and Naicker, in Kahn and Thring (2003: 223)).

2.6.5 Rental housing market performance

Notwithstanding the policy vacuum rental housing has faced, it is perhaps the second most efficient housing market in South Africa, after the high-income primary market. A range of rental options that are affordable to households in all sub-markets exist, and currently provide accommodation for one third of South African households. This includes high and medium-income housing and apartment rental, through to informal rental of ‘backyard’ structures offering basic access to services and costing less than R100 a month. (Gardner 2003: 19). Significant opportunities exist to facilitate the number and types of products that are offered on the rental market, with little or no direct market intervention.
In international terms, South Africa’s rental sector is relatively underdeveloped. Formal and informal rental housing are important aspects of a balanced housing policy, and require greater policy focus in the future.

Institutional housing delivery is becoming a more important part of the future housing market for middle-income households, especially in inner-city areas. However, while this form of housing is being promoted in policy terms, it currently contributes a small proportion of total housing delivered. Currently, there are approximately 60 Social Housing Institutions (SHIs) that manage approximately 25 000 housing units under management or in production (Social Housing Foundation 2003). This equates to less than 2% of subsidised housing production in South Africa since 1994. It should also be considered that many of these units are rehabilitated or converted from existing building stock, and possibly should not be considered as primary market production.

2.6.6  Informal housing market performance

The informal housing market (in the form of informal settlements) continues to be one of the most active housing markets in South Africa, albeit producing the worst quality accommodation. While informal settlements comprise the smallest proportion of households (9%), it arguably generates one of the greatest turnover of accommodation. This market continues to house more new households annually than the entire formal housing delivery process. In addition, many subsidised housing beneficiaries are sourced from these areas, and many new households formed and rural-urban migrants seek shelter in these areas. This is without doubt the most neglected housing market segment in South Africa from a policy point of view.

Informal housing (squatting) remains the most neglected housing sub-sector in South Africa. While this sub-market houses more households than the formal housing delivery process (albeit at very low standards), it enjoys little policy or financial support. Given that the housing backlog is not yet being eradicated, more policy focus should be placed on dealing with informal housing in situ.

3  HOUSING POLICY AND STRATEGY

3.1  Overview

An entirely new housing policy framework was implemented in South Africa in 1994 and 1995. This policy has remained mostly unchanged until the present. This section provides an overview of this housing policy and its underlying strategy, as well as key successes and failures it has experienced over the last nine years.
3.2 Housing policy

All South Africans have a constitutional right to ‘adequate housing’. The state’s approach to progressively meeting this right is defined in the national housing strategy.

3.2.1 Constitutional ‘right’ to housing

The Constitution of the Republic of South Africa, 1996 states that all citizens of South Africa have the right to have ‘access to adequate housing’. It is therefore the duty of government to progressively and effectively work towards ensuring all citizens can access secure tenure, basic services, materials, facilities and infrastructure (DoH 2002: 4).

3.2.2 National Housing Code

The National Housing Code of 2000 sets out the approach of the DoH (DoH ) to meeting the constitutional right to housing. It sets out in detail South Africa’s housing policy, the legislative framework and the seven national housing strategy areas.

3.3 Legislative framework for housing

A range of Acts, ordinances and policies govern South Africa’s housing environment. Key legislation relevant to each housing strategy is highlighted in Section 3.4. An overview of important legislation regulating the housing environment in South Africa is provided in Annexure 1 (see Section 7).

3.4 National housing strategy

South Africa’s housing strategy has not shifted substantially since its inception in 1994. It remains grounded on the seven core strategies that were originally set out in the Housing White Paper in 1994, and are now entrenched in the Housing Code, 2000.

The housing policy is based on five fundamental themes that recur throughout the seven strategies: harnessing the energy of people, creating partnerships, ensuring quality and affordability, assisting the poorest, and creating opportunities for creativity.

Each of the seven housing strategies are discussed here. Their aim, the approach adopted, supportive legislation promulgated and institutions and initiatives established to drive them from 1994 to the present are discussed. Finally, a review of key success, problem areas and debates related to each strategy is provided.

3.4.1 Strategy 1: Stabilising the housing environment

Aim: To create a stable and effective public environment and to lower perceived risk in the lower income housing market by ensuring the security of contract and clear roles and responsibilities and to ensure the delivery of good quality housing (DoH 2002: section 1.4).
Approach: The approach adopted for this strategy was to promote partnerships between the public, private and community sectors. Specifically, this was based on the Record of Understanding (RoU) signed between the state and the banks (the Association of Mortgage Lenders) in 1994. The RoU set the framework for two initiatives: firstly, increasing the availability of credit for low-income households and secondly, reducing the risks involved in lending to low-income beneficiaries (Rust 2002a: 9-10). The RoU was updated in 1998 in the so-called ‘New Deal’ signed by the Banking Council (See Section 5.8.1). The New Deal reiterated the principles of the RoU, and put in place certain initiatives to further manage Properties in Possession and non-performing loans.

While limited progress has been made on the issues outlined in the RoU and the New Deal, the main risks that were to be alleviated by the initiatives implemented as a result of these agreements still exist. The lending environment has not yet been ‘normalised’.

Legislation: Legislation adopted to implement this strategy include the following:

- The Housing Consumers Protection Measures Act, 1998 provides the framework for the establishment and operation of the National Homebuilders Registration Council and the Product Defect Warranty Scheme.
- The Rental Act, 1999 sets out a more formal legislative framework in order to better govern the relationships between landlords and tenants.

Institutions and initiatives: A range of new institutions and initiatives were established on the basis of the RoU in order to play specific functions in normalising the environment:

- The Masakhane Campaign is a state-driven initiative intended to encourage people to ‘pay their way’ for rates, services, rent and credit payments, but has met with limited success.
- The Mortgage Indemnity Fund (MIF) provided indemnity insurance for financial institutions lending in specific areas for a three year period (See Section 5.5.1).
- SERVCON Housing Solutions manages non-performing loans (NPLs) and properties in possession (PIPs) on behalf of the banks (See Section 5.5.1).
- Thubelisha Homes procures and develops housing stock appropriate for rightsizing to support SERVCON’s payment normalisation programme (See Section 5.5.2).
- The National Home Builders’ Registration Council (NHBRC) regulates activities of housing practitioners, and manages a Product Defect Warranty Scheme that covers the costs of rectifying structural defects in bank-financed houses (See Section 5.6.1).

Progress: This strategy has not successfully delivered on its aim, and remains one of the main constraints to the normalisation and growth of the low-income housing sector.
Private sector lending remains low, operating environment risks remain high and little change has occurred in rates, services and credit payment patterns. The reasons for this failure are fourfold:\(^\text{11}\).

- **Role confusion:** There has been continued disagreement between the state and the banks as to whether lending follows normalisation, or vice versa (Rust 2002a: 21).

- **Worsened operating environment:** Since the mid-1990’s, in many respects the operating environment has worsened\(^\text{12}\). Non-payment due to poverty, unemployment and the impact of AIDS has increased; the complexities of the housing sector are still not well understood in the target market; financial discipline is lacking; the quality of many housing products delivered remains bad; poorly informed community leadership can at times mislead constituents; the ability to repossess and take vacant possession of properties from defaulters remains tenuous, and in many areas deteriorating public environments contributes to negative equity in housing investments.

- **Wider roles and responsibilities:** To be successful this strategy relies on the commitment of a much wider group of stakeholders than the DoH and the banks. Structures that play vital roles in job creation, economic regeneration, local governance, maintaining law and order and investing in the public environment have not been adequately involved. These include the departments responsible for safety and security and justice;

- **Legislative uncertainty:** new municipal legislation could exacerbate this problem. Recent changes to municipal legislation (Local Government Laws Amendment Act, 2002) could place municipalities before banks as creditors on properties in default, further reducing banks’ willingness to grant finance to markets with higher default performance.

### 3.4.2 Strategy 2: Mobilising housing credit

**Aim:** This strategy aims to build a partnership based on risk-sharing between the private and public sectors in order to improve the flow of end-user finance into the low-income housing sector. A description of the most prevalent financial products and institutions in South Africa’s housing sector is given in Section 4.4.

**Approach:** Initially, the approach was to create an enabling environment through which private sector finance could flow into low income housing. This involved the development of financial and development guarantees through the creation of two Development Finance Institutions (the National Housing Finance Corporation and Nurcha), and mechanisms to mobilise credit provision on a risk-sharing basis (DoH 2000: section 1.4.2). More recently, a more interventionist route is being followed by government in an attempt to compel private sector financial participation in low-income lending through prescriptive legislation.
Legislation: Since 2000, the state has taken a more forceful approach to ensuring the availability of private sector credit for low-income households. Specific legislation has been enacted to attempt to mobilise housing credit:

- **The Home Loan and Mortgage Disclosure Act, 2002** enables government to monitor banks’ lending patterns, specifically with respect to lending to low-income people and neighbourhoods.

- **The Community Reinvestment Bill, 2003**, when promulgated, will compel banks to extend finance to the low income housing market through a range of funding options. These are likely to include direct lending, and the use of wholesale financing instruments.\(^{13}\)

Institutions and initiatives: ‘Partnerships in process’\(^ {14}\) include:

- Various initiatives related to the Record of Understanding and the ‘New Deal’ that aimed at dealing with undue risk of lending in low-income areas. These are covered in Section 3.4.4. The RoU also set out the roles and responsibilities of the parties to the agreement in a *Code of Conduct*.

- The National Presidential *Job Summit Pilot Project on Housing (1998-*) is based on an agreement between labour, business, government and the community aimed at initiating a new form of housing delivery, including financing and tenure options, which if successful could serve as a model for rental housing delivery (Mthembu-Mahanyele 2002: 5). The aim was to develop a minimum of 50 000 housing units in the pilot phase (of which 75% were to be for rental), using an investment of R1.3-billion from the business sector. In addition, the aim was to integrate the provision of housing, housing finance and social and cultural amenities. However, this programme met with limited success. To date, a review of the approach is under way, and limited delivery has resulted from this scheme.

- The *NEDLAC summit on Financial Services* (2002) raised the debate on redlining, the need for supportive mechanisms to cover risk of HIV-positive borrowers, the promotion of savings and the general provision of banking services (Khan and Thring 2003:xiii).

‘Partnerships in product’ have established certain state-mandated Development Finance Institutions to assist with this strategy.

- **The National Housing Finance Corporation (NHFC)** is a development finance institution that was established to provide wholesale and equity finance to financial intermediaries that on-lend finance to low-income beneficiaries, or provide affordable housing products through alternative tenure approaches. The NHFC has been instrumental in facilitating the expansion and growth in the provision of non-mortgage financial services to low-income households (See Section 5.4.1).
• **National Urban Reconstruction and Housing Agency (NURCHA)** is a development finance institution that facilitates access to finance for developers involved in low-income housing construction and for individuals wishing to save for or purchase housing (See Section 5.4.3).

• **The Rural Housing Loan Fund (RHLF)** is a rural development finance institution that provides wholesale loans to intermediaries who provide micro-loans to low-income, rural households (See Section 5.4.2).

• **The Social Housing Foundation (SHF)** is a facilitative agency intended to encourage and support the development of the social housing sector in South Africa through non-financial interventions and policy development, as well as through targeted grants for capacity building (See Section 5.5.5).

In addition to these state-mandated institutions and initiatives, another organisation has been encouraging the extension of credit to low-income households:

• **The Home Loan Guarantee Company** provides housing loan finance guarantees and is currently establishing an AIDS insurance product for home loan beneficiaries, therefore lowering the lending risk faced by financial institutions (See Section 5.7.1).

**Progress:** Despite a housing policy that continues to be reliant on the need for private sector housing finance and the establishment of various institutions and initiatives, participation by the formal banks in low-income housing remains limited (Rust 2002). Main reasons for this include:

• **A poor operating environment:** The lack of lending is due in part to the environmental conditions still pervading low-income areas (See Section 3.4.1). This means that operating in this sector can be considered as poor banking practice in relation to the standards of business practice expected of the banks by the Banks regulator at the Reserve Bank.

• **Perceptions of and requirements for credit:** Certain beneficiaries are not willing to access credit for home improvement (Zack 2003: 2), while others are able and willing to source finance to improve their housing conditions. Importantly, a recent study has found that in certain areas, not even previously defaulting households struggled to access finance if they wanted it (Rust 2003: 17, 25).

• **Financial product design:** There is an acceptance that mortgage finance is not the correct financial vehicle for low-income people to purchase homes (Tomlinson 1997, in Rust 2002a: 25). This is due to the high costs and negative profitability of mortgages of below about R60 000 (Kahn & Thring 2003: 174), as well as the lack of acceptance amongst the lower income groups due to long repayment periods.
• **Sectoral restructuring**: Banks do acknowledge that the reduction of their footprint in lower income communities and not actively developing new lending approaches for this market they are partly to blame for the lack of success.

• **‘Credit gap’**: Despite the growth of institutions serving the partially subsidised sub-markets, a substantial ‘credit gap’ exists that severely constrains housing delivery to a substantial spectrum of the low and middle-income housing market, most notably for products costing from R26 000 to roughly R120 000.

Progress has been made on the overall aim of extending credit to low-income households. However, this is mostly in spite of rather than because of the interventions put in place through this strategy.15:

• **Development finance institutions**: Facilitative state-corporate and private institutions such as the NHFC and Nurcha have contributed to the growth and expansion of the housing-related financial services sector. However, they are criticised as being too risk-averse in order to protect their own credit ratings, as well as to having not opened up critical areas of the housing finance market.

• **Financial institution expansion**: The spectrum of financial institutions providing credit options to low income households has improved substantially. Since 1994, a vibrant group of *non-bank lenders* comprising a range of housing institutions, schemes and partnership arrangements has developed to serve low-income households (including donors, NGOs, developers, small banks, micro and niche market lenders, materials suppliers and employers).

• **New financial products and approaches**: New lending products and methodologies are being tried that could better suit the needs of lower income households. These include new risk monitoring approaches (such as the use of loan administrators and use assessors) and new products (such as covering bonds, savings-backed micro-loans, building materials loans and instalment sale schemes).

• **Partnerships**: A new wave of partnerships between banks and non-bank lenders could see certain benefits accruing to both sides.

### 3.4.3 Strategy 3: Providing subsidy assistance

**Aim**: At the core of the National Housing Strategy is the provision of housing subsidy assistance to eligible households. Capital subsidy assistance is granted to low-income households in order to assist them to access at least minimum standard accommodation (DoH 2000: section 1.4.3). In addition, other subsidy programmes have been implemented to phase out past housing schemes and practices in South Africa. More details of the subsidy scheme and its various programmes are given in Section 4.3.

**Approach**: Subsidy assistance is provided through three subsidy programmes:
The National Housing Subsidy Scheme (NHSS) makes capital subsidies available to eligible low-income households or institutions providing housing to low-income households. The NHSS is the ‘flagship’ government subsidy programme (see Section 4.3.2).

The Discount Benefit Scheme (DBS) encourages the current occupants of state-subsidised rental housing developed before 1994 to purchase and take transfer of these houses at discounted rates (See Section 4.3.3); and

The Public Sector Hostels Redevelopment Programme (HRP) subsidises the redevelopment of public sector hostels as family accommodation (See Section 4.3.3).

Legislation: Legislation adopted to implement this strategy include the following:

- The Housing Act, 1997 (and revisions) sets out the basis for the housing subsidy programme.
- The Housing Code, 2000 governs the operation of the various housing subsidy programmes.

Institutions and initiatives: The subsidy programme is implemented through a range of housing institutions:

- Previously, Provincial Housing Development Boards (PHDB) adjudicated applications for subsidies within each province and award available subsidies to successful projects and individuals. The PHDBs are now being phased out (See Section 5.3.2).
- Local Authorities are able to be adjudicated and approved as subsidy administrators.
- The subsidy levels have been increased four times (1996, 1999, 2002 and 2003). The first increase was due to the VAT exemption of the subsidy, the next two increases were intended to counteract the effects of inflation on the value of the subsidy, and the final increase was to bring subsidy levels in line with inflation and to cover the costs of the NHBRC’s Product Defect Warranty that is now required on all subsidised housing products.
- The national housing subsidy budget has decreased relative to inflation over the last eight years, but will be increased over the next three years in order to cater for higher subsidy levels and to stimulate housing production. In addition, it is envisaged that the subsidy levels will be automatically inflated annually to counteract the erosive effects of inflation on the real value of the subsidy.
- New Subsidy Programmes are being developed to cater for specific types of housing development. Specifically, a Savings-linked subsidy programme and a Social Housing Institution subsidy programme are currently being drawn up.

Progress: This strategy has had the greatest impact on South Africa’s housing sector. The scale of housing delivery since 1994 attests to this (See Section 2.5.1). While the
subsidy programme has produced good results from a delivery perspective, it has not met its promise on other fronts.

- **Housing quantity vs quality:** The focus on the number of houses produced has resulted in problems with the quality of many subsidised houses. Product defects are common, and have worsened as increased minimum standards and erosion of the subsidy due to inflation has squeezed developers’ margins.

South Africa’s National Housing Subsidy Scheme has facilitated the development of over 1.5-million homes between 1994 and 2003. Over 95% of subsidised housing units are not warranted against structural defects, yet many beneficiaries experience building quality problems. The National Home Builders’ Registration Council will only be required to issue warranties over fully-subsidised houses from the 2002/2003 budget year.

- **Location and quality of neighbourhoods:** Criticism has been levelled at the production of poor living environments in peripheral locations that do not meet the promise of access to economic opportunities, social and cultural facilities set out in the housing vision. This is in part due to poor location and the limited built forms that can be constructed using the subsidy scheme in its current form, and in part due to poorly co-ordinated or no follow-up investment by other spheres of government (such as local governments and health, education, safety and security and transport functions).

- **Subsidy budget:** Since 1997, the subsidy budget has been progressively reduced by lower increases and the impact of inflation. While there is now commitment to increase the subsidy budget over the next three years and the quantum of the subsidy has been increased twice in the past two years, fiscal uncertainty takes its toll on the ability of developers to plan ahead.

- **Credit-linked subsidies:** Combining credit with subsidies remains an elusive promise of the housing strategy. As a result, emphasis has fallen on post-subsidy incremental consolidation of fully-subsidised accommodation using non-bank finance (unsecured loans and personal savings). New policy emphasis on minimum housing standards and contribution requirements from beneficiaries will put more pressure on this.

- **Savings requirements:** Recent changes to policy require subsidy beneficiaries to make a personal contribution of at least R2,479 towards their subsidised accommodation, unless they fall into a ‘special needs’ category earning less than R800 a month. This savings requirement will impact on the rate and types of subsidised housing delivery over the next few years. Many households could take up to two years to save the required contribution, effectively negating their ability to access subsidised housing over that period. Indications are that in some provinces all
subsidised housing development has been focused on the ‘special needs’ (full subsidy) sub-market to avoid the need to secure savings or credit from beneficiaries. This could therefore lead to the creation of ‘indigent neighbourhoods’.

- \textit{Provincial under-expenditure}: Certain provinces have been unable to spend the subsidy budgets allocated to them over the last budget years. This is due to new savings requirements, national and provincial policy changes that have created uncertainty in the development environment and local government capacity and the ability to release sufficient serviced land.

- \textit{Crime and corruption}: The subsidy programme has been beset with cases of bribery, fraud and corruption. This has occurred in subsidy procurement processes, during development, on subsidy waiting lists as well as in respect of the interpretation of beneficiary eligibility.

3.4.4 \textbf{Strategy 4: Supporting the People’s Housing Process}

\textbf{Aim}: The aim of this strategy is to support and facilitate the home building process undertaken through the Peoples Housing Process by individuals, families and communities (DoH 2000: section 1.4.4). The PHP aims to provide for the rapid delivery of cost-effective homes conforming to minimum housing standards, to leverage beneficiary resources, speed up the release of land and to engender a sense of ownership and value of self-built homes amongst subsidy beneficiaries.

\textbf{Approach}: The Peoples’ Housing Process (PHP) provides an option for the poorest households to contribute to the construction of their own housing using their own resources. Since many households are unable to access any finance other than subsidies (such as savings or loans), the PHP establishes a framework of support through which these people can become personally involved in home building in place of savings or credit. This is done through establishing support organisations and institutions and providing facilitative funding for the process.

\textbf{Legislation}: Legislation adopted to implement this strategy include the following:

- The Housing Act, 1997 governs the PHP.
- The National Housing Code, 2000 (Chapter 8) regulates the PHP process.

\textbf{Institutions and initiatives}: In order to ensure local communities are able to become personally involved in the housing process, the PHP requires specific supports at a programme and project level.

- \textit{The Peoples Housing Partnership Trust (PHPT)} manages a national ‘capacitation programme’ to support local organisations implementing the PHP (See Section 5.5.6).
- \textit{Housing Support Centres} are local community-based organisations created by groups of individuals or communities to assist them to secure subsidies, facilitate
their access to land and to provide technical, financial, logistical and administrative support for local housing development. Organised community groups, NGOs, Local Authorities and other bodies can in partnership obtain support and create support networks for PHP Projects.

- **Facilitation and Establishment Grants** are provided (separate from the subsidy) by the PHPT to help to fund the background work required to set up and commence operations of Housing Support Centres, in order that they may prepare project applications for submission to Provincial Housing Development Boards (see Section 5.3.2).

**Progress:** To date, delivery via the PHP has been negligible, but the state is moving towards making greater use of this method for delivery at scale.

- **Legislative and policy framework:** Currently, the PHP has a weak and contradictory policy framework, both within itself and in relation to other important urban policies (such as building standards and planning processes (Baumann 2003: 2.)

- **Institutional capacity:** The PHPT is ‘inadequately funded, poorly capacitated, and politically marginalised … and … has had little practical impact’ (Napier 2002 and PHPT 2000, in Baumann 2003: 10).

- **Delivery performance:** From its inception until the end of 2002/03, PHP projects have been allocated only 184,728 subsidies, or 12.3% of all subsidised housing units produced. Many of these have been delivered through one or two organisations, most notably the Homeless Peoples Federation.

- **Savings requirements:** Changes to the subsidy scheme that require beneficiaries to make savings contributions as a prerequisite of accessing subsidies is likely to force more people to make use of the alternative of PHP participation in subsidised home building.

- **New emphasis:** The government is currently placing renewed emphasis on the PHP as an option for delivering better standard subsidised accommodation at scale, mainly due to the inherent problems with other types of delivery.  

### 3.4.5 Strategy 5: Rationalising institutional capacity

**Aim:** This strategy aims to rationalise South Africa’s institutional framework relating to housing in order to create a single and transparent housing funding process and institutional system with clearly understood roles and responsibilities. An overview of South Africa’s institutional terrain related to housing, as well as short descriptions of the main housing-related institutions in South Africa is given in Section 4.

**Approach:** Legislation was passed to rationalise a plethora of housing-related institutions, statutory funds and state corporate development institutions. In addition, the
Housing Act, 1997 clearly specifies the roles and responsibilities of different institutions involved in housing.

**Legislation:** All key state institutions and roles are now set out in the Housing Act, 1997.

- The *Housing Arrangements Act, 1993* started the process of rationalising duplicated housing-related institutions and funds in South Africa.
- The *Housing Act, 1997* establishes the new institutional framework for housing, and sets out the roles and responsibilities of key institutions.

**Institutions and initiatives:** Institutional rationalisation has resulted in the consolidation of a plethora of institutions into a simple institutional framework. This consists of:

- A single national *minister of housing* and one *MEC* responsible for housing in each Province.
- A *national DoH* (see Section 5.2.1) financed through a single *South African Housing Fund* and supported by the *South African Housing Development Board* for various policy advisory functions (See Section 5.3.1).
- A *provincial DoH and Housing Development Fund* in each province, supported by a *Provincial Housing Development Board* in respect of the adjudication of subsidies (See Section 5.3.2).
- *Local municipalities* that are responsible for local-level land, planning, financing and development activities related to housing (See Section 5.2.6). However, the capacitation of this tier of government is not under the jurisdiction of the Department of Housing.
- Clearly mandated *development finance institutions* to facilitate housing financing activities in South Africa (See Section 5.4). These include The National Housing Finance Corporation, Nurcha and the Rural Housing Loan Fund.
- *Specialist institutional capacity* has been created to assist with the development and implementation of housing programmes in specific areas. This includes the Social Housing Foundation and the Peoples’ Housing Partnership Trust.

No dedicated institutional capacity exists or has been identified for informal settlement upgrading activities. In addition, institutional capacity for the People’s Housing Process is highly constrained.

**Progress:** The institutional *melee* that existed in 1994 has been substantially rationalised. However, institutional issues remain an important constraint on housing development progress.

- *Poor institutional capacity:* Many housing-related institutions lack financial or personnel capacity to adequately fulfil their functions. This is especially evident at a lo-
cal government level, with many local governments being newly established, under-funded\textsuperscript{23} and lacking regular revenue streams to ensure their sustainability. With increasing roles in housing being devolved to municipalities, this is creating a bottleneck in housing delivery.

- \textit{Systems and procedures}: Various operational constraints have resulted in the administrative systems and procedures in key national, provincial and local institutions being affected. Notable examples include Deeds Offices and local town planning offices that result in delays to the development process.

- \textit{Institutional refocusing}: Over the last nine years, certain specialist state-established institutions have reached the end of their mandates (e.g. Nurcha), or have not reached their expected potential (e.g. NHFC). These institutions are now in the process of redefining their roles, products and practices in order to become useful operators in South Africa’s longer-term institutional terrain.

3.4.6 \textit{Strategy 6: Facilitating the speedy release and servicing of land}

\textbf{Aim}: This strategy aims to ensure the rapid release and servicing of appropriate land for housing development ahead of housing demand.

\textbf{Approach}: The approach adopted to this strategy is to simplify and speed up cumbersome land identification, release and servicing procedures that hamper housing development. This is achieved through redrafting legislation, provisions for short-cut processes and the establishment of institutions to facilitate land delivery and servicing bottlenecks.

\textbf{Legislation}: Legislation adopted to implement this strategy includes the following:

- \textit{The Development Facilitation Act, 1995} sets out streamlined national procedures for land release and servicing that can be used in relation to provincial legislation governing land and servicing. Specifically, it sets out the process through which municipalities are required to establish Land Development Objectives.


- Legislation in respect of \textit{land use control, land registration, tenure and conflict resolution} has been implemented mainly by the Department of Land Affairs (See Sections 7.4 and 7.5 for a list of this legislation).

\textbf{Institutions and initiatives}: A number of initiatives have been implemented to support this strategy.

- \textit{Specified Standards for Infrastructure, Servicing and Housing} have been defined and set out in national and provincial norms and standards (see Section 4.3.6). Guidance on development standards are also given in the NHBRC’s Home Builders Man-
ual for registered builders (See Section 5.6.1) and the ‘Red Book’ (Guidelines for Human Settlement Planning and Design, 2000).

- **Integrated Development Plans (IDPs)** must be developed by all municipalities. IDPs link physical delivery (and hence, land requirements for development) to overall development and financial plans at the local government level (See Section 6.6). IDPs have replaced *Land Development Objectives* as the main co-ordinating instrument for land and housing delivery progress.

- **Development tribunals** may be established by provincial Premiers to adjudicate on disputed applications for development.

- A **Development and Planning Commission** has been set up to review all provincial planning and related legislation.

**Progress:** Slow progress in the land transfer and registration process, as well as problems in securing well-located, serviceable land for low income development continues to hamper housing development (Mthembi-Mahanyele 2002: 6).

- **Land and planning systems** remain legally and procedurally complex in South Africa, with incompatible policies at national, provincial and local levels (see, for instance, Kahn & Thring 2003: 229). This slows down the process of identifying, assembling and releasing land for housing development.

Municipalities face dual challenges in the provision of subsidised housing. On the one hand, there is the pressure to deliver affordable housing options. On the other hand, it is the third tier of government that is burdened with the on-going administration and maintenance costs of such areas. This can become a large financial burden to local government, due to low levels of payment for rates and services.

- **Availability of suitable land for development** remains limited. As a result, most new development occurs on peripherally located land parcels that perpetuates urban sprawl.

- **The housing subsidy scheme** is currently not supportive of the urban restructuring agenda. For instance, the amount of the subsidy that can be spent on land and servicing limits the ability to locate new development on well-located (and more expensive) land.

- The new *procurement-compliant regime for housing development* sets out new procedures for the land identification, release, housing development and subsidy tendering process. These form part of a strategy to regularise government-wide tender procedures within the housing sector so as not to advantage specific actors (such as private sector developers). In turn, they are likely to place increased pressure on local government capacity.
• Local government capacity and will remain major bottlenecks in the land mobilisation and township establishment process. This is often due to capacity and financial constraints, as well as the conflict between the need to provide housing and the ongoing management costs of doing so.

• Deeds office delays: Delays in the process of registering and transferring title to land is a serious impediment to speedy housing delivery.

3.4.7 Strategy 7: Co-ordinating government Investment in Development

Aim: This strategy is focused on maximising the impact of all development-related investments by the state through planning and co-ordination.

Approach: The mechanisms used to fulfil this strategy have mainly included inter-governmental forums and meetings on specific initiatives. A number of integrated policy frameworks have also been developed to co-ordinate development-related spending and activities.

Legislation: Legislation adopted to implement this strategy includes the following:

• The Housing Act, 1997 specifies certain co-ordinative functions required of government, primarily related to co-ordination between structures within the housing sector.

• The Local Government Transition Act, 1993 requires local governments to plan ahead for development in the form of drafting and implementing Integrated Development Plans.

Institutions and initiatives: A range of co-ordinative bodies and policy frameworks do exist that impact on the housing sector.

• Interdepartmental engagement occurs between various development-related departments on an ad-hoc basis. However, this does not provide for sufficient integration in the development process.

• Policy formulation, implementation and monitoring activities are undertaken during meetings of provincial and national housing functionaries, as well as at multi-departmental forums (such as the MINMEC meetings).

• Budgetary co-ordination occurs during the normal budget cycle.

• The urban development framework sets out policy for achieving integrated development within urban areas.

• The rural development framework provides a framework for the co-ordination of development activities in rural areas.

• The urbanisation strategy being developed by the Department of Provincial and Local Government (DPLG) will attempt to provide an overall, integrated approach to
managing urbanisation in South Africa. However, this initiative is in its early stages.

- **Integrated Development Plans** are intended to provide the mechanism through which all development is planned, co-ordinated and implemented at the municipal level.

- **Integrated development initiatives** have also been implemented that attempt to provide maximum development impact within targeted areas.

**Progress:** Limited real progress on this front is evident from the nature of the housing neighbourhoods being produced through subsidised projects.

- **Lack of commitment and co-ordination:** certain key intergovernmental forums that were to play important roles in, for instance, Strategy 1: stabilising the housing environment seldom met, with the result that many environmental problems remain that housing functionaries cannot tackle on their own (maintenance of law and order, etc). At the municipal level, even with the IDP process under way, cross-functional co-ordination on development issues is often limited.

- **Poor quality neighbourhoods:** The housing policy relies on support from other providers of goods and services to improve the long-term viability of new housing areas. In the absence of co-ordinated follow-up investment by, for instance, the Departments of Transport, Health, Education and Welfare and the South African Police Service, new housing areas are likely to remain sterile which will in itself hamper consolidation.

- **Conflicting expectations:** The banks point out differences in what is expected of them with respect to the Bank Regulator (to be world-class institutions) and the DoH (to take greater than prudent risks) as an example of different agendas by different functions within government.

### 3.5 Housing policy changes

#### 3.5.1 Ad hoc housing policy changes (1995-2003)

Minor adjustments to the housing strategy have been implemented since 1994. None of these substantially change the basic structure of the original housing strategy, but are rather intended to widen the scope of the policy or tackle specific constraints to housing delivery. The most important are:

- A shift from the focus on scale of production, or **quantity to quality** of houses and neighbourhoods produced (1999);

- An increased emphasis on **social housing**;

- Recognition of the importance of **rental housing** as a component of a balanced housing policy;
• A move towards personal contributions to subsidised housing to develop a better concept of value of such housing amongst beneficiaries.

• Implementation of the People’s Housing Process that entrenches the need for subsidy beneficiaries to contribute to managing or building their own homes;

• Inner-city regeneration policies and projects;

• Promotion of higher density housing development;

• Deepening access to housing opportunities for poor and vulnerable groups and improved rural subsidy access (driven by the Department of Land Affairs).

3.5.2 National housing policy review process (2001-2)

Recently, a number of players in the housing sector have been calling for a housing policy review (see, for instance, Khan and Thring 2003). During 2001 and 2002, the National DoH undertook a review of its ‘first generation’ housing strategy that was implemented in 1994. This process re-confirmed the underlying principles and strategies of South Africa’s housing policy. A ‘second generation’ research and policy development agenda has now been established to guide housing policy evolution over the next decade (Department of Housing/Social Housing Foundation 2003: 3).

Changes to the current housing strategy are likely to be discussed at a Housing Summit towards the end of 2003 (Chalmers 2003l; Department of Finance 2003). Workshops have been held between National and provincial housing functionaries to discuss policies in need of review, and ‘...the summit (is) expected to achieve consensus on the future direction of housing policy and explore ways to improve co-ordination in its implementation (Department of Finance 2003)

3.5.3 ‘Second-generation’ housing policy focus areas

South Africa’s movement towards a ‘second-generation’ housing policy will be based on the state’s commitment to promote the creation of sustainable human settlements. Future focus areas are likely to include the following five areas: integrated development planning, delivering quality products and environments, inner-city regeneration and rental housing provision, private sector involvement in housing and environmentally sustainable housing. As Rust (2002b: 7) points out, these shifts have not been deliberately set out, but are rather the consequence of a range of ad-hoc changes that have now materialised into clearer focus areas.

3.5.4 Integrated development planning

This will aim to ensure better locations for new subsidised housing areas within South Africa’s cities and towns (Rust 2003a: 25), and greater ‘funding alignment’ of the various different channels of public investments in housing. This will be an attempt to realise
the aim of the original Strategy 7: Co-ordinating Government Investment in Development (see Section 3.4.7). Recent initiatives in this regard have included:

- An emphasis on the production of better integrated development plans and land development objectives.
- The new ‘procurement-compliant subsidy regime’ that aims to improve the location of subsidised areas and encourage higher-density housing developments.
- New precinct-based development approaches such as inner-city regeneration show attempts to use investments and incentives from various quarters to achieve development results.
- A greater emphasis on ‘transforming peripheral locations through diversifying local economies, improving transport, and making life more convenient’ (Todes et al, quoted by Kahn & Thring 2003: 228).

3.5.5 Delivering quality products and building housing environments

This focus area will aim to deliver higher quality housing in environments which are more responsive to the demands of communities. That is, building human settlements rather than focusing on ‘the numbers game’ of constructing housing units (Rust 2003a: 25).

- Subsidies are being viewed as an asset-building tool for the poor (the increased subsidy, when coupled with the individual’s contribution to their housing through the People’s Housing Process is seen as the start of this investment; Rust 2003a: 25). There is currently a lot of thought into the prospects of facilitating the development of a secondary housing market in low-income areas (Porteous & Naicker, in Khan & Thring 2003: 223).

- Increases to the quantum of the subsidy and the extension of the NHBRC’s product defect warranties to all subsidised houses will assist with this.

- More serious attempts to co-ordinate investments in communities from multiple sources within government.

3.5.6 Inner-city regeneration and rental housing provision

Up to now, rental housing as an under-emphasised part of South Africa’s housing policy. A growing emphasis is now being placed on inner-city regeneration, and the roles that rental and social housing can play in this (Mthembi-Mahanyele 2002: 5)

- Policy and legislative initiatives focused on rental are under way, including the promulgation of the Rental Act, 1999 and new policy initiatives focused on rental at the national level and by certain provinces (such as Gauteng and Western Cape).

- A proposed Social Housing policy and Social Housing Bill and financing regime that could advantage this type of development over others.”
• The South African Revenue Services’ *Urban Regeneration Tax Initiative (URTI)* (Smith 2003: 22) that aims to encourage Inner-city regeneration through the provision of tax incentives in specific inner city areas (Urban Development Zones).

• A focus on medium-density housing provision.

3.5.7 *Private sector involvement in housing*

Greater private sector participation by financiers and developers is still being sought.

• A shift in the ‘regime of production’ from a developer-driven to a people and institution-driven mode of delivery is intended to incorporate a greater number of smaller-scale entities and individuals into the development process (Rust 2003b: 25).

• The process of attempting to secure the involvement of private sector financial institutions in housing continues.

3.5.8 *Environmentally sustainable housing delivery*

Environmental sustainability has become increasingly important in the 21st century as it aims to ensure human survival and an enhanced quality of life for all. In South Africa attention is increasingly focusing on housing delivery that simultaneously creates sustainable human settlements and reduces environmental pollution. Issues being considered include energy efficiency, water conservation and waste management. However even where there is an acceptance of the principle of sustainability, the challenges to implementation – especially with regard to cost – have meant that very few housing delivery projects incorporate these goals. In order to mainstream this thinking into South Africa’s housing policy, research must demonstrate that sustainable housing delivery incorporating aspects such as energy efficiency will lead to longer term cost benefits related to, for instance, maintenance, water, electricity and health (DoH 2002). Without increased levels of investment, subscribing to the principle of sustainability in the housing process will not lead to adoption of its benefits in practice.

3.6 *Provincial and local housing policy*

A detailed review of provincial and local housing policy frameworks is outside the scope of this document. Generally, provincial housing policy echoes the Department of Housing’s national policy frameworks, but adapts this framework according to specific provincial needs. However, certain provinces have proactively developed policies that push the boundaries of this framework. Notable examples of this are Gauteng’s ‘Co-Investment Partnership for Housing’, and within this the ‘Mayibuye / Upgrading Programme’ that speeds up housing delivery by providing for ordered land resettlement first, prior to servicing and housing development (Gauteng DoH 2002: 7). Another notable provincial initiative is the Western Cape’s Serviced Land Project, which aims to increase the rate at which suitable land is identified, serviced and released for development. On the other extreme, certain provinces continue to use policy loopholes to fur-
ther their housing agendas. Since the introduction of the savings requirements, close to the entire budgets of some provinces are being allocated to ‘special needs housing’, in order to bypass the savings commitments.

At the municipality level, some local governments have also pro-actively defined housing programmes within national and provincial guidelines that deal with specific local housing needs in new ways. Given the increasing roles that local governments are able to play in the housing process,

While a number of new issues have made it onto the national housing policy agenda, there are still some glaring oversights. Firstly, the lack of attention given to informal settlements, and specifically to informal settlement upgrading. Secondly, the role of informal rental in housing policy is largely overlooked, which means it continues to face a hostile policy framework. Thirdly, environmental sustainability is a phrase that is often quoted, but an idea that is not yet within the mainstream of South Africa’s housing practice.

4 HOUSING FINANCE AND AFFORDABILITY

4.1 Overview

Three main sources of finance for housing exist that when combined, create potential affordability for at least a minimum standard house (See Section 4.3.6):

- **Subsidies**: State subsidies assist the poorest households with capital contributions towards the cost of minimum-standard accommodation (See Section 4.3 for more information on subsidies).

- **Credit**: A wide range of financial institutions provide a range of credit products that can be accessed by most income groups (see Section 4.4 for more information on credit).

- **Own Contributions**: Current housing policy requires most households to make personal contributions to their housing in the form of a monetary investment (a deposit, savings or credit), or through personal investment in managing or building accommodation (more information on deposits, savings, credit and own contributions are given in Sections 4.3.5)

4.2 Housing market overview

South Africa’s housing market can be divided into a number of ‘sub-markets’. These sub-markets are defined by the ways in which different income groups are able (or unable) to combine their own resources, subsidies and credit due to current housing policy, strategy and practice. Each sub-market therefore has its own profile, affordability, prob-
lems and needs. Figure 4 shows these sub-markets, summarises the proportion of South Africa’s households each one represents and outlines its general levels of housing affordability. Each sub-market is explained in more detail in the following sections.

Note: The figures used in this section are based on detailed financial calculations, but are meant as indicators of boundaries rather than as absolutes. It is not possible to accurately model the wide range of factors that affect housing affordability and finance availability, as well as the variations that occur within the housing market.
<table>
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<tr>
<th>HOUSEHOLD INCOME (R/month)</th>
<th>PROPORTION OF SOUTH AFRICAN HOUSEHOLDS (% of All Households - Census, 1996)</th>
<th>SUBSIDY ELIGIBILITY (R Total)</th>
<th>SV / DEP CONTRIB. (R min)</th>
<th>ADDIT SAVINGS (R Total)</th>
<th>CREDIT AFFORD (R Total)</th>
<th>PRODUCT PRICE (R Total)</th>
<th>SERVICED SITE SPECIFICATION (R Average)</th>
<th>TOP STRUCTURE SPECIFICATION (m²)</th>
<th>FUNDING MIX (% of Min Product)</th>
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MINIMUM STANDARD HOUSE: R 25,580
MANDATORY SAVINGS CONTRIBUTION: R 2,479
ADDITIONAL SAVINGS REQUIREMENT: Minimum standard minus mandatory savings & finance.
LOAN FINANCE TERMS:

NOTES:
1. Housing affordability based on the assumption that finance is available.
2. Finance terms used are indicative industry averages, but do not take into account current market maximum loan sizes per product (these maxima and minima create the 'Credit Gap').
3. Effective Demand varies from affordability due to 'Credit Gap' created by available finance terms. See descriptions in the text.
4. Proportions of income spent on housing are averages adapted from FinMark Trust (2002) figures based on a survey across ten Lifestyle Measure Categories.
4.2.1 *Sub-market 1: High-income housing market*\(^{31}\)

- **Income Group:** Household incomes of above R8 000 per month. Approximately 6.4% of all households (1996).

- **Subsidies:** Not eligible for subsidies (see Section 3.4.3).

- **Savings & Credit:** Required to fund the full cost of housing out of personal savings and credit. Credit is sourced from traditional mortgage lenders (mortgage loans), and is secured against the asset value of the property. Deposit requirements are generally 20% of property value (See Section 5.4.1).

- **Affordability & Effective Demand:** Combining own contributions (20% deposit) and spending 20% of household income on mortgage repayments, housing affordability is from about R135 000. As mortgage credit is available, this equates to an effective demand for housing of the same value (roughly a 65m\(^2\) house on a R40 000 fully serviced stand).

- **Key Issues:** This is the only efficiently functioning housing sub-market in South Africa where supply readily meets demand. A range of contractor and developer-built products are available, as well as a vibrant secondary market that sees households changing their accommodation on average every seven years with the assistance of estate agents.

4.2.2 *Sub-Market 2: Medium-high income housing market*

- **Income Group:** Household incomes of between R6 001 and R8 000 per month. Approximately 2.8% of households (1996).

- **Subsidies:** Not Eligible for subsidies (see Section 3.4.3)

- **Savings & Credit:** Required to fund the full cost of housing out of personal savings and credit. This market lies on the cusp of the availability of mortgage finance, which is at times not readily available at the lower income levels. Credit is sourced from non-bank lenders if it is not available from mortgage lenders.

- **Affordability & Effective Demand:** Combining own contributions (20% deposit and spending 17.5 to 20% of household income on mortgage repayments), housing affordability is from about R90 000. As mortgage finance is generally available in this market, this equates to an effective demand for housing of the same value (roughly a 55m\(^2\) house on a R35 000 fully serviced stand).

- **Key Issues:** Generally, this sub-market operates reasonably efficiently. However, constraints on housing expenditure, the availability of mortgage loans of below around R70 000 and high site and building standards can constrain the operation of the market at the lower price ranges. Where mortgage finance is not available, housing options are severely limited as most other finance products are only available up to around R10 000 (guaranteed finance).
4.2.3 Sub-Market 3: Middle-income (credit-linked / affordable) housing market

- **Income Group:** Household incomes of between R4 501 and R6 000 per month. Approximately 4.1% of households (1996)

- **Subsidies:** Not eligible for subsidies (see Section 3.4.3).

- **Savings & Credit:** Required to fund the full cost of housing out of savings and credit. Credit is generally sourced from non-bank lenders or mortgage lenders where available (See Section 5.4.1). Where non-mortgage finance is offered, other forms of security may be used, such as ceding pension and provident fund withdrawal benefits, more secure payment approaches (such as debit orders or payroll deductions) and finance guarantees.

- **Affordability & Effective Demand:** Combining own contributions (10% deposit / savings and 15% of household income on repayments) housing affordability starts at about R30 000. However, effective demand is determined by the availability of mortgage finance (generally, only loans of above about R70 000 are available) and the availability of housing products for purchase. Therefore, effective demand for housing in this sub-market starts at about R80 000 (roughly a 45m² house on a R35 000 fully serviced stand) for households who can afford over R1 000 per month in repayments. Where mortgage loans of above about R70 000 cannot be afforded, effective demand for housing drops to the level of the next available type of finance, which generally has a maximum limit of around R10 000 (guaranteed finance). This effectively negates effective demand for many in this sub-market, meaning many households in this category cannot access even a minimum standard house.

- **Key Issues:** This sub-market is constrained by the limited availability to credit at the lower income levels, although they have the ability to afford accommodation. While households at the higher end of the spectrum may be able to afford and buy mortgage-financed housing products, those at the lower end are often not able to do so. The constraints related to product availability and site and services standards discussed in the sub-market above are also relevant here. Therefore, even if finance can be secured, often products available for purchase are limited. Households may downward-raid into the subsidised housing market in order to secure housing.

4.2.4 Sub-Market 4: Middle-income (unsubsidised housing) sub-market

- **Income Group:** Household incomes of between R3 501 and R4 500 per month. Approximately 3.8% of households (1996).

- **Subsidies:** Not eligible for subsidies.

- **Savings & Credit:** Households are required to pay for housing using savings and credit.
• **Affordability & Effective Demand:** Combining own contributions and credit (10% savings, between 12.5% and 5% of household income used for credit repayments), the affordability of this sub-market is between about R20 000 and R30 000. Effective demand is extremely low, as finance products available in this market are generally capped at about R10 000. Even where guaranteed loans and small loans are available, affordability is below the specified minimum standard housing product, and subsidy top-ups are not available. As no formal housing products are being constructed in this price range, most households in this income band have little or no effective demand for housing.

• **Key Issues:** The ‘credit gap’ constrains the effective demand of households for even minimum standard housing. This means that very little middle-income credit-linked housing is being developed in the price range from R25 580 (minimum standard) to around R80 000 units (where mortgage finance can start to be secured). Limited inner-city accommodation using instalment sale finance is available in this price range (mostly refurbished apartments). Many households in this income band downward-raid into the subsidised housing market.

4.2.5 Sub-Market 5: Low-income credit-linked subsidised housing (level 4 subsidy)

• **Income Group:** Household incomes of between R2 501 and R3 500 per month. Approximately 5% of households (1996).

• **Subsidies:** Eligible for subsidies of R7 800 (see Section 3.4.3), or subsidised rental housing provided by housing institutions.

• **Savings & Credit:** Households are required to fund the balance between the cost of a minimum standard house and the subsidy (R25 580 minus R7 800 = R17 780) from own contributions, savings and/or credit. Credit is sourced from non-bank and niche market lenders, and generally makes use of the range of security approaches discussed in Segment 2 (See Section 5.4.1).

• **Affordability & Effective Demand:** Combining subsidies, savings and credit, housing affordability is from R20 000 (less than the specified 30m² minimum standard house) to about R27 000 (35m² basic house). Subsidised rental housing may be affordable to certain households at the top end of this sub-market. Given the minimal credit-linked subsidised houses constructed, in reality a majority of these households have up to now obtained fully-subsidised houses.

• **Key Issues:** Housing delivery in this sub-market is constrained by limited access to credit that is required to fund the bulk of the minimum standard product price. Very few housing products have been produced for this sub-market\textsuperscript{12}. Instalment sale and subsidised rental accommodation are the main options in this sub-market but can be unaffordable to such households, even those with incomes on the high end of this sub-market. Apartments in inner cities are available in this price range, but are
generally within ‘redlined’ areas. Downward-raiding into the fully-subsidised housing projects is a common response to this situation. With the new savings-linked requirements, the levels of savings required to make up the difference between the minimum standard house, and the subsidy plus affordable credit may be a further constraint to this sub-market. At least, it is likely to inhibit effective demand for a period of time while households save the necessary amounts.

4.2.6 Sub-Market 6: Low-income subsidised housing (level 3 subsidy)

- **Income Group:** Household incomes of between R1 501 and R2 500 per month. Approximately 9% of households (1996).
- **Subsidies:** Eligible for subsidies of R14 200 (see Section 3.4.3) or subsidised rental housing if rentals are affordable.
- **Savings & Credit:** Households are required to fund at least the balance between the cost of a minimum standard house and the subsidy (R25 580 minus R14 200 = R11 380) from own contributions, savings and/or credit. Credit can be sourced from non-bank lenders (See Section 5.4.1).
- **Affordability:** Combining subsidies, savings and credit, housing affordability is from about R19 000 (less than the minimum standard house) to R28 500 (just over the 30m² minimum standard house).
- **Key Issues:** Housing delivery in this sub-market is constrained by households having to access credit in order to secure subsidised housing, although the amount of credit required is lower than that for Sub-market 3 and can be accessed from a wider range of sources. The same issues apply that are discussed in Sub-Market 5 above (downward raiding and problems related to the balance of the amount between a minimum standard product and the subsidy plus credit).

4.2.7 Sub-Market 7: low-income subsidised housing (level 2 subsidy)

- **Income Group:** Household incomes of between R500 and R1 500 per month. Approximately 22.3% of households (1996).
- **Subsidies:** Eligible for subsidy of R20 300 (see Section 3.4.3).
- **Savings & Credit:** Households are required to fund the balance between the cost of a minimum standard house and the subsidy (R25 580 minus R20 300 = R5 280) from own contributions, savings and/or credit. Credit can be sourced from non-bank lenders (See Section 5.4.1). Certain savings programmes exist to help households to accumulate this balance, and to link savings to credit.
- **Affordability & Effective Demand:** Combining subsidies, savings and credit, housing affordability is from R23 000 (less than the 30m² minimum standard house) to about R25 580 (minimum standard house). Given low incomes, credit affordability is generally very low in this sub-market, and subsidised rental housing is generally
too expensive. Therefore, many households are not even able to save sufficient amounts to make up the difference between minimum standard accommodation and the subsidy.

**Key Issues:** Housing delivery in this sub-market is somewhat constrained by households having to contribute the balance between the subsidy and the cost of a minimum-standard house. PHP projects help households to contribute ‘sweat equity’ in place of savings in order to secure minimum-standard products, but not many such projects exist at present. The issues discussed in sub-markets 5 and 6 (downward raiding, the effect of savings requirements, availability and affordability of credit) are also relevant here.

4.2.8 Sub-Market 8: Special needs subsidised housing (level 1 subsidy)

- **Income Group:** Household incomes of between R0 and R800 per month, with special needs (indigent). Just under half of all households (1996).

- **Subsidies:** Eligible for subsidy of R25 580 (see Section 3.4.3) if classified as an indigent (aged, disabled or health-stricken).

- **Savings & Credit:** Eligible households are able to access a fully-subsidised minimum standard house. Exempted from own contributions, savings or credit requirements.

- **Affordability & Effective Demand:** Housing affordability is limited to R25 580 (30m² minimum standard house).

- **Key Issues:** As this sub-market can access fully subsidised housing, a high proportion of all subsidised housing developments are being targeted at special needs groups, or households with higher incomes are gaining access to such developments. This also provides a way in which the savings requirements can be circumvented in the delivery process, while households develop a savings record.

4.3 Housing subsidies

The National Housing Subsidy Scheme (NHSS) is the cornerstone of South Africa’s housing strategy. The NHSS makes available once-off lump sum subsidy grants to enhance the ability of low-income households to afford minimum standard accommodation. The subsidy amount increases in bands with decreasing household income levels (see Table in Section 4.3.7 for subsidy types and amounts).

4.3.1 Subsidy eligibility criteria

Eligibility for housing subsidies provided through the NHSS is governed by the following main criteria:

- **Resident:** Beneficiaries must be lawful residents of South Africa.
• **Age:** Subsidy beneficiaries must be over 21 years old, and legally competent to contract.

• **Dependants:** Beneficiaries should be married (in terms of civil law or in a customary union), co-habiting, or should have one or more proven financial dependants.

• **Income:** Gross monthly household income must be below R 3 500 a month.

• **Previous subsidies:** Beneficiaries must not have received benefits from a previous government housing subsidy programme.

• **Previous housing:** Beneficiaries must be a first time property owner.

• **Registered title:** Beneficiaries of housing subsidies must acquire registered title to the subsidised property in the form of ownership, leasehold or Deed of Grant.

The subsidy eligibility criteria aim to focus state assistance for housing at lower income families. Specifically, this implies a level of discrimination against single people. The income criterion has not been increased over the last eight years, effectively implying that over this time period state subsidies have been increasingly focused at poorer households.

### 4.3.2 NHSS programmes

Subsidies are made available through five different programmes, each meeting a different need or facilitating a specific housing delivery process. More details on the nature of subsidies for each programme are outlined in Section 4.3.7.

- **Individual subsidies** are available to eligible households who apply for subsidy assistance for the purchase of a single accommodation unit.

- **Project-linked subsidies** are allocated to approved project applications submitted by public, private and community-based housing developers.

- **Institutional subsidies** are allocated to housing institutions that provide affordable housing to households falling within the subsidy criteria. Unlike other types of subsidies that are income-based, all subsidies allocated through the institutional subsidy mechanism are at the maximum level of assistance, irrespective of the income of individual households accessing the subsidised units. Beneficiaries of institutional subsidies are not able to take title of subsidised units for the first four years of occupation.

- **Consolidation subsidies** are allocated to households who accessed certain types of subsidised housing developments dating to before 1994 (such as ex-Independent Development Trust site and service developments). These subsidies are used to top up the original subsidy amounts allocated to each household, and are generally applied to the construction of minimum-standard housing on the serviced sites.
• **Relocation subsidies**: Subsidy assistance is offered to certain households who are part of Servcon’s normalisation programme (See Section 3.4.2).

• **Savings-linked subsidies**: This is a new subsidy programme that will provide a framework through which prospective beneficiaries can save over time in order to become eligible for housing finance. The details of this scheme are currently being finalised by the DoH (DoH 2003: 6).

4.3.3 Other housing subsidy schemes

There are certain other government subsidy schemes that assist certain special categories of people to get their own homes.

• **Rural subsidies**: Subsidies are made available to people who do not have legally specified secure tenure but rather have functional secure tenure (such as tribal and communal tenure systems, in both rural and urban areas). To give rural households access to subsidies and to address their needs with respect to security of tenure whilst a permanent solution is developed by the Department of Land Affairs, policy guidelines are set down in the Interim Protection of Land Rights Act, 1996 (see Section 7.3.2; Tomlinson 1999: 4). Prospective beneficiaries must comply with all other provisions of the NHSS (see Section 4.3.1), their current tenure must be uncontested, and subsidies will only be granted as a part of an approved project. Such subsidies can be used for any housing-related purpose if agreed with the PHDB.

• **Discount benefit scheme**: Eligible people living in council-owned housing may apply to their local authority for this housing to be transferred into their own names at highly discounted prices. The transfer price is based on various factors such as the income of the occupant and the length of occupancy of the unit. Having a unit transferred into your name under this scheme disqualifies you from accessing any other state housing subsidy.

• **Hostel redevelopment programme**: Government has provided subsidies for the redevelopment of state hostels into family living units and single accommodation of acceptable standards (See subsidy levels in Section 4.3.7)

4.3.4 Housing-related subsidy schemes

There are other subsidies available for housing-related expenditure:

• **Consolidated municipal infrastructure programme grants** of up to R3 000 per house are available for bulk infrastructure costs.

• **The national electricity regulator** provides subsidies for electricity connections.

• **Municipal grants and subsidies** of various forms exist that affect housing, through for instance subsidised land costs, grants or soft loans to housing institutions.
4.3.5 **Savings requirements (forthcoming savings-linked subsidy scheme)**

Housing subsidy beneficiaries are now required to make a contribution from their own resources in order to qualify for a state housing subsidy. The only exceptions to this are certain identified categories of indigent people (the aged, disabled and health-stricken), beneficiaries of institutional subsidies and rural subsidies. The aim of this personal contribution is to improve the standard of subsidised housing delivered, cultivate a sense of ownership and participation in the housing process, develop self-sufficiency, reduce the financial burden on the state and speed up subsidised housing delivery. It is hoped that this will in turn instil a culture of savings and cultivate an environment in which the real value of the assets provided through the housing subsidy are realised (Department of Housing, 8 June 2003: 15). Personal contributions can be made in one of two ways:

- **‘Sweat equity’**: Subsidy beneficiaries can personally participate in an approved People’s Housing Process project (See Section 3.4.4). This will require them to either build or manage the building of their own house, using state-provided building materials or materials vouchers.

- **Cash contribution (savings or credit)**: Potential beneficiaries of contractor-built houses will be required to make a cash contribution before approval of a subsidy application. This could be from existing savings, accumulated by participating in a savings programme with a bank or other savings institutions (such as Nurcha) or obtained through securing a small or micro-loan from any lender. See Section 4.4.5 for a description of the key savings mechanisms in operation.

Savings will be facilitated through the Savings Linked Subsidy Scheme, which is being finalised by the Department of Housing. The Savings Scheme will be a separate initiative from the subsidy scheme, through which future beneficiaries can save personal contributions in order to qualify for a subsidy.

Compulsory savings contributions are now required from subsidy beneficiaries. However, no comprehensive policy exists and limited institutional frameworks for savings have been implemented. This will affect subsidised housing delivery over the next two to three years while policy, institutions and personal savings are consolidated.

4.3.6 **Minimum housing standards**

Subsidised housing products must meet at least the following minimum standards:

They must offer secure tenure and access to basic services to the occupant (at minimum access routes, on-site water, waterborne sanitation and electricity), and a minimum 30m$^2$ top structure. The following costs have been put to this minimum standard house (as at 1 April, 2003):

- Serviced stand cost = R10,579
- House cost (30m² @ R500/m²) = R15 000
- Total cost = R25 579

Minimum standards are set higher in some provinces, but cannot be below nationally determined norms and standards.

### 4.3.7 Subsidy amounts and variations

Figure 5 sets out household income levels, the related subsidy eligibility and savings contribution requirements for the different subsidy programmes. These are also represented diagrammatically in Figure 4.

Subsidy levels have been increased four times since 1994. The last increases were announced in the Housing Budget Vote of 2003, and again on 1 April, 2003.
### Figure 5: Housing subsidy eligibility (as at 1 April 2003)

<table>
<thead>
<tr>
<th>Subsidy category (household income: r/month)</th>
<th>subsidy amount</th>
<th>savings req’ment</th>
<th>total (product price)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Qualifying subsidy beneficiaries</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 R3500+ a month</td>
<td>None</td>
<td>N/A</td>
<td>According to Affordability</td>
</tr>
<tr>
<td>1.2 R2501 to R3500 a month</td>
<td>R7 800</td>
<td>R2 479 (+ shortfall)*</td>
<td>R25 580</td>
</tr>
<tr>
<td>1.3 R1501 to R2500 a month</td>
<td>R14 200</td>
<td>R2 479 (+ shortfall)*</td>
<td>R25 580</td>
</tr>
<tr>
<td>1.4 R0 to R1500 a month</td>
<td>R20 300</td>
<td>R2 479 (or PHP)</td>
<td>R25 580</td>
</tr>
<tr>
<td>1.5 Enhanced Subsidies for Indigent People (aged, disabled, health-stricken earning less than R800 a month)</td>
<td>R25 580</td>
<td>None (Exempt)</td>
<td>R25 580</td>
</tr>
<tr>
<td><strong>2. SPECIAL SUBSIDY PROGRAMMES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 People’s Housing Process (PHP) and Rural Subsidy</td>
<td>R7 800</td>
<td>(Shortfall)**</td>
<td>R23 100</td>
</tr>
<tr>
<td>R2 501 to R3 500 a month</td>
<td>R14 200</td>
<td>(Shortfall)**</td>
<td>R23 100</td>
</tr>
<tr>
<td>R1501 to R2 500 a month</td>
<td>R23 100</td>
<td>(Exempt)**</td>
<td>R23 100</td>
</tr>
<tr>
<td>R0 to R1 500 a month</td>
<td>R23 100</td>
<td>Institution adds capital</td>
<td>At least R25 580</td>
</tr>
<tr>
<td><strong>2.2 Institutional Subsidy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to R3 500 a month</td>
<td>R23 100</td>
<td></td>
<td>R25 580</td>
</tr>
<tr>
<td><strong>2.3 Consolidation Subsidy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R0 to R1 500 a month</td>
<td>R12 521</td>
<td>R2 479 None</td>
<td>R15 000</td>
</tr>
<tr>
<td>Indigent (R0 to R800) a month</td>
<td>R15 000</td>
<td>None</td>
<td>R15 000</td>
</tr>
<tr>
<td><strong>2.4 Public Sector Hostels Redevelopment Subsidy</strong></td>
<td>R23 100</td>
<td>None</td>
<td>R23 100</td>
</tr>
<tr>
<td>Family Units</td>
<td>R5 775</td>
<td>None</td>
<td>R5 775 (/ bed)</td>
</tr>
<tr>
<td>Individual Units (Per Bed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>3. VARIATIONS TO SUBSIDY AMOUNT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1 Geophysical Variation (all subsidy mechanisms except consolidation subsidy)</td>
<td>R3 837 max (15% of R25 580)</td>
<td>-</td>
<td>R29 417 max</td>
</tr>
<tr>
<td>3.2 Geophysical Variation (Consolidation Subsidy)</td>
<td>R3 375 max (15% of R22 500)</td>
<td></td>
<td>R25 875 max</td>
</tr>
</tbody>
</table>

* R 2 479 is the minimum savings contribution, but households earning above R1 500 a month will be expected to contribute savings in proportion to their income in order to afford at least the minimum standard house. This will need to make up the difference between the minimum specified house (R25 580) and the subsidy level for which a household is eligible. Households will not be able to access a subsidy until they are able to make up this difference.

** Compulsory cash contributions (savings or credit) are waived in favour of ‘sweat equity’ contributions in PHP projects. This takes the form of personal involvement in building or managing the building of houses using materials funded with the subsidy.

(Source: DoH 2003: 15)
Households will need to cover the difference between minimum standard housing (R25,580) and the level of subsidy for which they are eligible themselves. In all subsidy bands (with the exception of ‘special needs’ subsidies, this is significantly greater than the R2,479 minimum contribution required. Many households will need significant periods of time to generate such levels of savings, and in cases may not be obtainable or affordable through credit.

4.3.8 How to get government-subsidised housing

In order to access government-subsidised housing, follow the steps below.

- **Step 1: Are you eligible for a housing subsidy?** Ensure that you meet all of the eligibility criteria (see Section 4.3.1), or confirm whether you are eligible for any other government housing subsidy scheme (See Section 4.3.3).

- **Step 2: Do you want a rural or urban subsidy?** If you want a subsidy for a house in an urban area, go to Step 3. If you want a rural subsidy, go to Step 12.

- **Step 3: Do you want to own, rent or consolidate?** If you want a house in an urban area, decide whether you want to own your own house (go to Step 5), rent accommodation (go to Step 4) or upgrade your house if you live in a government-subsidised site and service development built before 1994 (go to Step 10).

- **Step 4: Who provides subsidised rental accommodation in my area?** If you want to access subsidised rental accommodation provided by a Social Housing Institution, you must check that there are SHIs that provide subsidised rental accommodation in the area you want to live (see Section 5.5.5), confirm that you can afford such accommodation and put your name down on their waiting list. Remember that you are still eligible for subsidies if you move out of subsidised rental accommodation.

- **Step 5: How much subsidy are you eligible for, and how much must you contribute personally?** Confirm the amount of subsidy you are eligible for, as well as how much you will need to contribute personally to afford at least a minimum standard house (See Section 4.3.7). Go to Step 6.

- **Step 6. Can you make your personal contribution?** Make sure that you can make the required personal contribution if you want to get a house using a project-linked, individual or consolidation subsidy (see Section 4.3.5). This contribution can be from your existing savings, or in the form of a loan from a financial institution (see Section 4.4.2). Go to Step 7.

- **Step 7: What do you do if you don’t have a personal contribution?** If you do not have a personal contribution, but you want to get a house through an individual, project-linked or consolidation subsidy, you must either start a savings programme (see Section 4.4.5) or find a loan to cover this amount (See Section 4.4.2). If you
want to start a Peoples’ Housing Process project, go to Step 11. If you know how you will fund the required personal contribution, go to Step 9.

- **Step 8: How do you buy a house that you have found yourself?** Once you have your required personal contribution, and have found a house you want to buy, you may apply for an individual subsidy through your Provincial Housing Department (See Section 5.3.2).

- **Step 9: How do you get a house if you cannot find one yourself?** You need to put your name on a housing waiting list at your Provincial Housing Department (See Section 5.3.2), or on a waiting list for a specific contractor-built project. If you want to start a Peoples’ Housing Process project in your area, go to Step 11.

- **Step 10: How do you get a consolidation subsidy?** If you have a serviced site built by the government before 1994, you and the other people in your area may be eligible for additional subsidy to help you to build houses on your serviced sites. Speak to someone at your provincial housing department about this (See Section 5.3.2).

- **Step 11: How do you get subsidies through the Peoples Housing Process?** A group of people who qualify for subsidies must group together and apply for a facilitation grant from a provincial housing department. This grant will help you fund the development of a project application and the establishment of a support organisation. The households and the support organisation must sign a contract to work together. Together, the support organisation and households, with support from other organisations, must develop a business plan on how houses will be built, support required and who will provide this support. The support organisation can then submit an application for subsidies and an establishment grant to cover the running costs of the support organisation. Once the applications are approved, the support organisation can start to implement the project.

- **Step 12: How do you get a rural subsidy?** See Section 4.3.3)

### 4.4 Housing finance

Housing-related finance in South Africa includes wholesale loans (used by institutions that provide housing or housing finance to end-users), retail finance products (used by housing consumers) and guarantee facilities (used by financial institutions to reduce their risk on wholesale and retail loans). Figure 6 outlines the most common types of housing-related finance, and Figure 7 outlines the main categories of financial institutions involved in providing housing finance in South Africa.

#### 4.4.1 Housing-related wholesale finance

Wholesale finance plays an important role in gearing up institutions to provide housing, or to on-lend to households. The main uses of wholesale finance are:
• **On-lending**: retail finance institutions secure wholesale loans to increase their financial capacity for on-lending to households.

• **Operating capital**: Housing institutions whose feasibility is determined by long-term income streams (such as rental and instalment sale products) require funding to cover the operating deficit until sufficient income is generated.

• **Development / bridging finance**: Housing institutions and developers use wholesale funding sources to cover operating deficits during the construction process until development costs are recovered from property transfers and subsidy disbursements (freehold development or turnkey projects).

4.4.2 **Housing-related end-user finance**

For most households earning over R800 a month, it is necessary to be able to access some form of end-user finance (loans) for housing. The main reasons for requiring end-user finance are:

• **Financing unsubsidised housing**: Households earning more than R3 500 a month are not eligible for state subsidies, and can only access housing using a combination of their own savings and end-user finance.

• **Subsidised housing ‘top-ups’**: Households that are eligible for less than the maximum subsidy amount are required to make personal contributions (either savings, finance or personal contributions) up to the cost of the specified minimum-standard house.

• **Housing consolidation and secondary market upgrading**: Households wishing to improve existing housing, or who wish to sell and upgrade their housing, may use end-user finance to do so.
### Figure 6: Housing finance products and approaches in South Africa

<table>
<thead>
<tr>
<th>No</th>
<th>Product</th>
<th>Description</th>
<th>Terms</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Wholesale Finance</td>
<td>Wholesale finance facility to institutions developing housing (development capital) or providing housing-related end-user finance.</td>
<td>Size: Generally over R1-million. Deposit: Generally equity investment / personal surety is required. Interest Rate: Generally close to prime. Term: Variable.</td>
<td>Wholesale Financiers (e.g. Banks) Specialist housing Wholesale Financiers (e.g. NHFC / TUHF / RHLF) Specialist housing institutions (e.g. CTCHC)</td>
</tr>
<tr>
<td>1.2</td>
<td>Institutional Loan</td>
<td>Wholesale finance facility to institutions providing Instalment Sale or Rental housing products to individuals. Used to fund establishment costs and as bridging finance and to fund operating deficits until rental / repayment streams generate cash surpluses.</td>
<td>Size: Generally over R1-million. Deposit: Generally equity investment in institution required. Interest Rate: Approx prime +1 or +2 Term: 3 to 20 years.</td>
<td>Wholesale Financiers (e.g. Banks) Specialist Housing Wholesale Financiers (e.g. NHFC / TUHF / RHLF) Specialist Finance Facilities (e.g. Joint Venture Development Fund)</td>
</tr>
<tr>
<td>1.3</td>
<td>Bridging Finance Loan</td>
<td>Finance facility to a developer or housing institution to assist with cash flow during the development (and commissioning) process. Can be included as a part of an Institutional Loan.</td>
<td>Size: Variable. Generally over R1-million. Deposit: Generally not required. Interest Rate: Approx prime +1 or +2 Term: up to 2 years. May be longer if intended to bridge commissioning phase.</td>
<td>Specialist Housing Wholesale Financiers (e.g. NHFC / TUHF / RHLF) Specialist Finance Facilities (e.g. Joint Venture Development Fund)</td>
</tr>
<tr>
<td>2.1</td>
<td>Personal Mortgage Loan</td>
<td>Individual loan (to property buyer) secured by the underlying value of the property purchased. Used for formal home purchase. Can be guaranteed.</td>
<td>Size: From R75 000, generally over R100 000. Deposit: 0% to 30% Interest Rate: Approx prime (-2 to +2) Term: 10 to 20 years.</td>
<td>Banks (e.g. Standard, Nedcor, ABSA)</td>
</tr>
<tr>
<td>2.2</td>
<td>Personal Equity-Backed Loans/Covering Bonds</td>
<td>Individual loan fully secured by cession of accumulated withdrawal benefits from pension/provident fund, or by other assets such as household goods. Used for formal home purchase or other financial needs. Can be guaranteed.</td>
<td>Size: Generally between R5 000 and R10 000. Deposit: no Interest Rate: Approx. prime +1 or +2 Term: 3 to 5 years.</td>
<td>Banks (e.g. Standard, Nedcor, ABSA) Non-Bank Lenders (various small loans institutions)</td>
</tr>
<tr>
<td>2.3</td>
<td>Security-Backed Loan</td>
<td>Individual loan partially backed by a personal guarantee (30%) and a purchased credit guarantee for the balance.</td>
<td>Size: Target between R10 000 and R60 000. Deposit: No Interest Rate: Approx prime Term: 8 years.</td>
<td>Banks (originated by banks, on-sold to Makhulong)</td>
</tr>
<tr>
<td>2.4</td>
<td>Instalment Sale</td>
<td>Institutional finance provides for regular payments over a number of years (4 years), after which housing asset is transferred into the ownership of the occupant. Default negates occupant’s right to asset transfer.</td>
<td>Size: Depends on unit size / rental calculation Deposit: can be linked to savings Interest: Rental calculation dependent on finance and operating cost requirements Term: 4+ years.</td>
<td>Specialist Housing Institutions (e.g. Cape Town Community Housing Company)</td>
</tr>
<tr>
<td>2.5</td>
<td>Unsecured Small Loan</td>
<td>Individual, unsecured loan often used for housing purposes. Exempted from Usury Act provisions.</td>
<td>Size: Generally below R5 000 to R10 000. Deposit: No Interest Rate: approx 40%</td>
<td>Non-Bank Lenders (e.g. Kuyasa Fund, uTshani Fund)</td>
</tr>
<tr>
<td>No</td>
<td>Product</td>
<td>Description</td>
<td>Terms</td>
<td>Sources</td>
</tr>
<tr>
<td>----</td>
<td>-----------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------</td>
<td>-----------------------------------------------------------------------</td>
</tr>
<tr>
<td>2.6</td>
<td>Savings-linked Micro-Loan</td>
<td>Very small individual loan at high interest rate to cover administrative costs and high risk profile. Generally partly secured against regular savings history of borrower. Exempted from Usury Act provisions.</td>
<td>Term: 1 to 5 years</td>
<td>Non-Bank Lenders (e.g. Kuyasa Fund, uTshani Fund, CTCHC, Nurcha40)</td>
</tr>
<tr>
<td>2.7</td>
<td>Building Materials Credit Facility</td>
<td>Individual building material credit provided by building materials suppliers (backed by balance of subsidy).</td>
<td>Generally similar to micro-loans.</td>
<td>Special Programmes (e.g. TUSK)</td>
</tr>
<tr>
<td>3.1</td>
<td>Savings –Backed Subsidy Schemes</td>
<td>Regular savings records used to ‘queue’ subsidy beneficiaries. Can offer access to credit (see 2.6 above).</td>
<td>Regular savings coupled with interest. May be used as a ‘deposit’ for credit.</td>
<td>Special Programmes (e.g. Nurcha National Savings Programme)</td>
</tr>
<tr>
<td>3.2</td>
<td>Personal Loans / Revolving Savings Schemes</td>
<td>Personal loans and ‘stokvel’ savings schemes are common mechanisms through which households accumulate small lump sums of cash for housing.</td>
<td>Various. Members contribute same amounts on a regular basis, with full proceeds being given to a member on a revolving basis.</td>
<td>‘Stokvel’ Schemes.</td>
</tr>
</tbody>
</table>

4.4.3 Housing finance institutions

South Africa has a range of institutions that offer the housing-related finance products outlined in the figure above. The main categories of financial institutions and the most common finance products they offer are outlined in Figure 7.

4.4.4 Housing finance guarantors

Specialist housing finance guarantee institutions offer two types of guarantees that reduce financial institutions’ lending risk: firstly, wholesale finance guarantees that aim to facilitate the flow of housing finance to from wholesale sources to housing institutions, and secondly individual loan guarantees that aim to increase the availability of end-user finance (See Figure 7).
### Figure 7: Housing-related financial institutions in South Africa

<table>
<thead>
<tr>
<th>No</th>
<th>CATEGORY</th>
<th>DESCRIPTION OF INSTITUTION</th>
<th>PRODUCTS</th>
<th>EXAMPLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>WHOLESALE FINANCE INSTITUTIONS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.1 Wholesale Finance Institutions</td>
<td>Providers of wholesale finance facilities that may be used by housing institutions for internal capital needs or for retail lending activities.</td>
<td>Wholesale Loans, Institutional Loans</td>
<td>Mutual Banks, Banks (e.g. Standard, Nedcor, ABSA)</td>
</tr>
<tr>
<td></td>
<td>1.2 Specialist Housing Finance Institutions</td>
<td>Specialist DFIs established with state support in order to increase the number and capacity of housing finance organisations through providing inter alia wholesale finance. Regulated by special statutes.</td>
<td>Wholesale Loans, Institutional Loans</td>
<td>NHFC (s.5.4.1), NURCHA (s.5.4.3), RHLF (s.5.4.2), TUHF (s.5.4.4)</td>
</tr>
<tr>
<td>2</td>
<td>RETAIL FINANCE INSTITUTIONS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.1 Banks</td>
<td>Commercial financial institutions regulated by Banks Act, and Usury Act</td>
<td>Mortgage Finance</td>
<td>Members of the Banking Council</td>
</tr>
<tr>
<td></td>
<td>2.2 Non-Bank Lenders</td>
<td>Institutions issuing medium to small loans or exempted for products of below R10 000</td>
<td>Securitised Loans, Personal Equity-backed loans</td>
<td>NHFC (Makhulong product), SA Home Loans</td>
</tr>
<tr>
<td></td>
<td>2.3 Micro-Finance Institutions</td>
<td>These are a sub-section of Non-Bank Lenders that grant unsecured personal loans that are exempted from the Usury Act (Usury Act Exemption Notice and regulated by the MFRC. These include normal micro-finance institutions, niche market lenders and NGO lenders.</td>
<td>Unsecured Small Loans, Savings-backed Micro-loans</td>
<td>Members of the Micro-Finance Regulatory Council</td>
</tr>
<tr>
<td></td>
<td>2.4 Housing Institutions</td>
<td>Specialist housing institutions providing end-user financing for housing products using innovative tenure arrangements. Regulated by various laws, including Instalment Sale (Alienation of Land Act, 1989).</td>
<td>Instalment Sale products, Rental Tenure Co-operatives</td>
<td>Rental Housing Institutions (e.g. Johannesburg Housing Company), Social Housing Institutions (e.g. Cope Housing Association), Instalment Sale Institutions (e.g. Cape Town Community Housing Company)</td>
</tr>
<tr>
<td>3</td>
<td>SAVINGS INSTITUTIONS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.1 Savings-linked Credit Institutions</td>
<td>Housing savings schemes linked to the provision of credit by micro-finance institutions</td>
<td>Savings-linked credit</td>
<td>Instalment Sale Institutions (e.g. Cape Town Community Housing Company), Finance Institutions (e.g. uTshani Fund)</td>
</tr>
<tr>
<td></td>
<td>3.2 Specialist Savings Institutions</td>
<td>Specialist institutions or schemes established to assist low income households to accrue savings for their ‘own contributions’ to subsidised housing</td>
<td>Savings schemes</td>
<td>NURCHA (National Savings Scheme)</td>
</tr>
<tr>
<td>4</td>
<td>GUARANTORS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4.1 Wholesale Housing Finance Guarantors</td>
<td>Institutions that underwrite or provide guarantees to the providers of wholesale loans for housing purposes.</td>
<td>Housing-Specific Wholesale Finance Guarantees, ‘Hardship Cover’ Guarantees for rental institutions / SHIs</td>
<td>NHFC (specialist guarantees), NURCHA (OPIC bridging finance guarantees, Gauteng Rental Guarantee Fund guarantees for rental institutions), HLGC (hardship cover guarantees on rental income streams for rental institutions)</td>
</tr>
<tr>
<td></td>
<td>4.2 End-User Housing Finance Guarantors</td>
<td>Institutions that provide guarantees to the providers of end-user housing finance (Mortgage finance) on individual loans.</td>
<td>Loan Default Guarantees, AIDS Guarantees</td>
<td>HLGC guarantee products</td>
</tr>
</tbody>
</table>
4.4.5 Savings schemes

The third mechanism through which finance for housing can be mobilised is through savings schemes. There are a growing range of pure savings schemes, as well as savings that are linked to the provision of credit. Such schemes will rise in prominence as the new personal contribution requirements for accessing housing subsidies become known amongst housing consumers. Savings schemes already under way include Nurcha’s National Savings Scheme (which already has around 30 000 savers), as well as initiatives such as the Cape Town Community Housing Corporation (CTCHC) and uTshani Fund that use savings as a basis for granting finance facilities to savers.

5 HOUSING INSTITUTIONAL FRAMEWORK

5.1 Overview

South Africa has a wide range of institutions playing important roles in housing development. These include national, provincial and local government structures, statutory bodies, development finance institution, facilitative agencies, regulatory bodies, representative bodies, finance facilitators and interest groups. The main institutions in each of these categories are briefly described in this section.

5.2 Housing-related government departments

In addition to the Department of Housing, a range of national state departments have roles that influence aspects of the housing sector. The most important are outlined below.

5.2.1 National DoH (DoH)

The NDoH is the primary government department responsible for developing, implementing and monitoring national housing policy, strategy and funding frameworks. The NDoH is required to consult with every provincial MEC and the national organisation representing municipalities (SALGA).

5.2.2 Department of Provincial and Local Government (DPLG)

The DPLG is responsible for establishing and capacitating second and third tier state institutions. This places an important role on this department in terms of ensuring provincial and local governments are able to implement planning, land, servicing, housing, finance and management-related tasks that affect the implementation and sustainability of the housing policy.

5.2.3 South African Revenue Services (SARS)

Chapter 4 of the 2003 national budget review outlines the basis for an Urban Regeneration Tax Initiative (URTI). SARS is proposing that the URTI will provide for accelerated
depreciation allowances for new construction and refurbishment within 13 specified Urban Development Zones (UDZs) in South Africa. Housing development is included, but not necessarily advantaged as a permissible use for the URTI. The URTI should equate to an ‘equity’ incentive of between 21% for refurbishment and 12% for new construction projects. SARS expects R1.3-billion of tax incentives to be used over four years. This could gear as much as R6-billion (or 4-million m$^2$) in property projects, of which up to 10% could be used for housing (400 000 m$, or 11 000 housing units$^{41}$. The government will clarify in legislation the precise locations of urban development zones as well the procedures governing it.

5.2.4 Other key national departments

The following national departments play roles that affect housing development or the development of housing areas after they have been developed:

- The Department of Land Affairs (DoLA) is responsible for issues relating to land, tenure and planning. The DoLA is also responsible for the implementation of the rural subsidy programme.
- The Department of Education (DoE) is responsible for the construction and staffing of primary and secondary educational facilities in new areas.
- The Department of Health (DoH) undertakes development and servicing of healthcare facilities in new areas.
- The Department of Welfare (DoW) undertakes social services, and is responsible for accommodating welfare cases that are not catered for under the special needs category of the NHSS.

5.2.5 Provincial housing departments

Each province has a department responsible for housing matters. Housing is a concurrent competency of national and provincial government, which means that provincial governments can legislate on housing so long as this does not conflict with national legislation.

5.2.6 Local government (municipalities)

Municipalities’ role is to ensure that residents of their areas have access to adequate housing on a progressive basis, according to provincial and national policy and strategy. They are therefore tasked with initiating, planning and co-ordinating housing developments, identifying, planning and managing land for housing development, creating environments conducive to housing development, providing bulk engineering services where these are not provided by other parties, and administering national housing programmes. Municipalities are now able to be accredited as subsidy administrators, and in cases are also accredited as Peoples’ Housing Process support organisations. Along with the new procurement-compliant regime for the housing subsidy scheme, this will place
them at the forefront of housing project identification, packaging and development. Municipalities also have responsibility for the on-going management and maintenance of housing areas.

5.3 National statutory bodies for housing

5.3.1 South African Housing Development Board (SAHDB)

The SAHDB was re-formulated from the National Housing Board, to play an advisory role to the Minister, as well as to monitor the implementation of housing policy. However, it does not undertake any significant function at present.

5.3.2 Provincial Housing Development Boards (PHDB)

The main function of each of the PHDBs was to advise the MEC on housing development issues, administer housing programmes, approve subsidy applications and appoint agents if necessary. The PHDBs have been, or are soon to be abolished in most provinces (Porteous & Naicker, in Kahn & Thring 2003: 222).

5.4 National development finance institutions for housing

5.4.1 National Housing Finance Corporation (NHFC)

The NHFC was established by the DoH in 1996 with R1-billion in capitalisation as one of South Africa’s five state-mandated DFIs. Its mission is to implement initiatives that mobilise housing finance for low-to-moderate income households (earning between R1000 and R6000 a month). The NHFC does not provide finance to homeowners directly. It provides wholesale funds and underwrites funding for retail finance intermediaries and social housing institutions (SHIs). Specifically, the NHFC is mandated to undertake the following activities:

- Initiating and managing programmes that encourage and promote increased engagement of the banking sector in the low-income housing market
- Promoting, funding or underwriting home ownership initiatives through the funding of specialised alternative lenders able and equipped to operate where banks find it difficult to operate (See Section 4.4.3).
- Funding or underwriting institutions that provide housing under tenure rights other than individual freehold tenure (such as rental, Instalment Sale / Rent to Buy and co-operative ownership).
- Managing proactive programmes aimed at building institutional and financial capacity at retail level in order to broaden access to housing finance and the mobilis-
tion of funds into the housing process for low-income borrowers (such as the recently scaled down Gateway initiative\textsuperscript{43}).

5.4.2 Rural Housing Loan Fund (RHLF)

\url{http://www.rhlf.co.za}

The RHLF was established as a Section 21 (not-for-profit) rural development finance programme by the DoH in 1996. Initial financing was provided via a co-operation grant from the German Development Bank (KfW). RHLF’s mission is to contribute to the improvement of housing and living conditions of poor families in rural areas. RHLF provides wholesale finance facilities to rural finance intermediaries for on-lending to low-income rural households as well as consumer education materials (RHLF 2002).

5.4.3 National Urban Reconstruction and Housing Agency (NURCHA)

\url{http://www.nurcha.co.za}

NURCHA is a Section 21 (not-for-profit) agency that was originally established as a Special Presidential Project in 1995 as one of South Africa’s five state-mandated Development Finance Institutions. Its original five-year period of operation is now complete, and Nurcha is restructuring as an independent DFI. Nurcha’s mission is to facilitate access to finance for housing construction and purchase in South Africa. Currently, its main activities include:

- Facilitating bridging finance for contractors through guarantee products
- Identifying approaches to releasing credit for low-income housing
- Facilitating savings programmes for subsidised and credit-linked housing
- Managing specialist bridging finance funds and guarantee programmes such as the Joint Venture Development Fund (JVDF), the OPIC Fund and the recently established Gauteng Partnership Fund’s Gauteng Rental Guarantee Fund (GRG Fund) that guarantees a portion of loans granted to Rental Finance Institutions (RFIs) providing funds for rental housing in Gauteng.

5.4.4 Trust for Urban Housing Finance (TUHF; ICHUT 2003).

TUHF commenced operations in 2003, after a decision to re-structure the Inner City Housing Upgrading Trust (ICHUT) into a Development Finance Institution and expand its area of operation nationally. TUHF provides wholesale finance for the purchase and upgrading of inner-city accommodation, as well as the initial operating costs of Rental Housing Institutions (RHIs) and possibly Social Housing Institutions (SHIs).

5.5 National facilitative institutions for housing

A range of facilitative institutions have been established to serve the housing sector in South Africa since 1994. The main aims of these institutions are to undertake specialist
functions deemed necessary to encourage or support housing development that are not fulfilled by state or private sector bodies.

5.5.1 SERVCON Housing Solutions (SERVCON)

http://www.servconhousing.co.za

SERVCON was formed in 1994 as a 50%/50% joint venture between the South African government and the banks, and is due to fulfil its mandate in 2006. Its mission is to deal with non-performing loans (NPLs) and repossessed properties (properties in possession or PIPs) after sales in execution that the banks cannot physically repossess due to breakdowns in law and order and due process of the law (Rust 2002a: 5) It does this through a ‘payment normalisation programme’ that offers lenders a number of options, including purchasing back repossessed properties on instalment sale, rescheduling payments and ‘rightsizing’ borrowers into more affordable products. SERVCON will have dealt with about 33 000 loans over this period.

5.5.2 Thubelisha Homes

http://www.thubelisha.co.za

Thubelisha Homes was established as a Section 21 Company by the state and SERVCON in order to procure or develop accommodation appropriate for SERVCON’s payment normalisation programme.

5.5.3 Mortgage Indemnity Fund (MIF)

See http://www.servconhousing.co.za

The MIF was established by the state in 1995 to provide risk cover to mortgage finance institutions for a set period (between 1995 and 1998) in areas classified as high risks for lending. The MIF ceased operations in 1998, having provided indemnities on over R10-billion of new loans. A portfolio of non-performing loans covered by the MIF has been transferred to SERVCON for management until 2006.

5.5.4 Housing Consumer Protection Trust (HCPT)

The HCPT was established to address housing rights and consumer protection issues.

5.5.5 Social Housing Foundation (SHF)

http://www.shf.org.za

The SHF is a Section 21 company that was established by the NHFC in 1997. It aims to promote, support and assist in the development of social housing in South Africa. The SHF provides capacity building, technical support, promotes the social housing sector, provides support for policy development and ensuring an enabling environment for social housing, certification and certain funding initiatives to SHIs.
5.5.6 Peoples’ Housing Partnership Trust (PHPT)


The PHPT was established in 1998 to set up and manage a national capacitation programme to support the development of the Peoples Housing Process. The PHPT undertakes promotional and supportive functions, establishes operational procedures for the delivery of land, services and housing and provides technical assistance to local support organisations.

5.6 National housing-related regulatory bodies

5.6.1 National Home Builders’ Registration Council (NHBRC)

[http://www.nhbrc.co.za](http://www.nhbrc.co.za)

The NHBRC is a Section 21 company established in 1995, and is now a Statutory body with which all builders of mortgaged houses must be registered. It regulates the activities of housing practitioners in order to ensure the delivery of quality products in the below R250 000 price range. The NHBRC manages the Product Defect Warranty Scheme that covers structural defects in bank-financed houses constructed by NHBRC-registered developers, as set out in the Housing Consumers Measures Act, 1998 (see Section 7.8). The provisions of this Act were extended to cover all state-subsidised houses from 1 April 2002.

5.6.2 Micro Finance Regulatory Council (MFRC)

[http://www.mfrc.co.za](http://www.mfrc.co.za)

The MFRC aims to promote the money-lending industry so as to allow for sustainable growth in the industry and to serve legitimate un-served credit needs. Any money lender operating with Usury Act Exemption is required to register with the MFRC and thereafter comply with its rules and that of the Exemption Notice.

5.7 National specialist housing finance facilitators

Specialist finance facilitation agencies provide financial products such as guarantees that encourage the flow of finance into South Africa’s housing sector.

5.7.1 Home Loan Guarantee Company (HLGC)

[http://www.hlgc.co.za](http://www.hlgc.co.za)

HLGC is a Section 21 (not-for-profit) company that facilitates access to housing finance by providing guarantees to financial institutions making funds available for affordable housing (Rust 2002a: 5). HLGC provides mortgage-based home loan guarantees, Pension / provident fund partially secured home loan guarantees, rental or instalment
guarantees for housing institutions, provides an HIV / AIDS guarantee cover for home loans, and administers home loan guarantee funds.

5.7.2 NURCHA

See Section 5.4.3 above. Nurcha undertakes specialist bridging finance initiatives, and runs guarantee programmes on an agency basis.

5.8 Private sector and civil society representative bodies

Many sectors of South Africa’s housing industry have representative bodies. These bodies provide a forum for sector-specific support as well as joint representation for engaging with other actors in the housing industry on issues affecting the entire sector.

5.8.1 Banking Council of South Africa (BCSA).

http://www.banking.org.za

The BCSA was formed in 1996 as the representative voice of South Africa’s entire banking sector. The BCSA incorporates the Association of Mortgage Lenders (AML) and other past bodies that represented specific sections of South Africa’s banking sector. The members of BCSA may be contacted through their website.

5.8.2 Building Industry Federation of South Africa (BIFSA)

http://www.bifsa.org.za

BIFSA is a federation of master builders associations, and directs and co-ordinates the activities and national interests of the building industry in South Africa.

5.8.3 Estate Agency Affairs Board (EAAB)

http://www.eaab.org.za

The EAAB regulates the activities of estate agents in South Africa through licensing and control activities.

5.8.4 Micro Lenders Association (MLA)

http://www.satis.co.za/mla/

The MLA was established in 1996, as an umbrella organisation in the micro lending industry. Its aim is to help to structure the industry and to regulate and lay down ethics and values to members in the industry that will ensure they operate on a sound basis along fair business principles.
5.8.5 National Association of Social Housing Organisations (NASHO)

[Email: firstmetro@fmhc.co.za]

NASHO was formed in 2002 as a membership-based organisation for SHIs. It undertakes representation, lobbying and co-ordinative activities on behalf of its members, promotes the social housing sector, provides support to individual members and undertakes capacity building within members’ organisations. It also intends to undertake joint procurement efforts (where efficient), and promote the exchange of good practice between members (DoH /SHF 2003: 18).

5.8.6 South African Local Government Association (SALGA)

[Website: http://www.salga.org.za]

SALGA is a representative body for local governments in South Africa. As such, it engages with provincial and national decision-makers on issues of policy affecting its members.

5.8.7 South African National Civics Organisation (SANCO)

SANCO is the representative body for civic associations in South Africa. Civics generally play a local-level role in developments through mobilising communities and interacting with other development actors on behalf of communities (such as developers and local governments).

5.9 Housing interest groups

A wide range of housing-related interest groups exist in South Africa that play roles in housing policy formulation, development, funding and technical assistance. The list below is not exhaustive.

5.9.1 Urban Sector Network (USN)

[Website: www.usn.org.za]

USN is a network of urban development-oriented NGOs whose primary aim is to increase access to housing and other resources for the urban poor. It targets community groups of the urban poor, housing policy makers and housing practitioners. Its main affiliate organisations are:

- Afesis-Corplan
- Built Environment Support Group (BESG)
- Centre for Community and Labour Studies (CCLS)
- Cope Housing Association
- Development Action Group (DAG)
• Foundation for Contemporary Research (FCR)
• Planact
• Umzamo
• Urban Services Group (USG)

5.9.2 **Homeless Peoples’ Federation (HPF)**

HPF is made up of a large number of savings and loan collectives in South Africa. Through an alliance with the Utshani Fund established by the HPF, members are able to access funds to build houses.

5.9.3 **Consultative Group to Assist the Poorest (CGAP)**

http://www.cgap.org

CGAP is a consortium of 29 bilateral and multilateral donor agencies who support microfinance. Their mission is to improve the capacity of microfinance institutions to deliver flexible, high-quality financial services to the very poor on a sustainable basis.

5.10 **Housing-Related Research Organisations**

5.10.1 **Housing Finance Resource Programme (HFRP)**

http://www.hfrp.org.za

The HFRP’s mission is to strategically fund various types of technical assistance, and to provide grant support, for organisations whose aim it is to enhance the South African housing sector’s effectiveness in making housing finance more accessible and affordable, to historically disadvantaged low-income households.

5.10.2 **FinMark Trust**

http://www.finmark.org.za

FinMark Trust was created in March 2002 with initial funding from the UK’s Department for International Development (DFID). Its mission statement is ‘Making Financial Markets Work for the Poor’. FinMark Trust aims to promote and support policy and institutional development with the objective of increasing access to financial services by the un- and under-banked of southern Africa (South Africa, Botswana, Lesotho, Swaziland and Namibia).

5.10.3 **National Business Initiative (NBI)**

http://www.nbi.org.za

The NBI focuses on the contribution of the business community to skills and enterprise development in South Africa.
6 LAND AND PLANNING

6.1 Overview

This section reviews the major initiatives affecting the approach to land and planning in South Africa since 1994. Specifically, current policy frameworks and specific spatial development initiatives are reviewed to provide an overview of the current status of land and planning issues and practice in South Africa.

6.2 Policy and legislative framework

The Housing White Paper sets out an envisaged approach to land and planning in the short and longer term (Royston, in Kahn & Thring 2003: 235). The key factors outlined are discussed below.

6.2.1 The Development Facilitation Act, 1995 (DFA)

The DFA was the main instrument envisaged to fast track the identification, assembly and release of land for new housing development at provincial, metropolitan and municipal levels in the short term. This was to be achieved through the following:

- DFA Principles: the principles were intended to guide development, but many practitioners were unused to applying judgement to such issues, and the principles have therefore had little effect in reality.

- Land Development Objectives (LDOs): Urgent land identification needs required the setting of performance criteria, known as land development objectives. While LDOs were developed, these became little more than project ‘wish lists’ that had little basis in the strategic needs and budgetary realities of local and metropolitan government.

The DFA has not been particularly successful in meeting its aim. Continued legislative confusion, a lack of institutional capacity and political will has extended the problems faced in trying to facilitate the process of identifying, assembling and releasing land for development.

6.2.2 Local Government Transition Second Amendment Act

This Act introduced Integrated Development Planning to local governments. The IDP framework sets out a clearer relationship between integrated planning, budgets and implementation within local government as opposed to the purely ‘target-setting’ approach of the LDO process. However, even within this clearer overall intent and better regulatory framework, the IDP process has not met its potential.
6.2.3 Provincial Land Tribunals

Land tribunals have been vested with extraordinary powers with the intent of speeding up land development processes. However, various factors have slowed down their implementation and effectiveness as a new application route for developers.

6.2.4 Development and Planning Commission

The White Paper provides for the establishment of a Development and Planning Commission that has the authority to review, amend, repeal or replace all planning and related legislation in South Africa. The DPC completed its task and submitted its findings relating to national planning processes to the Department of Land Affairs (DLA) in 1999. Stemming from this process, the DLA has produced a White Paper on Spatial Planning, a Land Use Planning Bill, 2000 and a draft Land Use Management Bill, 2000 that aim to rationalise the complex and duplicated legislation in South Africa.

6.3 National co-ordinative planning frameworks

National planning frameworks attempt to provide a shared vision for development. As such, their aim is to ensure planning objectives are supported by correctly targeted development spending.

6.3.1 Urban Development Framework (UDF)

The UDF attempts to set a national agenda for urban development. However, it lacks a clear implementation framework and urban land issues remain uncomfortably suspended between the Departments of Housing and Land. As a result specific sectoral development and investment programmes (such as housing, water, transport, bulk infrastructure investment, local economic development programmes, social plan funding and land reform funding) remain the main drivers of development activity. Consequently, such programmes tend to lack spatial focus, and are mostly determined by the availability of reasonably priced land or follow the implementation of housing projects.

6.3.2 Integrated Sustainable Rural Development Programme (ISRDP)

The ISRDP was launched by government in 2001, and redefines the framework for rural development initiatives to 2010 and beyond (RHLF 2002).

6.3.3 Urbanisation policy framework

The Department of Provincial and Local Government is currently developing a national urbanisation strategy, which will aim to co-ordinate activities impacting on urbanisation.
6.4 Metropolitan and local planning

In the absence of strong national (or even provincial) development frameworks, local government is once again required to take on the function of co-ordinating land use planning and investment activities. However, this tier of government faces serious constraints that hamper the success of such endeavours. These include financial, capacity, institutional, and policy / legislative frameworks to facilitate such activities. In the absence of such co-ordinative activity, in many cases the main driver of land and planning activities are those programmes leading to maximum development, most notably the National Housing Subsidy Scheme.

6.5 Co-ordinated spatial development initiatives

The White Paper calls for co-ordinated development activities that ensure all major role players participate. A number of specific initiatives have been set up that undertake land identification and planning functions that are worthy of note.

6.5.1 Special integrated presidential projects (SIPS)

The SIPS are area-based projects that co-ordinate the investment of resources from various role players in order to achieve maximum development impact. The following projects have been substantially completed:

- Katorus (Gauteng)
- Cato Manor (KwaZulu / Natal)
- Duncan Village (East London)
- Integrated Serviced Land Project (Western Cape).

The Alexandra Urban Renewal Project is another example of a spatially determined multi-sectoral development project.

6.5.2 Job summit pilot project

At the end of 1998 labour, business, government and the community participated in a national Job Summit. Out of it arose an agreement to establish a Presidential Pilot Project on Housing aimed at initiating a new form of housing delivery, including financing and tenure options, which if successful could serve as a model for rental housing in South Africa. The objective of the pilot was to deliver between 50,000 and 150,000 units over a three-year period, of which 75 percent were to be for rental. Moreover a holistic approach to delivery was envisioned whereby infrastructure and services would be delivered in a timely manner.

From the outset, there were three principles that drove the process in terms of developing an approach that would serve as a model. Labour required affordability for its constituency, coupled with a relatively high standard in terms of what would be delivered.
From business’ perspective the marketability and rate of return of the financial instrument that would be offered to investors would determine whether it would bring the R1.3 billion in finance needed to fund the project to the table. Sustainability drove government in that whatever model was finally developed it would have to have a reasonable chance of addressing the problems of rental at scale once the pilot was completed.

For over two years the four constituencies regularly met to thrash out a financing model and institutional arrangements. During this same period a tender process was held to select potential projects. Projects located in Witbank, Johannesburg and Durban were initially selected. At the beginning of 2001, the Department of Finance requested a review of the work that had been carried out to date. Questions were raised with respect to the robustness of the financing model and the need for an additional agency. The National Housing Finance Corporation was then tasked with reviewing the work and moving forward in the development of the model.

6.5.3 Other spatial initiatives

The Department of Trade and Industry (DTI) and the Department of Transport (DoT) both have spatially defined development initiatives (Royston, in Kahn & Thring 2003: 239).

- **Spatial Development Initiatives (SDIs):** The Department of Trade and Industry’s (DTI) SDIs are a major mechanism through which co-ordinated development investment occurs in earmarked areas. However, as they are focused on economic generation, they are likely to have limited impact on the housing conditions of low-income residents in surrounding un-and under-developed areas.

- **Development corridors (DC):** The Department of Transport has identified certain development corridors on major routes in certain areas of South Africa. These are intended to channel public and private investment, but as with the SDIs are unlikely to have major impacts on housing in these areas.

- **Urban development zones (UDZs):** The South African Revenue Service’s Urban Relief Tax Incentive programme will be focused on specific urban development zones. This will encourage the upgrading of existing buildings and new construction in targeted inner-city zones.

6.6 Integrated development planning

Integrated Development Plans (IDPs) are the result of a process through which municipalities prepare a strategic development plan for a five year period. IDPs are required by the Municipal Systems Act, 2000. As they are required by law, they hold legal status and supersede all other planning documents at a local level. IDPs guide and inform all planning, budgeting, management and decision-making within municipalities (Gauteng DoH 2002, quoted in Baumann 2003: 13).
AN OVERVIEW OF THE SOUTH AFRICAN HOUSING SECTOR

7 ANNEXURE 1: HOUSING-RELATED LEGISLATION

This annexure provides an overview of key housing-related legislation. It is not intended to be exhaustive, but rather to highlight legislation directly impacting on the housing sector.

7.1 National, provincial, and local housing policy and institutional arrangements


The Constitution specifies South African citizens’ right to housing and the roles and functions of different tiers of government, identifying housing as a concurrent competency of national and provincial government, supported by local government.

7.1.2 National Housing Code, 2000

The Code describes South Africa’s housing policy and strategy, legislative and institutional framework.

7.1.3 Housing Act, 1997 [no 107 of 1997] and amendments

This Act is the main legislation governing the housing sector. It sets out the roles and functions of all tiers of government, the establishment and operation of statutory bodies, the establishment of housing norms and standards, the allocation of housing funds to provinces, the management of assets, liabilities rights and obligations and the production of housing information. Finally, the Act replaces and repeals all past housing legislation legislation.

7.1.4 Provincial legislation

Various provincial acts and ordinances control housing policy and institutions at the provincial level. These are not detailed here.

7.1.5 Local government regulations

Local regulations play an important role in local-level housing development, management and maintenance. Local regulations affect issues such as local funding, by-laws, land and planning issues. These are not detailed here, as they vary between municipalities.

7.2 Housing standards

7.2.1 Ministerial National Norms and Standards in respect of Permanent Residential Structures, 1999

National norms and standards are set by the National DoH periodically.
7.2.2 National Building Regulations and Building Standards Act, 1977 [no 103 of 1977]
This Act sets building regulations and health and safety standards for buildings including residential developments.

7.3 Housing-related subsidies

7.3.1 Urban Subsidies: Housing Act, 1997 [no 107 of 1997]
The Housing Act, 1997 specifies the structure and basis of operation of the National Housing Subsidy Scheme and other subsidy programmes. The subsidy mechanisms are set out in the National Housing Code, 2000 as well.

7.3.2 Rural subsidies: Interim Protection of Land Rights Act, 1996 [no 31 of 1996]
The Interim Protection of Land Rights Act, 1996 outlines a temporary approach to dealing with rural subsidies until a more robust framework is developed and implemented to replace it.

7.4 Land and planning

7.4.1 Land Use Management Bill, 2002
The LUMB is based on the White Paper on Spatial Planning and Land Use Management. This Bill is set to rationalise current legislation relating to land and planning in South Africa.

7.4.2 Less Formal Townships Establishment Act, 1991 [no 113 of 1991]
This Act sets out processes for the speedy establishment of townships that circumvents certain requirements in the full township establishment process.

7.4.3 Development Facilitation Act, 1995 [no 67 of 1995]
This Act aims to overcome a range of impediments and delays in the normal development process. It sets out principles for land identification and planning, as well as a speedy approach to land identification.

7.4.4 Land Reform Act, 1996 [no 3 of 1996]
The Land Reform Act, 1996 secures the land rights of long-term labour tenants.

7.4.5 Local Government Transition Act, 1993 [no 209 of 1993] as amended
The Local Government Transition Act, 1993 regulates the preparation of Integrated Development Plans by local governments in order to plan, integrate and prioritise development activities in their areas.
7.5 Housing tenure

There are numerous Acts relating to property tenure in urban and rural areas. These are listed here, but descriptions are not given for all of them.

7.5.1 Communal Land Rights Bill, 2003

The Communal Land Rights Bill, 2003 will provide the opportunity for people residing on state land or land previously reserved for occupation by certain population groups to take full ownership of this land, in line with land tenure practices in the rest of South Africa.

7.5.2 Rental Act, 1999 [no 50 of 1999]

This Act defines the framework for the operation of the rental sector in South Africa, including the roles, rights and responsibilities of government, landlords and tenants.

7.5.3 Alienation of Land Act, 1981 [no 68 of 1981]

This Act governs the Instalment Sale mechanism in South Africa. However, currently it is not well structured and poses problems for using this tenure mechanism on scale. Instalment Sale can be used as an alternative way of creating effective demand by circumventing need for individual, secured finance through rather providing institutional finance and collecting funds on the basis of a rental stream, with transfer of tenure upon completion of payment.

7.5.4 Communal Property Associations Act, 1996 [no 28 of 1996]

This Act governs Communal Title. This form of tenure is specifically intended for application in cases of (predominantly rural) land restitutions where community property associations acquire rights to occupy land, excluding the right to alienate the land. It is a relatively weak form of secure tenure. This Act enables communities benefiting from the Restitution of Land Rights Act, 1994, the Provision of Land and Assistance Act, 1993, the Land Reform (Labour Tenants) Act, 1996 to form juristic persons in the form of Communal Property Associations.

7.5.5 Prevention of Illegal Eviction from and Unlawful Occupation of Land Act, 1998 [no 19 of 1998]

This Act protects the rights of de facto occupants of land and buildings from summary eviction. An Amendment is being considered that clarifies that eviction and property repossession on the grounds of non-payment of rent or hire-purchase charges after a reasonable process of warning/notice should not be considered illegal eviction. When enacted, this will remove an important legal precedent that was operating as a disincentive to financial sector involvement in low income housing (DoH /SHF 2002: 31).
7.5.6 **Co-operatives Act, 1981 [no 91 of 1981]**
This Act governs the establishment of co-operative ventures. This Act is being updated to specifically cater for the needs of housing co-operatives through the *Co-operatives Bill*, 2002.

7.5.7 **Share Blocks Control Act, 1980 [no 69 of 1980]**
This Act regulates the approach to, and operation of property share block schemes. This tenure option represents a non-individual ownership option, but is relatively complex to register and administer.

7.5.8 **Sectional Title Act, 1986 [no 95 of 1986] as amended**
This Act regulates the approach to, and operation of Sectional Title schemes. Sectional Title constitutes a complex tenure arrangement that is focussed on immediate and/or immediate future individual ownership. It is also the only realistic legal option enabling instalment sale mechanisms.

7.5.9 **Extension of Security of Tenure Act, 1997 [no 62 of 1997]**
This Act provides secure tenure for people living on other peoples’ land in rural and peri-urban areas, and lays down procedures that must be followed prior to evicting people from their land.

7.5.10 **Interim Protection of Informal Land Rights Act, 1996 [no 31 of 1996]**
This Act was an interim measure to secure the rights of people with ‘informal’ land tenure, mainly in the former homeland areas.

7.5.11 **Land Reform (Labour Tenants) Act, 1996 [no 3 of 1996]**
This Act extends land rights to labour tenants under certain circumstances.

7.5.12 **Restitution of Land Rights Act, 1994 [no 22 of 1994]**
This Act gave content to the Constitutional right to land restitution.

7.5.13 **Upgrading of Land Tenure Rights Act, 1991 [no 112 of 1991]**
This Act upgraded certain inferior tenure forms to more secure forms of tenure.

7.6 **Private sector housing finance**

7.6.1 **Banks Act, 1990 [no 94 of 1990] as amended**
This Act governs the activities of deposit-taking institutions, including the banks and small banks.
7.6.2 **Usury Act, 1968 [no 73 of 1968] as amended**

This Act governs the activities and financial practices of deposit-taking institutions. Micro-finance lenders granting loans of below R10 000 can be exempted from the provisions of this Act due to the cost and risk of providing unsecured small and micro-loans.

7.6.3 **Mutual Banks Act, 1993 [no 124 of 1993] as amended**

This Act governs the activities and financial practices of Mutual banks.

7.6.4 **Home Loan and Mortgage Disclosure Act, 2000 [no 63 of 2000]**

This Act makes provisions for banks to make certain information public regarding their lending practices, in order that their lending record in low-income areas may be monitored.

7.6.5 **The Community Reinvestment (Housing) Bill, 2003**

When promulgated, this Bill will specify lending targets and approved routes through which financial institutions can meet community reinvestment obligations in low-income communities.

7.7 **Public sector housing finance**

7.7.1 **Public Finance Management Act, 1999 [no 1 of 1999] and Amendments**

This Act regulates the financial performance and procedures of public institutions. Specifically, it requires all public bodies to produce a three year strategic plan and to review this on an annual basis as a part of a Medium Term Expenditure Framework. Recent amendments require greater accountability by public entities for their performance (Porteous & Naicker, in Kahn & Thring 2003: 223).

7.8 **Housing consumer protection**

7.8.1 **Housing Consumers Measures Act, 1998 [no 95 of 1998]**

This Act provides for certain measures to be implemented to further the rights of housing consumers.

7.9 **Housing institutions (tax and VAT)**


This Act regulates the taxation status and provisions for housing (and any other) organisations. It provides for tax exemptions for specific categories of institutions.

This Act sets out the approach to the operation of the VAT system in South Africa. Of particular importance is the negative impact this Act has on rental housing institutions in that rental housing services are exempted from VAT, which implies that rental institutions are unable to claim back VAT inputs costs incurred during the development of such housing.

7.10 *Municipal legislation*

7.10.1 *Local Government Laws Amendment Act, 2002 [no 51 of 2002]*

This Act will give local authorities preferential status regarding payment for outstanding rates and services. This will affect the rights of other creditors, such as mortgage holders. This Act also charges municipalities with the responsibility for individually levying occupants of Sectional Title schemes for rates and service consumption.

8 *LINKS*

Some important links to websites of relevance to this paper are given here.

8.1 *Sources of housing-related information*

8.1.1 *Polity*


This website is a useful resource for legislation, and provides links to other websites with related legal resources.

8.1.2 *Parliamentary Monitoring Group*


The PMG is useful for tracking down the records of various government committees.

8.1.3 *Government On-Line*


This website provides information on a wide range of government-related activities and institutions.

8.1.4 *Parliament*


The parliament website provides resources related to parliamentary sittings.
8.1.5 Sangonet

http://wn.apc.org

The Sangonet website is a useful forum for information related to the non-governmental sector in South Africa.

9 ACRONYMS

The acronyms used in this paper, and in the housing sector generally, are given below.

CBO Community-based organisation
CGAP Consultative Group to Assist the Poorest
DAG Development Action Group
DBS Discounted Benefit Scheme
DFA Development Facilitation Act, 1995
DFI Development Finance Institution
DoE Department of Education
DoH Department of Housing
DoLA Department of Land Affairs
DoT Department of Transport
DPLG Department of Provincial and Local Government
DTI Department of Trade and Industry
EU European Union
HCPT Housing Consumer Protection Trust
HFRP Housing Finance Resource Programme
HLGC Home Loan Guarantee Company
HRP Hostels Redevelopment Programme
HSC Housing Support Centre
ICHUT Inner-City Housing Upgrading Trust (now TUHF)
IDP Integrated Development Plan
ISRDP Integrated Sustainable Rural Development Plan
JVDF Joint Venture Development Fund
LDO Land Development Objectives
LFTEA Less Formal Townships Establishment Act
MFI Micro finance Institution
MFRC Micro finance Regulatory Council
MIF Mortgage Indemnity Fund
MSA Municipal Systems Act
NASHO National Association of Social Housing Organisations
NBI National Business Initiative
NGO Non Governmental Organisation
NHBRC National Home Builders Registration Council
NHDB National Housing Development Board
NHF National Housing Forum
NHFC National Housing Finance Corporation
NHSS National Housing Subsidy Scheme
NURCHA National Urban Reconstruction and Housing Agency
PD People’s Dialogue
PFMA Public Finance Management Act
PHDB Provincial Housing Development Board
PHP People’s Housing Process
PHPT Peoples Housing Partnership Trust
PIP Property In Possession
RoU Record of Understanding
RHI Rental Housing Institution
RHLF Rural Housing Loan Fund
SAHPF South African Homeless People’s Federation
SALGA South African Local Government Association
SANCO South African National Civics Organisation
SARS South African Revenue Service
SDI Spatial Development Initiative
SHF Social Housing Foundation
SHI Social Housing Institution
SIDA Swedish International Development Agency
SIPS Special Integrated Presidential Project
UDF Urban Development Framework
UDZ Urban Development Zone
URTI Urban Regeneration Tax Incentive
USN Urban Sector Network
VAT Value Added Tax

10 REFERENCES


Department of Housing. 2003a. Housing Budget Vote.


Sigodi Martin Marah/Matthew Nell and Associates. 2002. An Assessment of Rental Housing In South Africa. USAID/HFRP.


1 ENDNOTES

1 What constitutes the housing backlog is a contentious issue. For reasons of clarity, the Department of Housing’s definition is used here. This includes the following census categories of housing: House/flat/room in back yard; Room/flatlet not in back yard but on shared property; Informal dwelling/shack in back yard; Informal dwelling/shack not in back yard; Caravan/tent/ship/boat (personal discussion with James Hayes, Department of Housing, 2003).

2 Figures calculated by the author using Stats SA Census, 2001 information (summary data), subsidised housing delivery figures, and demographic projections (low and
high HIV scenarios) from the Demographic Information Bureau. A figure of 2.4-million has also been quoted by DoH officials.

3 Intergovernmental Fiscal Review, quoted in Chalmers, 2003. The reason furnished for underspending is ‘…due partly to the slow progress of the rental housing programme initiated after the Presidential Jobs Summit’.

4 This table is adapted from Sigodi Martin Marah/ Matthew Nell & Associates (2002: 33), which is based on the October Household Survey (1999). Figures are rounded to the nearest 0.1%

5 This lower limit is due to the minimum standard house costing R25 580. See Section 4.3.6 for a description of this minimum housing standard.

6 Between 1994/95 and 2002/03, 87% of all subsidised houses have been delivered through project-linked subsidies, 11% through consolidation subsidies, 2% as individual subsidies, half a percent through relocation subsidies and 3% as institutional subsidies (DoH statistics).

7 Between 1994/95 and 2002/03, 92.2% of all subsidised housing units have been produced for those with household incomes of below R1 500 a month (that is, the maximum subsidy band), 5.6% for those earning between R1 501 and R2 500 and 2.2% for households earning between R2 501 and R3 500 a month (DoH statistics).

8 This is based on the general acknowledgement that the growth in households continues to outstrip housing production in South Africa.

9 Informal rental markets also play an important role here, but indications are that this market does not have as high rates of turnover as the informal market.

10 The National Housing Code, 2000 and a ‘User Friendly Guide’ to the Code are available on the DoH website.

11 This paragraph is a summary of issues covered in Rust (2002a: 20-24).

12 Rust (2002a: 23) cites the example of an additional 32 000 new loans falling into default since the cutoff for inclusion of loans into Servcon in 1997, which is three times more than the 11 000 Servcon normalized over the same period.

13 This Bill was guided by research conducted by Diamond (2002).

14 Rust (2002a: 9) refers to ‘partnerships in process’ and ‘partnerships in product’ relating to the mobilisation of housing finance in South Africa.

15 This paragraph is summarised from Rust (2002a), Rust (2002b) and Tomlinson (1997).

16 Zack (2003:1-2) concludes that many subsidy beneficiaries are dissatisfied with the quality of housing products, and report that developers fail to repair defective houses.

17 Zack (2003:1) records that while beneficiaries commonly complain about the location and access to amenities of subsidized housing areas, they also have a strong attachment to their new housing areas, feel better off than before and have feelings of empowerment and dignity. However, many doubt whether such areas will offer long-term benefits for their children.

18 It is worth noting that this is the cost of the NHBRC’s product defect warranty that is now required on all subsidised housing.
FinMark Trust (2000) records an average expenditure on housing of 5% for households earning around R1 500 or less. A household earning R1 500, saving all of this 5% housing contribution would require 33 months, or nearly 3 years to save R2 479.

Mthembi-Mahanyele (2002: 7) confirms that a Task Team has been set up to investigate and deal with fraud within the housing system. This will collaborate with the Director of Prosecutions, Office for Serious Economic Offences, the Auditor General, the South African Police Service and the National Anti-Corruption Forum.

This is based on statistics from the Department of Housing. It is not clear whether this figure relates to subsidies allocated or units completed. Baumann (2003: 10) believes this figure is closer to 3% of all subsidies issued, but possibly this has escalated since the introduction of the savings requirements as it provides an option to replace money saved with individual labour inputs.

For instance, the Gauteng Province’s Mayibuye programme uses the PHP subsidy route. This programme uses a three-phase settlement approach starting with ordered settlement of families on designated sites, followed by the provision of key services and ending with the delivery of accommodation using a PHP methodology. Cape Town has discussed the implementation of a similar Accelerated Managed Land Settlement Programme, but this has not yet been implemented.

Recent evidence suggests that many local governments, even in relatively better-off areas such as Gauteng and the Western Cape, are close to bankruptcy.

Housing subsidy allocation procedures were deemed to be ‘non-competitive, supply driven and peripheral oriented’, and has been brought in line with ‘Constitutional and legislative prescripts…regarding the procurement of goods and services by government institutions’. This will place a greater emphasis on the role of local governments as agents for identifying, packaging and offering suitable land or buildings for tender and possibly undertaking developments. DoH (2003d: 5).

The first four listed here are discussed in Rust (2002b). These topics are also raised in, for instance, Mthembi-Mahanyele (2002) and other literature.

Kahn & Thring (2003: ix) state that ‘there is little doubt that they will be quite significant [and] could tilt the balance of power away from the…state assisted, market-driven approach to a state-facilitated/guided, civil society-driven approach.’

The five main areas are taken from DoH / Social Housing Foundation (2003: 3). Additional ideas included from Rust (2003: 25) and Mthembi-Mahanyele (2002).

DoH / Social Housing Foundation (2003: 3): ‘The Government has acknowledged that the development of acceptable and sustainable medium density rental housing can only be realised through sustainable social housing institutions and adequate private sector involvement.’ The proposed capital grant system will be based on the capitalized difference between affordable rentals and generally accepted operating and maintenance costs of a SHI over a 20 year period. This is a fundamental departure from the current subsidy scheme that is based on a set capital subsidy that requires other contributions to meet minimum specified standards. In addition, like with the Peoples Housing Process, SHIs may be eligible for other establishment and capacity building grants.

Johannesburg Metro’s Better Buildings Programme that identifies and makes available buildings in poor condition for upgrading and the Nelson Mandela Metro’s ‘Four
Pegs’ programme that speeds up the settlement of households prior to development are examples of this.

For instance, housing affordability varies within households with the same overall levels of income due to their specific circumstances.


Rust (2002a:11) states that up to April 2001, less than 1% of subsidies were linked to credit. However, up to 2003 (when the ability to make up the difference between the subsidy and the price of the minimum standard product became a requirement), many subsidy beneficiaries did obtain credit, but after accessing the subsidy.

Effectively, the lower income limit is R800 per month, as many households with incomes below this are able to access fully-subsidised special needs housing. However, it is difficult to obtain data for the R0 to R800 income group from census data.

There are two exceptions to this rule. Firstly, households that have received the benefit from subsidised rentals in Housing Institutions may access subsidies. Secondly, certain beneficiaries of past state subsidy programmes may be eligible for consolidation subsidies.

The only exception to this is beneficiaries of subsidized rental accommodation provided through housing institutions, where the subsidy is allocated to the unit rather than the individual beneficiary.

Up to the end of the 2002/03 financial year, 405 721 of the estimated 1-million houses available through the Discount Benefit Scheme had been transferred to their occupants (DoH statistics).

These are set according to the Ministerial National Norms and Standards in respect of Permanent Residential Structures, 1999, The National Building Regulations and Building Standards Act, 1977 and the minimum technical standards imposed by the NHBRC (Department of Housing, 8 June 2003:15).

This step is simplified from DoH PHP documentation.


This was established by the South African Homeless Peoples Federation and People’s Dialogue.

The figures are estimates from Smith (2003: 22-23).

The other four Development Finance Institutions are the Development Bank of South Africa (http://www.dbsa.org/), Khula Enterprise Finance Limited (http://www.khula.org.za/), the Land Bank (http://www.landbank.co.za/), and the National Urban Reconstruction and Housing Agency (http://www.nurcha.co.za/).

Gateway Home Loans (Pty) Ltd was established as a subsidiary of the NHFC in 1998. Its aim was to draw mainstream banks into the low-income housing market (offering housing finance of between R20 000 and R50 000 to employed people) by establishing a secondary market process for the purchase and funding of standardised home loans using a securitisation process. Due to its poor performance, Gateway scaled down its operations at the end of its pilot phase in 2000.
44 Through this warranty, beneficiaries of all new subsidised houses will have a five year warranty against structural defects. The costs of these warranties are included in the most recent increase to the subsidy amounts and the raised specifications for minimum standard housing.

45 This section is adapted from Tomlinson (2001: 24-29).