Opportunities for private sector investment in social housing in South Africa

Prepared for Nedbank by

Centre for Affordable Housing Finance in Africa
A division of FinMark Trust
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FinMark Trust is a non-profit independent trust that seeks to make financial markets work for the poor by promoting financial inclusion and regional financial integration within SADC. FinMark Trust’s Centre for Affordable Housing Finance in Africa ('CAHF') wants to realise this broad mission by motivating increased investment in affordable housing and affordable housing finance within the SADC region and more broadly throughout the African continent.

Nedbank Corporate Property Finance ('Nedbank') is the market leader in the commercial property finance industry. Its affordable housing development focus is growing and has achieved substantial respect among peers in the industry.

CAHF and Nedbank are both interested in supporting the growth of South Africa’s social housing sector. While CAHF wishes to see increased investment in this sector, Nedbank is intent on developing an investment strategy that will support its own involvement in this sector.
Executive summary and business case

Social housing is the term used to describe subsidised rental housing in South Africa. It differs from private rental in that it receives capital subsidies – the Institutional Subsidy and the Capital Restructuring Grant – from the state, and therefore it must adhere to certain principles. The Social Housing Act (16 of 2008) defines social housing as ‘a rental or co-operative housing option for low to medium income households at a level of scale and built form which requires institutionalised management and which is provided by social housing institutions or other delivery agents in approved projects in designated restructuring zones with the benefit of public funding’.

South Africa’s social housing sector has seen significant change and growth since 1994. Current policy and legislation, as well as the funding framework, incorporate lessons learned from the past eighteen years and are framed to enable the sector to grow and deliver viable social housing projects that are well located, and structured and managed by capable and regulated social housing institutions (‘SHIs’), as well as by the private sector. The establishment of the Social Housing Regulatory Authority (‘SHRA’) in 2010 is an important development, as it addresses many of the risks that previously undermined the delivery of subsidised rental housing. Recognising the need to subsidise the capital costs of projects, government has committed itself to funding a significant portion of social housing project costs (up to 65%), enabling subsidised units in projects to be offered to tenants with monthly household incomes of between R1 500 and R7 500. It is worth noting that rental housing projects need not be entirely subsidised – the policy encourages integrated settlements in which social housing is only a part of the entire project. This can further support the viability of projects while also realising the broader aim of social housing, that is, to support spatial and social integration.

Historically, funding for social housing was limited to SHIs. For the first time, in 2012, private sector institutions were also eligible to apply for subsidy funding through the SHRA to support the provision of social housing.

The system is rather simple. Any provider of rental housing wishing to include a social housing component in its development can apply for capital subsidies to finance the social housing units to be delivered as part of the project. Social housing capital subsidies come through two streams: (1) a Restructuring Capital Grant (‘RCG’) and Institutional Interventions Grant from the SHRA; and (2) an institutional subsidy (‘IS’) from the provincial government. Together, these two subsidies can make up as much as 65% of project costs for the subsidised portion of a rental development. If subsidies are sought, 30% of the subsidised units provided must be targeted at the bottom end of the social housing target market, that is, households that earn R1 500 to R3 500 per month (‘primary target market’). This year the entry-level rental for this market has been set at R750 per month and the SHRA expects that with its level of capital funding, this rental can be achieved on a sustainable basis. The remaining 70% of the subsidised units can be for the higher ranges of the social housing policy target market, ie households earning R3 500 to R7 500 per month (‘secondary target market’), and this year these units can be offered at an entry-level rental of not more than R2 250 per month. The landlord is permitted to escalate the rental annually, subject to provisions set by the SHRA. Within these minimum parameters for a rental housing project, a provider (whether SHI or private sector developer or landlord) has substantial flexibility to define the market composition of their project.

There is a clear financial and market development case for investing in South Africa’s social housing sector. There is also a social or political case to be made.
The financial case:

- The subsidy quantum is upwards of R200 000 per unit. Loan finance is therefore expected to be limited to between 25% and 35% of the total capital costs.
- The establishment of the SHRA has brought focused and careful regulation to the sector, both in terms of institutional and project viability and housing suitability. A lender participating in the funding of a social housing project is not alone, and can rely on other players to ensure the sound progress of the initiative.
- As a result, a lender can expect regular repayment of loan obligations as defined in the loan agreement. Should a problem arise, the lender can engage with the SHRA for support in finding a solution.

The market development case:

- The social housing sector is still relatively young and policy is evolving. The SHRA has indicated that they are open to suggestions from commercial lenders about what would make their participation possible. To this end, lenders can shape the arrangements in their own interest, thereby managing their own risk while also contributing significantly to the sustainable growth of the sector.
- South Africa has an undersupply of rental housing, and this has been clearly recognised by policymakers. To the extent that a lender develops experience in financing subsidised rental housing, it can rely on a long stream of potential future deals. Government has committed itself to the delivery of 80 000 rental units by 2014. It is estimated that 24 132 of these will be social housing, a further 8 487 will be institutional housing and 26 600 will be private rental (including small-scale and larger, corporate sector landlords). A project pipeline has been developed and there are opportunities to provide finance for well-structured and regulated projects by accredited SHIs or private landlords.
- Tenants in rental accommodation are generally new entrants to the housing market, and their rental units are often their introduction to independent living and participation in the formal market. It is a life-stage form of housing, generally occupied by young, single or newly married people, newly employed. Their next housing choice may well be homeownership. By participating in a social housing development, a commercial lender can use the opportunity to introduce itself to a future potential market of mortgage clients.

The social and political case:

- Government’s main focus on social housing is the impact that this form of housing can have on urban restructuring and spatial integration. Participation in social housing projects will demonstrate a commitment to these objectives.
- South Africa has an undersupply of rental accommodation, especially for low- to middle-income earners. In the absence of rental housing supply, these households, usually public and private sector workers, must reside with family or more likely occupy inadequate accommodation, either squatting in the inner city or in backyard shacks or informal settlements. Promoting the delivery of social housing addresses this backlog and ameliorates the housing situation for a key market.

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1 The remaining 20 000 units are to be delivered through the Community Residential Unit Programme – these are generally hostel conversions and subsidised rentals with communal ablutions, not a focus of this business case.
• The target market of the social housing sector fits well within the Broad-Based Black Economic Empowerment Act: Codes of Good Practice on Broad-Based Black Economic Empowerment (Draft, G 35092, GeN 174, 2 March 2012).

There are three ways in which a lender could invest in the social housing sector given the current policy, regulatory and financial framework:

1. **Project funding to an SHI or a private sector landlord to undertake a project in which social housing forms a part.** In this case the landlord (SHI or private sector) acts as developer and then manages the property over the long term. There are a few such institutions that warrant further consideration as viable partners. This would be a medium-term loan where the exit is achieved through the rental stream as in a normal loan to support rental housing.

2. **Project funding to a private developer undertaking a project on a turnkey approach in which social housing forms a part.** In this case the developer eventually sells the project to the landlord (SHI or private sector). This would be a short-term project loan where the exit is achieved through the landlord’s purchase of the project.

3. **The purchasing of a portfolio of projects.** Both the National Housing Finance Corporation (’NHFC’) and the Dutch International Guarantees for Housing Foundation (’DIGH’) have such portfolios and might be interested in selling them. This would be a long-term investment – it is not clear how the exit would be achieved. This particular option is not addressed in this report.

Clearly there are risks associated with lending into this sector. The current policy and regulatory framework do mitigate these well, and lenders can feel confident in realising their financial expectations from the deal.

**This report sets out the funding arrangements for social housing in South Africa, identifies opportunities for private sector investment, and sets this against a background of the overall status of social housing in South Africa.** The report is intended as a basis for the development of an SHI strategy.

This report covers:
- South Africa’s social housing finance framework
- Opportunities for private sector engagement
- An overview of social housing in South Africa
- An overview of the social housing sector and key stakeholders
- Delivery approaches
- The future of social housing in South Africa

This report is based on a desktop review of existing documents and interviews with key informants (for details see Appendix A). Additional responses to frequently asked questions are included in Appendix D.
1 South Africa’s social housing financing framework

Social housing is subsidised rental housing, which in South Africa is delivered and managed by SHIs, or by private sector (for-profit) institutions. It can be an entire development project or a component of a project in which market-related rental is also provided. What makes social housing distinct is that it receives substantial government subsidy support (and is therefore also subject to accompanying regulation) so that the units provided are affordable to households earning between R1 500 and R7 500 per month (‘social housing subsidy target market’).

Social housing projects are financed with a combination of government funding, debt and equity. The most substantial component of social housing project costing is government funding. Government subsidy funding for social housing comes through two pathways:

- From the SHRA in the form of RCGs and Institutional Interventions Grants
- From provincial government in the form of Institutional Subsidies

In the current environment, funding for a social housing project is generally a mix of these government subsidies and debt. The most significant component of funding (an estimated 40% of project costs for the subsidised units in the project) is from the SHRA through the RCG. For those units aimed at the primary target market, this grant is topped up by IS funding from the provincial government under which the project falls. The RCG and IS together provide approximately 60% to 70% of the funds required for a project. The remaining 30% to 40% is either provided through equity by the social housing or for-profit institution or by a private lender as a loan. The key sources of funding for loans in the current environment are the NHFC, the Gauteng Partnership Fund (‘GPF’) and the DIGH. Absa DevCo has recently funded a turnkey project at Fleurhof in Johannesburg.3

The ways in which these different types of funding are applied, and the purpose of that funding in policy terms, are shown in the figure below.

![Figure 1](image.png)

**Figure 1: Funding used for a typical social housing project**

<table>
<thead>
<tr>
<th>Total capital cost for social housing units in a project 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restructuring Capital Grant provided through the SHRA 40%</td>
</tr>
<tr>
<td>Provincial Institutional Subsidy topup grant 25%</td>
</tr>
<tr>
<td>Loan/Debt portion 25 – 35%</td>
</tr>
<tr>
<td>Equity 10% (only required of for-profit)</td>
</tr>
<tr>
<td>Restructuring the city: spatial and socio-economic</td>
</tr>
<tr>
<td>Low-income rental housing: targeted at hh R1 500 – R3 500</td>
</tr>
<tr>
<td>Viability of the social housing project and SHI ('skin in the game')</td>
</tr>
</tbody>
</table>

2 Interview Eugene Perumal, SHRA, May 2012.
3 Interview Eugene Perumal, SHRA, May 2012.
The actual percentages will vary by project and are shown as an indication only as different provinces provide different top-up amounts and the amount of equity of SHIs or private institutions will vary.

An overview of each of these components of funding is outlined in more detail below.

The majority of SHIs that are providing products in the income range of R1 500 to R7 500 are using this funding combination, which, due to the high percentage of grant finance, enables them to provide rentals that are affordable. There are a few SHIs, for example the Johannesburg Housing Company (‘JHC’) and private developers, that are not accessing the grant funding component but are undertaking projects using equity and loan finance only. These delivery agents target a slightly higher income group or have a mix of higher income tenants within their buildings. Some of these delivery agents are using other forms of finance. For example, the JHC has entered into an agreement with the Public Investment Corporation, a pension fund that owns rental stock. JHC will rehabilitate and manage this stock on behalf of the Public Investment Corporation using a loan facility that they are providing.

1.1 SHRA grants

The SHRA provides grant funding through a capital investment programme, which provides the RCG and, through the institutional investment programme, three institutional interventions grants, namely the Preaccreditation and Gear-up Grant, the Project Feasibility Grant, and the Specific Intervention Grant. Each of these is outlined in more detail below.

1.1.1 SHRA capital investment programme (the Restructuring Capital Grant)

The Social Housing Investment Programme invests in social housing projects through the provision of an RCG. The primary purpose of the RCG is to contribute towards the spatial, social and economic restructuring of South African cities. It is a significant contribution to the capital cost of a social housing project. The grant can be accessed by:

- existing or new accredited SHIs;
- non-profit private sector companies; and
- for-profit private sector companies.

While SHIs must be accredited by the SHRA, private sector companies (both non-profit and for-profit) are not subject to the SHRA’s accreditation criteria, as they are governed by company legislation. However, the projects that these private companies submit must meet specific criteria. Once the grant is approved and the project is complete, the project is subject to monitoring by the SHRA even though the private company is not subject to SHRA accreditation.

4 Adapted from the Social Housing Regulatory Authority website and based on an interview with Heather Maxwell.
Provincial government and municipalities are not allowed to access the grant.

The total grant quantum is determined on a project-by-project basis and depends on the affordability mix of the units. The standard grant quantum is R125 615 per unit, but may be escalated annually at the discretion of the SHRA Investment Committee. No escalation of the grant quantum has occurred over the past four years. The standard grant quantum is subject to these conditions:

- It must be allocated to a minimum of 30% of the subsidised units in a development or building for the primary target market, up to a maximum of 70% of the subsidised units.
- The secondary target market can occupy the remaining subsidised units.
- Subsidised units need not make up the entire project, but could form just a portion of it. The RCG only applies in terms of units targeted at either the primary or the secondary target market.
- Delivery agents need to ensure that units that have received the RCG grant are occupied by tenants that are within these income bands. Failure to do so will result in the SHI's having to repay the RCG grant, including all costs, for that unit.

The variance to the standard grant quantum is based on the proportion of units allocated to the primary target market. The standard grant quantum increases by R749 for every additional 1% allocation to primary beneficiaries to a maximum of 40% (ie 70% of the total units in the project) and then applies to all subsidised units in the project. This quantum variation may be escalated annually at the discretion of the SHRA Investment Committee. Projects that include a higher proportion of the primary target market than the 70% maximum do not receive any further increase in the total grant quantum.

### Calculating the RCG – Example:

- In a project of which 100 units will fall within the subsidy target market, 30 are allocated to the primary target market. Total SHRA subsidy = 100 x R125 615 = R12 561 500.
- If, in the same project of 100 subsidised units, 50 units are allocated to the primary target market: Total SHRA subsidy\(^5\) = 100 x (R125 615 + ((50 - 30) x R749)) = 100 x (R125 615 + R14 980) = 100 x R140 595 = R14 059 500.
- If, in the same project, 70 of the 100 subsidised units are allocated to the primary target market: Total SHRA subsidy = 100 x (R125 615 + ((70 - 30) x R749)) = 100 x (R125 615 + R29 960) = 100 x R155 575 = R15 575 500.
- If, in the same project, 80 of the 100 subsidised units are allocated to the primary target market: Total SHRA subsidy still = 100 x (R125 615 + ((70 - 30) x R749)) = 70 x (R125 615 + R29 960) = 70 x R155 575 = R15 575 500 (ie the subsidy is the same as it would be if 70 units were in the primary target market).

Note: In this project the 100 units in the subsidy target market may either be on their own (ie they make up the entire market) or part of a wider development that includes non-subsidised units. There is no minimum or maximum of a project that must be subsidised. The only restriction that applies is that, if a portion of the units in a project are subsidised, 30% of that portion must be in the target market.

Note: Projects are also eligible (and required) to apply for the IS capital grant, which is allocated from the provincial housing budget. In Gauteng this is administered by the GPF. In the Eastern Cape the SHRA administers the IS. The IS applies to all units offered to the primary target market.

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\(^5\) This calculation is to determine the percentage of the subsidised component of the project that is dedicated to the primary market, above the minimum required level of 30%. The standard RCG quantum of R125 615 will increase by R749 per 1% allocation to primary market beneficiaries above the 30% minimum, to a maximum of 70% of the total units in the subsidised component of the project.
Once the SHRA subsidy is calculated, the institutional topup (about R81 000, with provincial variations) can be calculated. This is in addition to all accommodation delivered within the primary target market in the development. This suggests a total subsidy of over R200 000 per unit to support urban restructuring and access to affordable rental accommodation by low-income earners.

To access the RCG a social housing project must:

- meet social housing policy objectives as determined by the SHRA.
- be planned for operation by an accredited SHI or a private sector provider. SHI accreditation is undertaken by the SHRA and based on the SHI’s capacity to meet the objectives set out in an Excel model testing institutional viability – known as Quickscan A. For private sector applicants a minimum of 10% equity contribution is obligatory, but they do not have to be accredited.
- be supported by the relevant provincial and local governments.
- be located in a restructuring zone. The only exception to this is when the social housing project is included in a wider development of more than 5 000 units (Cosmo City, for example). These developments are given the status of megaprojects. A social housing project in a megaproject can also access the RCG.
- meet specific criteria in respect of project and financial viability as specified in Quickscan A. SHIs can input their data to determine their viability. Quickscan B and Quickscan C test the project and financial feasibility.
- meet specific criteria in terms of the size of units and types of materials used. This is confirmed using Quickscan B.

To qualify for the grant projects must be fully structured and developed and matching funding (debt and/or equity) must be secured. In this regard the approval of the relevant provincial government for the IS should have been secured and there must be agreement in principle from a financier to provide the loan finance component.

Projects must meet the following criteria to access the grant:

- Rental accommodation must comply with the social housing standards and philosophy.
- The number (and percentage) of units occupied by primary and secondary target market households must be maintained during the lifespan of the project.
- In terms of the current call for proposals (SHIP 3A), rentals in the first year of operation must be below R2 250 per unit per month, and at least 30% of these must be below R750 per unit per month. Rentals may escalate after the first year of operations based on inflation and operational cost recovery. Annual rental escalations greater than the consumer price index (’CPI’) plus 2% per annum will have to be motivated and approved by the SHRA. The SHRA notes, however, that it is in its interest to support the financial viability of the SHI or social housing provider. To the extent that rental escalations are required for such viability, it is expected that they would be supported.
- Buildings must be adequately maintained and kept in good condition. This is considered to involve an annual amount of at least 1,02% of the capital cost of the project in real terms,
- There must be ongoing management, ie tenant management, rental collections, etc.
- Buildings must be designed to meet the needs of tenants and be sustainable. Projects must be well integrated into their precincts and they must be of a high design standard.
The application procedures to access the grant are extremely rigorous and include the following:

- Public notices are issued by the SHRA from time to time, inviting SHIs and other delivery agents to submit applications for the RCG funding.
- The following must be submitted:
  - Organisational due diligence
  - Project technical viability and readiness
  - Project financial viability

If a project is awarded a grant the funds are provided as follows:

- The project must establish an Imprest Bank Account (‘Imprest Account’). All transfers of tranche funds from the SHRA are paid into this account. The SHRA has full access to and control of the Imprest Account. The unauthorised movement of funds from the Imprest Account, ie without the approval of the SHRA, constitutes a breach of the contract. On completion of the project all interest in the Imprest Account is refunded to the SHRA. In certain circumstances the SHI can motivate the use of the interest for items of a capital nature within the projects. Such authorisation is at the sole discretion of the SHRA Council.
- Funds are released in the following tranches:
  - Tranche 1: 10%. This payment will be done if the conditions precedent are met and is expected to cover professional fees incurred towards the project design and RCG applications process.
  - Tranche 2: 35%. This payment will be done when development is under way and financial closure is reached. On payment of this tranche the project should have all the additional financial contributions (IS loan) in place.
  - Tranche 3: 35%. This payment will be subject to development milestones and the submission of the tenant management plan, property maintenance system and sustainability plan.
  - Tranche 4: 20%. The last payment will be done only when the SHRA is satisfied that the project has been completed.

1.1.2 SHRA Institutional Investment Programme

The institutional investment programme has been specifically created to give financial assistance to SHIs for gearing-up capacity to achieve accreditation funding, for project feasibility studies to bring a project to a stage where an application for grant funding is likely to be successful, and to provide funds for special interventions in the event that, after completion of the implementation stage, either the SHI or its projects are in distress.

The three grants provided are set out below.

- **Preaccreditation and Gear-up Grant**: The purpose of this grant is to help SHIs establish viable organisations and to achieve accreditation with the SHRA. This assistance includes setting up a governance structure, setting up an operations base/office, formulating a business plan for the institution, setting up capacity to submit an accreditation application, and setting up capacity to undertake a social housing project. Eligible applicants are existing or new SHIs that have not been able to
achieve provisional or full accreditation. The grant quantum is currently set to a maximum of R100 000. This quantum may be varied by the SHRA Investment Committee at its discretion and on a project-by-project basis.

- **Project Feasibility Grant**: The purpose of this grant is to help a provisionally or fully accredited SHI that has a project it believes is suitable in terms of the regulations, or an SHI that has submitted a grant application and was refused by the SHRA. Eligible applicants are existing or new SHIs that have been able to achieve provisional or full accreditation. Other delivery agents are not eligible for this grant. The grant quantum is currently set to a maximum of R500 000. This quantum may be varied by the investment committee at its discretion and on a project-by-project basis.

- **Specific Intervention Grant**: The purpose of this grant is to help an accredited SHI that has a project or projects currently complete and operational, but in distress as a result of either operational or financial weaknesses. The grant quantum is currently set to a maximum of R100 000. This quantum may be varied by the Investment Committee and at its discretion per application.

### 1.2 The Institutional Subsidy

Confirmation of the allocation of provincial institutional subsidies to a project is a precondition for the submission of an RCG application. On approval of the RCG, the SHI must enter into a contract agreement with the province for the subsidies. The subsidy agreement is on the standard terms and conditions of the Department of Human Settlements at the quantum that the province determines, taking into account the provisions of the housing code and any national and/or provincial adjustments for local conditions.

According to a letter issued by the Department of Human Settlements and signed by the Director-General on 15 February 2012, the quantum for the IS in 2010/2011 (with effect from 3 November 2011) was R23 403 per unit for internal municipal engineering services (B Grade), and R57 980 for the top structure of the unit (40 m²) up to a total IS amount of R81 383 per unit. This is a minimum amount and the province may determine a higher value depending on specific exceptions. In the coastal region, for example, a condensation allowance applies.

The province undertakes its own inspections as the project proceeds to determine compliance by the SHI with its contractual obligations in terms of the subsidy agreement.

Application for this component of funding is made directly to the relevant provincial government in terms of its requirements. This is separate from the SHRA application process specified above. SHIs must report against this component of funding separately as well.

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5 It is not clear whether the specification of the '2010/2011' financial year is intentional, or whether it is a typographical error. The document was signed in February 2012, which would suggest it refers at least to the 2011/2012 FY. Further, the document does not clearly indicate if IS specifications are the same as those for other subsidies (ie B Grade services and 40 m² floor space).
It appears that there is coordination between the SHRA and provincial governments, specifically with regard to the project pipeline, and that there is alignment between the SHRA grant and the IS. The drawdown of the IS is occurring effectively.

A key issue with this form of funding is that the amount of topup varies by province and this creates a disparity in the market.

1.3 Loan/Debt portion

Currently, there are generally only three financiers providing the loan portion for a social housing project, namely the NHFC, the GPF and the DIGH. Absa Devco recently financed the turnkey development undertaken by Calgro M3 for Madulammoho Housing Association in the Fleurhof development. In general, SHIs need only borrow 30% to 40% of the total project cost. The mortgage loan is raised over the full property. Should the SHI default on the loan, the lender could take ownership of the full property.

To support the delivery of rental stock there are currently no restrictions in respect of obligations or rights that the SHRA or the provincial government have as a result of the development having benefited from the grant funding. This is largely due to the nature of the lenders, who are all established.

It is anticipated that this will change in the future if an SHI accesses a mortgage loan from a commercial lender. The SHRA is currently investigating the basis on which the grant portion of the defaulting SHI’s funding must be repaid in the instance of foreclosure by the lender. This is explored further in Section 7.

Boni Muvevi from the GPF indicates that in structuring loans, consideration needs to be given to the term of the loan. In the experience of the GPF the normal loan term of 10 years is often not effective and for a social housing project to be viable in the current environment a longer term of between 10 to 20 years is often required. He notes that given the small portion of the project cost that the loan covers (ie 30% to 40%), and the reduced risk given the regulation and controls put in place by the SHRA, the longer terms of the loan is less of a risk than in normal circumstances.
2 Opportunities and issues for private sector engagement

The social housing sector offers a series of interesting investment opportunities, as indicated by the following:

- The SHRA has seen a significant increase in the amount of funding allocated for the provision of grants for social housing projects. This shows a strong commitment by the National Department of Human Settlements to social housing and it means that the SHRA is able to increase its grant allocations significantly in future years.
- A pipeline has been developed with significant delivery planned. The SHRA has issued its third call for proposals – successful projects from the first two are already under way. This delivery push creates real opportunities to provide loans for well-structured and well-regulated projects being undertaken by accredited SHIs.
- The quantum of the subsidy means that the loan portion required from the lender is limited to 30% to 40% of the total cost of the project. In certain cases this is only required once subsidy funding has already been spent and the development is under way. This significantly reduces risk for the lender.

The areas where the best investment opportunities are include:

- Growth nodes within cities, for example Soweto and Alexandra.
- Inner city areas with a track record (Johannesburg, Pretoria).
- Urban regeneration areas (Ekurhuleni, Cape Town Pilot Project, Nelson Mandela Bay).
- The new infrastructure corridors (North West, Northern Cape – Sishen to Saldanha).

Commercial lenders will need to be flexible in how they structure and offer loans, particularly with regard to the loan term. Key success factors for a social housing project include:

- Location.
- An urban design that ensures that the project is well integrated into an urban area.
- The design of the project must ensure ongoing sustainability and use.
- The quality of the building must keep maintenance in the future to a minimum.
- The experience and track record of the SHI.

The SHRA already has development guidelines to address these matters, and it is fairly strict on SHIs to make sure that these key success factors are met.

There are three ways in which a commercial lender could invest in the social housing sector in the current market:

1 Project funding to an SHI or private sector landlord to undertake a project in which social housing forms a part. In this case the landlord (SHI or private sector) acts as developer and then manages the property over the long term. There are a few such institutions that warrant further consideration as viable partners. This would be a medium-term loan, where the exit is achieved through the rental stream as in a normal loan to support rental housing.
2 Project funding to a private developer undertaking a project on a turnkey approach in which social housing forms a part. In this case, the developer eventually sells the project to the landlord (SHI or private sector). This would be a short-term project loan, where the exit is achieved through the landlord’s purchase of the project.

3 The purchasing of a portfolio of projects. Both the NHFC and the DIGH have such portfolios and might be interested in selling them. This would be a long-term investment – it is not clear how the exit would be achieved. This particular option is not addressed in this report.

The first two of these are explored below.

2.1 Project finance to a social housing institution or private sector institution

When an SHI or private sector institution seeks to undertake a social housing development, they prepare a project proposal. The SHRA offers a detailed outline on how such a proposal must be structured, and has specific guidelines and criteria that must be fulfilled if funding is to be granted. Funding is intended to flow as follows:

Table 1: Financial flow in a typical social housing project

<table>
<thead>
<tr>
<th></th>
<th>Restructuring Capital Grant</th>
<th>Institutional Subsidy</th>
<th>Loan/Equity</th>
<th>Development status</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHI</td>
<td>±40%</td>
<td>±25%</td>
<td>±35%</td>
<td>• Land purchased or development agreement signed.</td>
</tr>
<tr>
<td>Private sector entity</td>
<td>±40%</td>
<td>±25%</td>
<td>±10% equity ±25% loan</td>
<td>• Town planning and environmental approvals secured.</td>
</tr>
<tr>
<td>Preparatory stage</td>
<td>• SHI identifies land and undertakes initial feasibility assessment, including a market assessment.</td>
<td>• SHI secures approval from relevant municipality and province. As part of this a commitment to provide the IS is provided.</td>
<td>• SHI secures land and town planning approvals. Detailed design of the project is undertaken.</td>
<td>• SpI enters into IS loan agreement on the basis of the achievement of Tranche 2 milestone.</td>
</tr>
<tr>
<td></td>
<td>• SHI applies for and secures SHRA RCG.</td>
<td>• SHI secures formal commitment for the institutional subsidy.</td>
<td>• SHI secures approval in principle from lender.</td>
<td>• Private sector lender deploys 10% equity</td>
</tr>
<tr>
<td>Tranche 1 (T1) (3 months)</td>
<td>• Imprest Account established for subsidy payouts. 10% paid on meeting of conditions precedent, which include an approved business plan, a market</td>
<td>• SHI enters into loan agreement on the basis of the achievement of Tranche 2 milestone.</td>
<td>• Funds received cover the costs of preparatory stage.</td>
<td></td>
</tr>
</tbody>
</table>

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Restructuring Capital Grant | Institutional Subsidy | Loan/Equity | Development status
--- | --- | --- | ---
plan, proof that all town planning and environmental requirements are met, an approved building design and development time frame, and proof that all funding has been secured. | contribution first. | | 
Tranche 2 (T2) | • 35% paid on financial closure – this means that the SHI will have secured IS funding from the province, and loan funding. | • SHI draws down 90% of the IS based on the achievement of specific milestones. | • Building development undertaken, including foundations, building construction and finishes
Tranche 3 (T3) | • 35% paid on meeting of development milestones and the submission of tenant management plan, property/maintenance system and sustainability plan. | • Loan finance drawn down to complete development once ±65% of development costs have been invested. | 
Tranche 4 (T4) | 20% paid out proportionately as occupation takes place and only on condition that the units are occupied by tenants in the specified income bands. | 10% paid out on completion of project. | Marketing undertaken and tenants occupy the building. Ongoing management commences.

As illustrated above, while the loan agreement must be secured at project initiation, this is only after Tranche 1 has been paid. To this extent the lender can be secure that the project is already committed and has achieved preliminary approval by the SHRA to proceed. Such approval is dependent on the technical and financial viability of the project being confirmed, as defined in the SHRA Quickscan framework. It is expected that the loan finance will make up only about 25% to 35% of total project costs, depending on whether the institution contributes an equity portion (SHIs are exempt from this requirement given their non-profit status).

While the loan agreement is initiated early on in the project, the loan finance only flows once about 65% of the project funding as calculated overall has been invested. To this extent the lender will have the assurance of the SHRA’s commitment to the initiative and the overall viability of the project.

Examples of the RCG agreement between an SHI and a private sector entity are available for review.

2.2 Project finance for a turnkey development

Project finance for a turnkey development works differently. In this instance a developer undertakes a social housing project on risk for an SHI. The SHRA suggests that this approach works best when the developer owns the land on which the social housing project will be built – this comprises the developer’s upfront equity in the development. While the payout of tranches from the SHRA’s RCG and the provincial IS grant will follow the same process, the developer will seek project finance from a lender up front.

Clearly therefore, an important consideration for the lender is that the RCG and IS funding will indeed flow from the SHRA and provincial government. To date, the SHRA has only dealt with this in one project – the
Fleurhof development undertaken by Calgro M3 on a turnkey basis for Madulammoho Housing Association in Johannesburg. For that project Calgro M3 accessed project finance from Absa Devco.

To meet Absa DevCo’s concerns regarding the risk of subsidy payout on a timeous basis, the SHRA put the entire subsidy commitment into an escrow account to guarantee its availability, and then paid out the tranches as agreed into the Imprest Account. No other guarantee was offered. The mechanism worked. Absa DevCo was sufficiently confident of the availability of funding and on this basis made its loan available.

A tripartite agreement was signed between the SHRA, the SHI and the developer. An example of this agreement is available for review.

A lender may wish to engage with the developer in financing a turnkey development. This would be a short-term project loan, not significantly different from project finance in unsubsidised rental developments or freehold developments. The proportion of funding sought through the credit instrument, however, is likely to be smaller and therefore less risky.

A lender may also wish to engage with the SHI or private landlord in the purchase of the turnkey development from the developer. In this case the loan tenure is likely to be longer, depending on the SHI’s or the landlord’s revenue from its rental stream.

In both cases it is worth noting that the SHRA’s investment in the overall project gives it a long-term interest in its viability, and this is something that the SHRA will invest in on an ongoing basis, beyond the project delivery stage into the long term, through ongoing management of that stock. The SHRA is therefore a very useful investor partner in the initiative, taking an active interest in its long-term success.

2.3 Key risks

Risks associated with social housing can be divided into four categories:

- Financial viability and the cost of construction.
- Commercial viability, the risk of non-payment and the rental restraint.
- The impact of the subsidy on the lender’s right to its security.
- The complexity of the administrative process.

These are all explored below.

2.3.1 Financial viability and the cost of construction

Despite the substantial level of government funding for social housing, SHIs argue that the overall amount available and the specific allocations to individual projects are becoming increasingly insufficient to support long-term financial viability.

- Total allocation to social housing: Between themselves, SHIs have more projects than there is funding for, and they are increasingly competing for funding. The SHIs that are solely dependent on this form of
funding is limited by the amount of funding that it is awarded. This, in turn, limits the number of units they can acquire or build, which undermines their potential revenue stream, pushing out their break-even point. The proposed project pipeline that the SHRA has developed will have a positive impact on this, providing at least some certainty in the funding process.

- Allocation per unit: At the project level the grant quantum of R125 615 per unit is also increasingly insufficient to cover project costs and maintain the rent levels set by the policy, even with the additional IS topup. The RCG has not increased in the past four years, putting a strain on project viability in the face of rising building costs. In addition, as the availability of ‘cheaper’ land (ie land provided by government or already held by an SHI) in the restructuring zones decreases, SHIs are finding it increasingly difficult to make projects viable within the quality and size specifications.

A further challenge has to do with cashflow and project startup funding. To be awarded funding a project has to be ready for implementation. This means that the SHI has to:

- identify and purchase or obtain rights to the land;
- secure municipal and provincial approval for the project;
- undertake the development work, including securing town planning approvals and ensuring that services are available, that the architectural design is complete and that plan approval from the municipality is obtained;
- identify and secure the developer; and
- secure the matching finance, ie approval for the IS topup and the loan portion.

This requires significant upfront finance, which many of the smaller SHIs do not have. (It is noted that the SHRA does provide a grant for some of this work.)

2.3.2 Commercial viability, the risk of non-payment and rental restraint

The risk of non-payment by tenants is serious. Certainly, the income group targeted has substantial financial pressures and often erratic demands on their income. While the capacity and performance of the SHI or private sector landlord have been improved as a result of the introduction of the SHRA and its authority for oversight, non-payment by tenants is a real risk for which institutions must prepare, and for which management mechanisms must be in place. The SHRA estimates that the average rental collection across the sector is 90%.

Some of this risk is addressed by experience and the systems the SHI or the landlord implements to manage the rental payment process. The past twenty years have taught many lessons in this regard, some of them hard won, for both SHIs and private landlords. The SHRA is extremely careful in ensuring that this issue is carefully addressed. This risk features both in the accreditation process and the project feasibility evaluation, and is captured in the Quickscan framework.

Value-for-money offerings, including the improved location of social housing projects and services offered, also reduce the risk of non-payment, and experience in this regard has been earned by SHIs and private
landlords alike. Some of this experience is captured in the SHRA’s project approval criteria, and framed in its Quickscan formats.

From a funding side, the SHRA has noted that if a lender were to enter into a longer-term loan with an SHI, the SHRA could restructure its capital grant to be disbursed over time so that the lender did not need to depend entirely on the revenue stream to the SHI for its repayment.

To date, Social Housing Company (‘Sohco’) has been the only entity to experience a mass rental boycott. In that case the rental boycott was instigated by a few tenants acting illegally and seeking to gain financial advantage. Sohco managed the boycott effectively, and also managed to resolve the issue in two of the three buildings in which it occurred. In October 2011 the Constitutional Court upheld the eviction order pursued by Sohco and issued by the courts, demonstrating Sohco’s adherence to the legal framework and their justification in pursuing eviction for the non-payers.

The SHRA is acutely aware of the importance of sound management and the long-term responsibility being placed on the SHI and private landlords following the successful pursuit of a social housing delivery project. As noted elsewhere, the SHRA’s return on its investment is the long-term success of the housing and its contribution towards spatial restructuring and the provision of affordable rental accommodation to low-income earners. The SHRA is therefore intent on the long-term management of the stock even after the delivery project is completed. To this end the SHRA is currently engaging with established property management companies to identify possibilities for collaboration or participation. Discussions with Trafalgar and others are under way and may also contribute towards the SHRA’s long-term plans for the sector and its growth.

The rental restraint is an imposition on the financial model of the SHI or the private landlord. In terms of the SHIP 3A call for proposals, rentals in the first year of operations must be below R2 250 for all subsidised units, and at least 30% of these must be below R750 per month (ie targeted at the primary target market). The rules of engagement state that, after this first year, rentals may escalate to accommodate inflation and operational cost recovery at a level of CPI plus 2%. Annual rental escalations greater than this must be motivated and approved by the SHRA. At this stage rental amounts are not set by legislation, nor are they included in the Social Housing Act Regulations. This could be open for abuse so the SHRA is seeking to set formal rules to protect affordability.

A further restraint on rental is, of course, the tenant’s income, which is strictly defined by policy as being between R1 500 and R3 500 for the primary target market and between R3 500 and R7 500 for the secondary target market. The SHRA notes that this ceiling must clearly adjust with inflation to ensure the long-term viability of the project and the SHI. However, this is a parameter prescribed by the National Department of Human Settlements (‘NDHS’) and will take some time to change, especially given that the reconstruction and development programme (‘RDP’) subsidy income parameters have never been changed.7

7 It has been an explicit policy of the NDHS to reduce eligibility for the RDP housing subsidy over time by constraining eligibility to a nominal amount that doesn’t change with inflation. The introduction of the extended Finance-linked Individual Subsidy Programme (‘FLISP’) subsidy, now applicable to households earning up to R15 000 per month, is in part an indication of the limitations of this approach.
In the short term the narrow income parameters are not a problem: the financial model has been designed to accommodate these. Also, the SHRA suggests that it will not explicitly police household income of tenants approved at the beginning of a project as incomes must rise to afford these increases.

The problem arises a few years down the line, however, when the original tenant vacates the unit and the landlord must find a new, eligible tenant to fill the subsidised unit. In terms of the policy the tenant must still earn within the parameters of the target market appropriate for the level of subsidisation enjoyed by the unit. However, the SHRA acknowledges that by this time, the rental of the unit may have escalated to such a point where an eligible beneficiary may not be able to afford the unit. In terms of policy the SHI or landlord should either reduce the rental to accommodate an eligible tenant, or repay the subsidy to the SHRA. Neither of these options is financially feasible, however, and ultimately both would undermine the objectives of social housing. The SHRA is currently considering how to address this difficulty. This is another area in which engagement from a lender would be welcomed.

2.3.3 The impact of the subsidy on the lender’s right to its security

The SHRA has not yet experienced a case in which the lender needed to claim the security for its loan to a social housing project. The sector and the current system are still relatively young. Given its investment in the SHI and in the social housing project, the SHRA has the right of first refusal in the event of default. While this right is not yet notarised on the title deed, it is contained in the funding contract that the SHRA holds with the SHI, and in the Regulations of the Social Housing Act.

This matter is currently under review by the SHRA. Current thinking within the SHRA is to register a notorial claim on the mortgage bond, which enables the SHRA to have first right of refusal in the event of default. While this right is not yet notarised on the title deed, it is contained in the funding contract that the SHRA holds with the SHI, and in the Regulations of the Social Housing Act.

Should the SHRA not be able to purchase the property, it will require the lender to pay back the grant at the market value.

How this would work in practice has not yet been finalised, and the SHRA is open to input from lenders on how the lender’s right to its security should be confirmed. In part, the arrangements are supported by the very low loan-to-value ratio that typical subsidy projects would involve. Further, given the SHRA’s interest in the viability of the project over the long term, it might be that the SHRA buys out the project, thereby repaying the lender. Alternatively the SHRA may negotiate the sale to another institution, again assuring repayment to the lender. Certainly it is in the SHRA’s interest that lenders participate in project financing – the financial arrangements depend on this. The SHRA will do everything within its power (which is significant) to ensure this happens.

To date a guarantee mechanism to secure the lenders’ investment has not been developed. One approach that has been considered has been the development of a loan fund that would have a guarantee portion. The SHRA is in discussion with the DBSA, the DIGH, the French Development Agency (‘AFD’) and the NHFC
regarding the establishment of such a fund, to which the SHRA would offer seed funding. The design of this fund, which would also seek to attract private sector investment, is something to which a lender may also contribute.

### 2.3.4 The complexity of the administrative process

SHIs argue that the process of applying for the funding is extremely onerous, involving substantial capacity on the part of the SHI. While the SHRA does provide some support in this regard, it is limited. There are a few SHIs that have mastered the Quickscan frameworks and that are able to navigate the rules of engagement effectively. Sohco concedes, however, that to the extent that they have mastered the system, the review process, the allocation of funds, and the drawdown of funds are working effectively.

The SHRA is looking at a number of mechanisms to overcome these constraints. On the funding front the SHRA is seeking to develop what they call a 'Funding Compact' between all the funders of social housing. This would include the SHRA, the NHFC, the DIGH, the AFD, Absa DevCo and the GPF. The focus of this compact would be to align expectations, roles and responsibilities in the funding of specific projects to ease the process and ameliorate concerns about any one party's not performing as expected.
3 Overview of South Africa’s social housing sector

3.1 Definition of the concept

Social Housing in South Africa is defined as: ‘a rental or co-operative housing option for low to medium income households at a level of scale and built form which requires institutionalised management and which is provided by SHIs or other delivery agents in approved projects in designated restructuring zones with the benefit of public funding’ (Social Housing Act, 16 of 2008).

In practice, under the current policy directives, the term **low to medium income** above refers to a monthly household income of R1 500 to R7 500.

An SHI is defined as a legal entity established with the primary objective of developing and/or managing social housing stock that is owned by the institution. SHIs are long-term, sustainable institutions that can be private or municipality-owned entities, operating on a profit or not-for-profit basis. To qualify for public funding support SHIs (whether public or private, for-profit or not-for-profit) must be accredited by the SHRA and social housing projects must be approved by the SHRA.

Social housing has the following characteristics:

- It is rental accommodation; it **excludes individual ownership** by the residents.
- It can incorporate a **range of other services**, which include community development and empowerment benefits and the promotion of a lifestyle conducive to community living. The SHI may provide social services (health, education, recreation), economic services (like financial counselling), and/or community development (training and empowerment programmes, capacity building and job creation.) Special attention is paid to the **public space around** a social housing project.
- **Residents participate** to a greater or lesser degree in the overall management of their living arrangements. Usually this is done through formally established structures, such as a tenant committee that is recognised and supported by the SHI.
- As a policy instrument its primary purpose is **city restructuring**, particularly social, economic and spatial restructuring, with a focus on integration of class and race and creating access to economic opportunity for low-income people, previously excluded from well-located areas.
- It has the added benefit of **regenerating the area** where the housing stock is located.
- It can **target a diverse resident population**, including households from different income categories. Alternatively it can also focus on meeting the special needs of a particular population, such as the elderly, the disabled, or single-parent families.
- It includes a **variety of housing types**, including high-rise or low-rise housing in contiguous or scattered sites. It generally consists of **medium- to higher-density projects** (60 units/ha and up to 200 units/ha) usually in two- to four-storey walk-ups (no lifts) or, increasingly, as land becomes scarcer and more expensive, in medium- to high-rise tower blocks with lifts (eight to thirteen storeys and more).
- It can **provide for mixed-use development**, including residential, commercial and even light industrial property.
A critical aspect of social housing in the current South African context is that it is understood by government to contribute significantly to spatial integration and urban restructuring, overcoming the apartheid geography that currently typifies spatial form. Government’s investment in social housing is therefore as much a tool to reshape and democratisate the urban form of our cities, as it is to increase the supply of rental housing for low- to moderate-income earners in good locations.

3.2 Overview of the social housing sector and key stakeholders
The figure below provides an overview of the key stakeholders in the social housing sector.

Figure 2: Overview of the key stakeholders in the social housing sector
These stakeholders can be categorised as follows:

- Policy makers.
- Regulator.
- Delivery agents.
- Financiers.

The entities within each of these categories and their roles are set out below:

### 3.2.1 Policy makers

The policy makers within the social housing sector are national, provincial and local government. The roles of each of these spheres of government is specified in the Social Housing Act and includes the following –

- **National government** must:
  - create and uphold an enabling environment for social housing by providing the legislative, regulatory, financial and policy framework for the delivery of social housing;
  - ensure compliance with its constitutional responsibilities;
  - address issues that affect the growth, development or sustainability of the social housing sector;
  - institute and fund the social housing programme;
  - allocate funds from the Department of Human Settlement’s budget for the operational costs and commitments of the SHRA;
  - determine norms and standards to be adhered to by provinces and municipalities; and
  - monitor the SHRA.

- **Provincial government** must:
  - ensure fairness, equity and compliance with national and provincial social housing norms and standards;
  - ensure the protection of consumers by creating awareness of consumers' rights and obligations;
  - facilitate sustainability and growth in the social housing sector;
  - mediate in cases of conflict between an SHI or other delivery agent and a municipality, if required;
  - submit proposed restructuring zones to the Minister of Human Settlements;
  - monitor social housing projects to ascertain compliance with prescribed norms and standards;
  - administer the social housing programme by approving projects; and
  - approve, allocate and administer capital grants, in the manner contemplated in the social housing investment plan, to approved projects.

- **Municipalities** must, where there is a demand for social housing within their municipal areas:
  - encourage the development of new social housing stock and the upgrading of existing stock or the conversion of existing non-residential stock;
  - provide access to municipal rental stock, land and buildings for social housing development in designated restructuring zones, and to municipal infrastructure and services for approved projects; and
  - initiate and motivate the identification of restructuring zones.
Not all provincial and municipal governments are active in the sector. The provinces most active include KwaZulu-Natal, the Eastern Cape, the Western Cape and Gauteng. Municipalities that are performing best include eThekwini, Cape Town and the City of Johannesburg. The latter is thought to be more as a result of strong SHIs in the area than the efforts of the local authority itself.

3.2.2 Regulator

The SHRA is the regulator in the sector with the following role:

- accrediting and registering SHIs;
- recommending restructuring zones;
- setting principles of compliance and accreditation;
- regulating for compliance;
- act on non-compliance; and
- reporting on compliance (both in respect of individual SHIs and sectorwide).

3.2.3 Delivery agents

The role of delivery agents is to undertake social housing projects. If these projects are in designated restructuring zones then public funding can be accessed through the SHRA. If the projects are not in the designated restructuring zones, no public funding is available from the SHRA, but IS funding may be available from provincial governments. All projects, regardless of where they are and how they are funded, are subject to regulation by the SHRA.

Delivery agents include SHIs as defined in section 2.2 above, as well as private companies (whether for-profit or not-for-profit). In addition, private developers (comprising for-profit companies) can also deliver social housing on a turnkey basis for SHIs or private landlords. Municipalities or provincial governments can be delivery agents but are not eligible to access grant funding directly, and so will commonly either establish an SHI (as Johannesburg did in forming Joshco) or partner with an existing SHI.

There are two entities that render support services to delivery agents in the social housing sector, and that undertake advocacy within the sector as follows:

- SHiFT is a section 21 company, whose vision it is to create sustainable communities that contribute to the transformation of South African society. SHiFT aims to engage critically with the social housing sector in South Africa by promoting an integrated approach to the planning and delivery of social housing. They are influencing major stakeholders and the social housing sector in respect of policy, delivery process and quality products and environments to developing an integrated process to enable the building of communities.
- Nasho is a membership-based federation of 17 well-established SHIs in South Africa. Its mission is to represent the interests of its members by providing information, advocacy, capacity building and other forms of support.
3.2.4 Financiers

Financiers in the social housing sector include the following:

- **Development finance institutions:**
  
  - The NHFC is required by the Social Housing Act to provide loan finance for SHIs. In this regard it does offer such finance. Some SHIs indicate that accessing this funding is difficult (because it takes so long for approvals to be obtained) and it is expensive (as it is offered at rates above prime). Others, particularly those SHIs that have existing facilities or have had past loans with the NHFC, are accessing this finance. Interest rates being provided are prime plus one or two percent.

  - The DBSA does not offer loan finance to all SHIs, but only to institutions that are owned by a municipality (for example JoshCo).

  - The GPF was established with equity provided by the Gauteng Department of Human Settlements for the purpose of providing finance to facilitate rental accommodation in the province. The GPF is the custodian of the IS in Gauteng, and coordinates the IS programme on behalf of the provincial government. The GPF also provides bridging finance and offers loans at the lowest interest rate currently. However, such loans are only available to SHIs operating in Gauteng and there is a limit (R46 million) to the amount that the GPF is prepared to lend to one institution at any one time. The GPF also provides some capacitation support. There is no equivalent of the GPF in any other province.

- **Commercial banks:** In the past some commercial banks have provided loan finance to SHIs. Most recently, Absa Devco provided a construction loan for a turnkey project undertaken by Calgro M3 for Madulamoho Housing Company in Johannesburg. No other commercial banks are currently active.

- **Trust for Urban Housing Finance ('TUHF'):** TUHF only provides loan finance for private sector landlords operating in inner cities. Currently, TUHF’s client base does not access SHRA funding. Given that Outcome 8 now includes targets undertaken by these private sector landlords, the SHRA is currently negotiating with TUHF with regard to providing a grant facility through TUHF to increase this form of rental delivery.

- **International financiers:** The DIGH is active in the sector and provides loan finance. The AFD has also provided funding for the social housing in the past. The DIGH, however, is the only international financier currently active in South Africa’s social housing sector.

3.3 International experience and relevance for South Africa

Social housing originated in Europe over 100 years ago but developed dramatically after both world wars, largely because of the housing needs during the postwar reconstruction period. The most common legal forms of social housing initiatives internationally are:

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8 This section is adapted from ‘A social housing policy for South Africa, July 2003’. 

Not-for-profit housing associations; Cooperatives; and State- or municipality-owned accommodation.

Housing associations are the most commonly known institutional form of social housing delivery, and can be found all over the world. They are particularly found in the Netherlands, Belgium, France, the United Kingdom and Scandinavia. Housing institutions in South Africa are similar to and are modelled on this type of institution, having received extensive technical assistance from Dutch and British housing associations during South Africa’s formative period for social housing, in the mid-1990s. Housing associations can be defined broadly as not-for-profit organisations that are established for the purpose of providing, constructing, improving, or managing housing. Many housing associations also have a strong tenant participation component, as a way of improving service delivery and reducing costs. They are different from housing cooperatives (see below) in that residents are not co-owners.

Housing cooperatives are popular in the United States, Canada, France, and Scandinavia. Some countries in Southern and Eastern Africa, such as Kenya, Zimbabwe and Tanzania, also promote housing cooperatives. There are some housing cooperatives in South Africa, but fewer than housing associations, and they were more prominent in the 1990s than they are now. Cooperatives are democratic institutions in which members cooperate to achieve the aims of the organisation. Based on the principle of 'one member, one vote', housing cooperatives are generally not-for-profit organisations that, through the cooperative effort of their members, access land and provide housing that is affordable to low-to-moderate income earners. In countries like Norway, Sweden, and the UK, the essential factor that distinguishes cooperatives from other forms of social housing is that the members own their housing collectively. What this means is that members neither own nor rent their individual property, but rather own all the property together, with each member having exclusive rights to use the particular unit in which they live.

In general, state- or municipality-owned accommodation has a longer history and in many countries it is still the larger sector. It comprises rental accommodation that is developed, owned and managed by a government entity for use by low-income households at a reduced or subsidised rental. It is found all over the world in both developed and developing countries. This form of housing was provided extensively (albeit on a racially-defined basis) in South Africa during the 1950s and 60s as government carried out its strategy of separate development during the apartheid era. Increasingly, owing to difficulties in management and the high costs of this form of housing stock, governments are either reducing publicly owned stock in favour of provision through independent SHIs, or facilitating the privatisation of this housing stock.

A significant aspect of social housing in the countries noted above is the substantial financial support they have received from government. In a variety of combinations, governments have generally provided:

- substantial capital subsidies to cover the costs of developing acceptable quality units;
- additional funds to cover running costs on an annual basis to ensure that rents are affordable to the target population;
- land at reduced costs;
- tax incentives for registered SHIs; and
• in some cases, guarantees to encourage the entry of private financial institutions into the social housing market.

Social housing is a significant feature of many European housing markets. Over 50% of all housing in the Netherlands is provided by SHIs, and over 14 billion pounds have been advanced by the private financial sector to British Social Housing Institutions.9 These institutions have received substantial government support, which made their development over the past 100 years possible. Increasingly, and over time, however, these well-established institutions are becoming self-sufficient.

Another significant feature of social housing in Europe is the increasing use of regulation through the encouragement of a best-practice regime. For institutions to access state funding and support they have to prove acceptance and ongoing adherence to a range of benchmarks set by a government-appointed regulator. Examples of such regulators are the Central Fund in the Netherlands (‘CFV’) and Chartered Institute of Housing (‘CIH’) in the United Kingdom.

By comparison, South Africa’s social housing sector is very young. The growth of the sector has been limited by the amount of financial support it has received from government and in the past it has been poorly regulated. However, with the introduction of the Social Housing Act, 16 of 2008, and the SHRA (see below) this has changed and funding support has been significantly increased and we have a more focused regulatory framework.

3.4 History of social housing in South Africa10

South Africa’s social housing sector is the product of a series of policy interventions that began in 1995 with the introduction of the IS mechanism as part of the government’s national Housing Subsidy Scheme. While a few SHIs had been operating prior to that date, there was no ‘sector’ in existence. There were a few cooperative housing projects that had technical assistance from cooperative housing organisations in Canada and Norway, and the civic movement in Johannesburg’s inner city had promoted a cooperative housing approach there. With the introduction of the IS mechanism, government policy explicitly began to promote rental as a tenure form. The IS was a departure from the provision of individual ownership, which was the dominant form of tenure being provided at the time.

3.4.1 Building a national commitment to social housing

Between 1995 and 2000 activities were focused on building a national commitment to social housing as a delivery approach. Government together with other stakeholders implemented a number of initiatives designed to stimulate the birth of the sector and to create an enabling environment for social housing that would lead to an increase in social housing delivery.

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9 Social Housing in Europe, Edited by Christine Whitehead and Kathleen Scanlon, July 2007.
10 This section is adapted from A social housing policy for South Africa, July 2003; the Interim Social Housing Programme Business Plan, 2009/10; the Support Programme for Social Housing: Institutional Development and Capacity Building, Mid-term Evaluation final draft report, 28 August 2003.
Policy developments sought to normalise the market by removing rent control legislation and replacing it with legislation that could assist in the development of relationships between landlords and tenants. Financial developments sought to address the breadth of funding needs required by SHIs, from institutional preestablishment and establishment costs through to development costs.

The initiatives commenced with the establishment of the NHFC in 1996 to ensure, (among other goals), ‘the development and appropriate funding of institutions, offering a variety of tenure options, including rental, for residential purposes.’ In 1997 the NHFC established a development unit internally to assist SHIs that were trying to establish themselves. This was after stakeholders realised that the creation of housing institutions is a long-term intervention that requires considerable technical assistance. The unit became the Social Housing Foundation, which was later established as a separate entity to ‘promote, support and assist the process of establishing a sustainable social housing sector in South Africa.’ In 1998 the Housing Institutions Development Fund was established by the NHFC as the primary credit financier in the social housing sector. It offered three loan products focused on institutional preestablishment, capacity building and the development of the housing stock.

The first regulatory intervention came from provincial government, but was quickly followed at national level. In 1997 the Residential Landlord and Tenant Act (xx of 19xx) was introduced by the Gauteng Provincial Government. The Act focused on the management of landlord and tenant relations in Gauteng. In 1999 the parameters of the Residential Landlord and Tenant Act were incorporated into national legislation, the Rental Housing Act (50 of 1999). This act defines the responsibility of government in respect of rental housing and creates mechanisms to ensure the proper functioning of the rental housing market. It sets out the duties and responsibilities of landlords and tenants and provides for the establishment of rental housing tribunals in provinces with the intention of providing a speedy and cost-effective resolution of disputes between landlords and tenants. Critically, the act repealed the Rent Control Act of 1976 and the Rent Control Amendment Act of 1989.

As part of the evolving policy and regulatory environment, various social and cooperative housing initiatives began to emerge in the mid-1990s, promoted predominantly by community-based and non-governmental organisations. The most renowned of these efforts was the ‘Seven Buildings Project’ in inner city Johannesburg, the promoters of which were involved in the social housing policy making process. In addition, housing cooperatives started to emerge, predominantly driven by the Cope Housing Association in Johannesburg. Working with the Swedish Cooperative Centre, Afesis-Corplan in East London also promoted a social housing initiative.

This focus and these developments notwithstanding, the sector was not an immediate success and it struggled with a variety of challenges in the first few years. Delivery numbers were much lower than what had been expected. By 2002 only 24 181 institutional subsidies were delivered across the country, compared with a total delivery expectation of just over 1,5 million subsidies. Practitioners speculating on the reasons for such low levels of delivery highlighted issues regarding the policy, regulatory and financial framework, the lack of consensus on a definition of social housing and the extent to which this undermined the potential for a groundswell of activity, and the policy focus on ownership. Emphasised above all of these reasons, however, was sectorwide consensus that capacity building and technical support was critically needed.
3.4.2 Capacitation of the social housing sector

In response to the above, between 2000 and 2005, there was a strong focus on capacitation of the social housing sector. In 2000 the Support Programme for Social Housing (‘SPSH’) was established with a grant of R200 million from the European Community to the South Africa government. The overall objective of the SPSH was ‘to support the establishment of a viable, sustainable social housing sector in South Africa, and to provide the basis for its future expansion.’ Its target was to contribute towards the establishment of at least 60 sustainable housing organisations and to ensure that 50% of them have achieved financial viability by December 2004.

Despite this initiative SHIs struggled to become sustainable. Non-payment among residents was high and institutions found their financial capacity undermined. This impacted on their capacity to offer a high-quality service, which further exacerbated the non-payment situation. A study by the NHFC in 2003 into the causes of defaults in the social housing sector in South Africa found that high levels of unemployment, decreasing affordability, lack of enduser information and poor construction quality were among the reasons residents did not pay their monthly charges. Further, SHIs were found to have inappropriate arrears collection systems and poor default management procedures. It was found that almost all the housing institutions being funded by the NHFC were technically insolvent, requiring refinancing and balance sheet restructuring.

Also, between 2000 and 2003, extensive work was undertaken in obtaining consensus about a policy and legislative framework to regulate and support the social housing sector. By the end of 2003 there was a better understanding on the part of stakeholders in the sector of the challenges in establishing SHIs and developing and managing social housing stock. There was agreement on requirements for the sector to grow and develop and this culminated in the development of a Social Housing Policy for South Africa (2003).

In 2004, because of concerns over the fragmentation of the social housing sector, the Department of Human Settlements (known at that time as the National Department of Housing) established a social housing programme coordinating structure – the National Social Housing Task Team. The task team brought together all of the stakeholders in the social housing sector, who together reviewed the Social Housing Policy for South Africa and developed a consensus position. Key areas on which the task team focused were the structure of the sector, international cooperation and coordination, and the activities of the key agencies that have a role in social housing. The task team helped to clarify the role of social housing in the overall housing strategy, review and reformulate the social housing policy, develop proposals for the appropriate funding of social housing, and formulate a workable institutional framework to support the growth of social housing in the long term. As a result of the activities of this task team, the Social Housing Policy for South Africa was revised and published in 2005.

The progress on the social housing policy front was at the same time consolidated in Comprehensive Plan for the Development of Sustainable Human Settlements: Breaking New Ground (2004), which explicitly carves out the important role of social housing in the broader housing framework. In this national strategy, social housing programmes are seen as being necessary to regenerate the inner cities in the country, promote the
achievement of a non-racial integrated society, and more effectively develop well-located urban land by accommodating higher-density development.

### 3.4.3 Focusing on delivery

In 2006 a new funding framework was established for the social housing sector. The Interim Social Housing Programme (‘ISHP’) was established by the National Department of Human Settlements with the Social Housing Foundation as the fund manager. The programme was designed as an interim pilot programme, which would eventually be migrated to the SHRA (see below).

The key focus of the ISHP was to pilot new subsidies for the social housing sector that would be project-rather than institution-focused, and that would ensure more rigorous upfront assessment of social housing delivery projects and management of the funds disbursed once implementation commenced. It was envisaged that the lessons learned would be used to scale up delivery gradually and provide robust tools with which to undertake project viability assessments prior to the allocation of funds and project implementation.

The ISHP was very effective in stimulating the social housing sector, particularly in respect of moving the focus of the sector away from establishing SHIs and capacitating them, to the delivery of social housing projects.

In 2007 the Social Housing Bill was drafted. It was later promulgated as the Social Housing Act (16 of 2008). On the basis of this legislation the SHRA was established in August 2010 as the ISHP ceased to exist and the Social Housing Foundation was closed down (more details on the Social Housing Act and SHRA are outlined in section 2.4.1).

### 3.5 Government strategy and current status

#### 3.5.1 Government strategy

Social housing has become an integral part of the South African Government’s housing strategy and, as a result, is receiving increasing financial support. As indicated by Human Settlements Minister Tokyo Sexwale in February 2012, ‘The provision of medium to high density housing projects is one of the main solutions in dealing with the management of spatial integration in urban areas. For us to make a difference in the lives of people who fall within the gap market (those who earn too much to qualify for free government subsidy but also earn too little to purchase the cheapest newly built house) we need to have more of these projects’.  

Government’s current strategy with respect to social housing is reflected in the following policy and legislative documents:


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• The Social Housing Act (16 of 2008).
• Outcome 8.

Each of these is outlined in more detail below.

**Comprehensive Plan for the Development of Sustainable Human Settlements**¹²

Breaking New Ground was the key document that emphasised the formal recognition by the government of social housing and defined its current role in the housing sector. As a policy document, Breaking New Ground shifted government’s emphasis from the provision of housing to the creation of sustainable human settlements, in a manner that is responsive to the demands of particular segments of society and local situations.

Breaking New Ground focuses on the promotion of more efficient cities, towns and regions. In support of spatial restructuring the plan highlights the need to 'integrate previously excluded groups into the city and the benefits it offers'. The plan flags the need to promote densification, including 'housing products which provide adequate shelter to households whilst simultaneously enhancing flexibility and mobility'. Breaking New Ground indicates that social housing is the key mechanism for achieving these objectives.

**The Social Housing Act**¹³

The Social Housing Act provides the regulatory framework that reinforces government’s support for this form of housing delivery and sets out the basis on which social housing is currently implemented, funded and regulated. The purpose of the Social Housing Act is to create an environment where social housing is a viable and substantial component of the housing sector in which the public sector is empowered to act and the private sector is confident to invest. Specifically, the Act’s purpose is to:

- establish and promote a sustainable social housing environment;
- define the functions of national, provincial and local governments in respect of social housing;
- provide for the establishment of the SHRA, to regulate all SHIs obtaining or having obtained public funds;
- allow for the undertaking of approved projects by other delivery agents with the benefit of public money; and
- give statutory recognition to SHIs.

The key areas of importance in respect of the Social Housing Act are:

- The establishment of the SHRA.
- Specification and regulation in respect of SHIs.
- The basis on which funding is allocated for social housing.
- The creation of restructuring zones.

Each of these is outlined in more detail below.

- The establishment of the SHRA: The act establishes the SHRA as a juristic person with its core functions being to regulate SHIs and projects and to invest in capital projects and institutional development. The key functions of the SHRA are to:
  - Promote the development and awareness of social housing and promote an enabling environment for the growth and development of the social housing sector.
  - Provide advice and support for the Department of Human Settlements in its development of policy for the social housing sector and facilitate national social housing programmes.
  - Provide best-practice information and research on the status of the social housing sector.
  - Support provincial governments with the approval of project applications by SHIs and assist, where requested, in the process of designating restructuring zones.
  - Enter into agreements with provincial governments and the NHFC to ensure that implementation by these entities is coordinated.
  - Provide financial assistance for SHIs through grants to enable them to develop institutional capacity, gain accreditation as SHIs, and submit viable project applications.
  - Accredit institutions that meet the defined accreditation criteria as SHIs and maintain a register of SHIs.
  - Conduct compliance monitoring through regular inspections, enforce compliance where necessary, and intervene in the affairs of an SHI in cases of maladministration.
  - Approve, administer and disburse institutional investment grants and capital grants and obtain applications for such grants through engagement with provincial governments and municipalities.
  - Make rules and regulations in respect of the accreditation of SHIs and the disbursement of government funds to them.

The SHRA is empowered to intervene if it is satisfied on reasonable grounds that there has been maladministration by an SHI. This intervention entails informing the SHI of the problem, and then supporting it as it addresses the problem. If the SHI does not cooperate, the SHRA will take over the administration of the institution.

- Specification and regulation of SHIs: The Social Housing Act sets out the basis on which an SHI can be established and accredited by the SHRA. The functions of an SHI are defined as:
  - complying with the accreditation criteria;
  - acquiring, developing and managing approved projects;
  - promoting the creation of high-quality living environments;
  - reinvesting operational surpluses generated as a result of funding provided in terms of the social housing programme, in further approved projects;
  - consulting with municipalities with a view to developing social housing stock;
  - entering into and complying with annual performance agreements with municipalities on approved projects in their areas of jurisdiction;
  - informing residents on consumer rights and obligations in respect of social housing;
  - observing and operating within government policy on social housing; and
seeking permission from the SHRA for the sale of any properties in their ownership funded with public funds.

In terms of the Social Housing Act, SHIs are required to obtain approval from the SHRA on their:
- corporate governance policy, including their risk management and risk strategy policies with regard to development, operational, financial, property management, human resource, market, institutional and compliance risks;
- personnel and systems, and
- internal control and audit models.

An SHI must report to the SHRA. This entails the submission and approval of an annual report and quarterly progress reports.

**Funding for Social Housing:** The Social Housing Act specifies that funding for the social housing programme is provided annually from national government through two streams:
- A direct allocation of capital funding to the SHRA: This funding is allocated directly from National Treasury to the SHRA, disbursed through the National Department of Human Settlements. The funding is explicitly for capital expenditure through the RCG, which the SHRA awards to successful projects (see section 4 below).\(^\text{14}\)
- Funds allocated to the provincial governments in terms of the annual Division of Revenue Act. This funding is to implement the National Subsidy Programme of which social housing (classified as 'institutional housing') is one component. Funds for social housing awarded by provincial government are provided through the IS Programme.\(^\text{15}\)

The direct allocation of capital funding from national government to the SHRA is unique as it is allocated as a separate amount from National Treasury, and it is not included as part of the overall housing budget. Also unique is that this capital funding comes from national level and is not disbursed through the provinces. All other funding for housing is provided for the provinces by national government on the basis of the annual Division of Revenue Act, and is disbursed at the provinces’ discretion in terms of their particular needs and strategy. The direct allocation of capital funding to the SHRA confirms funding for social housing that doesn’t have to compete with the RDP (ownership) housing subsidy programme.

**Restructuring zones:** The RCG and the allocation to the SHRA from National Treasury is focused on spatial restructuring that is to take place in ‘restructuring zones’. The Social Housing Act defines a 'restructuring zone' as a geographic area that has been identified by the municipality, with the concurrence of the provincial government for purposes of social housing. The restructuring zones are intended as an instrument (among others) used to pursue the restructuring of South African cities and they are intended to improve integration (economic, racial and social). Restructuring should result in a move away from housing interventions that entrench, enforce or in any way maintain the spatial status quo. Restructuring should overcome the social and economic disparities that typify South Africa’s urban spaces. It is therefore intimately linked to interventions in the land market: either to protect lower

\(^{14}\) Operational funding for the SHRA is allocated from the National Department of Human Settlements’ budget.

\(^{15}\) It is noted that there are a range of different types of subsidies provided in addition to the IS. These are set out in the Housing Code (2009).
income (and often black) people from displacement or to bring lower income (often black) people into areas of economic and other forms of opportunity from which they would otherwise be excluded.

The logic of restructuring is not the same as the logic of urban regeneration and urban renewal but there are some overlaps. To this end restructuring zones are intended to align with urban development zones (‘UFZs’), which are linked to planning processes such as the national spatial development framework, provincial growth and development strategies/provincial spatial development plans, and local authorities’ integrated development plans.

UDZs are areas in which a tax incentive is applied to encourage inner city renewal across South Africa. Any taxpaying, property-owning individual or entity may claim the tax benefits of the UDZ incentive if their intervention meets the criteria associated with the policy. The incentive takes the form of a tax allowance covering an accelerated depreciation of investment made in either refurbishment of existing property or the creation of new developments within the inner city, over a period of 5 or 17 years respectively.

Outcome 8: Sustainable human settlements and improved quality of life

During 2010 the South African Government agreed on 12 outcomes as a key focus of work between 2010 and 2014. Cabinet ministers signed performance agreements for outcomes linked to their departments’ areas of focus, and they are accountable for the achievement of these to the President. Each outcome has a limited number of measurable outputs with targets. Each output is linked to a set of activities that will help achieve the targets and contribute to the outcome. Each of the 12 outcomes has a delivery agreement, which in most cases involves all spheres of government and a range of partners outside government. Combined, these agreements reflect government’s delivery and implementation plans for its foremost priorities.

Outcome 8 focuses on sustainable human settlements and improved quality of household life. All public entities within the housing and social housing sector are required and have aligned their activities to achieve the targets specified in Outcome 8, as the Minister for Human Settlements is accountable for these to the President. The performance of these entities is evaluated by the extent to which they achieve these targets.

Outcome 8 comprises four outputs:
- Output 1: Accelerated delivery of housing opportunities
- Output 2: Access to basic services
- Output 3: Efficient utilisation of land for human settlements development
- Output 4: Improved property market

The social housing sector falls under Output 1 of Outcome 8. In terms of this output government aims to provide 80 000 units well-located and affordably priced rental accommodation units by 2014 (20 000 units

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16 Outcome 8, Sustainable Human Settlements and Improved Quality of Life, 2010, The Presidency.
per annum). The target is broken down in terms of different types of rental accommodation of which social housing is one. These are as follows:

- Social Housing Programme: 24 312 units by 2014.
- Institutional Housing Subsidy Programme: 8 487 units by 2014.
- Community Residential Unit Programme: 20 000 units by 2014.
- Private Sector Rental Housing (including small-scale and larger corporate sector landlords): 26 600 units by 2014.

The table below provides a definition of each of these types of rental accommodation (as set out in Outcome 8 and supported by the broader policy framework), who would be the delivery agent, the legislation under which it falls, and the key funding sources.
### Table 2: Types of rental accommodation as defined in Outcome 8 and social housing legislation

<table>
<thead>
<tr>
<th>Type</th>
<th>Definition</th>
<th>Main delivery agent</th>
<th>Governing legislation</th>
<th>Key funding sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social housing</td>
<td>This is subsidised rental housing in South Africa aimed at the social housing subsidy target market, with a primary objective of urban restructuring so as to transform society and create pockets of sustainability within the urban fabric.</td>
<td>SHIs</td>
<td>Social Housing Act</td>
<td>Grants from the SHRA (predominantly the RCG). Social housing projects funded with such grants must be in designated restructuring zones and must also access the IS.</td>
</tr>
<tr>
<td>Institutional housing</td>
<td>Aimed to provide rental housing as follows:</td>
<td>SHIs</td>
<td>Housing code (2007)</td>
<td>Institutional Subsidies allocated by provincial government (not via the SHRA) are applied in two ways:</td>
</tr>
<tr>
<td></td>
<td>▪ Support social housing (above) by providing additional funding.</td>
<td></td>
<td></td>
<td>▪ as ‘topup’ to the RCG.</td>
</tr>
<tr>
<td></td>
<td>▪ Provide a range of creative and affordable special needs and niche market options to people in the primary target market and promote densification (transitional, communal housing, farm worker and small-scale rental for leader towns etc).</td>
<td></td>
<td></td>
<td>▪ as grants to specific projects outside of the SHRA income band and restructuring zones, as decided by the provincial department.</td>
</tr>
<tr>
<td>Community residential unit</td>
<td>This is rental that is developed and managed by the public sector. The aim of this form of rental is to provide affordable, good-quality rental accommodation for a substantial number of the poor and indigent in the primary target market, and to relieve slum conditions in existing areas.</td>
<td>Municipal government</td>
<td>Housing code (2007)</td>
<td>Community Residential Unit Subsidy as detailed in the housing code, and allocated by provincial government (not through the SHRA).</td>
</tr>
<tr>
<td>Private sector rental (small-scale landlords)</td>
<td>These are small-scale private landlords who provide affordable rental through backyard flats and rooms in relatively well-located areas such as existing suburbs and townships at no discernible direct cost to government.</td>
<td>Small private landlords</td>
<td>Municipal bylaws and regulations</td>
<td>Private equity. No public funding support is provided other than some indirect costs to municipalities. TUHF is in discussion with the SHRA to enable grant funding in TUHF projects.</td>
</tr>
<tr>
<td>Private sector rental (larger corporate sector landlords)</td>
<td>These are corporate private sector landlords who provide rental, predominantly in inner cities, at affordable prices to a target market similar to the social housing target market.</td>
<td>Medium to large private landlords</td>
<td>Municipal bylaws and regulations</td>
<td>Private equity and loans from commercial financial institutions. Since 2012 the SHRA RCG can be accessed.</td>
</tr>
</tbody>
</table>
3.5.2 Current status of social housing

The key driver currently in the social housing sector is Outcome 8 and the targets that have been set thereunder (see above). Funding allocations and the activities of the SHRA, national, provincial and local government are focused on the achievement of these targets within the 2014 timeframe. Given the policy framework as set out above, the current status is set out below.

1 Establishment and operations of the SHRA

- In August 2010 the SHRA was established as a public entity in terms of schedule 3A of the Public Finance Management Act. The SHRA has published its first annual report and publishes quarterly progress reports. Progress in terms of establishing the SHRA is as follows:
  - The Chairperson and Deputy Chairperson of the SHRA Council, the Chief Executive Officer and Accounting Officer and nine staff members have been appointed.
  - The SHRA Council has been established and is operating with 11 council members.
  - The SHRA offices are operating with systems and procedures in place.
  - The SHRA is allocating grants and is undertaking its regulation role.

- The SHRA has established a register for all SHIs. There are 41 SHIs on the SHRA’s books of which:
  - three have full accreditation (unconditional).
  - 12 have conditional accreditation. These SHIs can participate in the SHRA’s investment programme but need to meet a number of conditions to be classified as unconditionally accredited.
  - 12 are preaccredited. These SHIs have the potential to be accredited but still need to meet critical criteria. These institutions can access the IS but cannot participate in the SHRA Investment Programme.

(A list of the SHIs and their rating can be seen in Appendix B attached).

- The SHRA estimates that there are approximately 60 000 social housing units under management in South Africa, most of which are now under its regulation.

- The SHRA has also commenced a process to bring under its regulation housing units funded with the IS (ie via the provinces and not its own approval processes).

- The SHRA has established a reporting tool and mechanisms that SHIs are required to complete.

- The SHRA is establishing partnerships with a range of organisations including other legislative bodies, national and international funders, nongovernmental organisations etc. The international agencies include the World Bank, the AFD, the DIGH and Rooftops Canada.

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17 This section is from the SHRA Annual report, 2010/11; the SHRA Second Quarter Report, 1 July – 30 September 2011; Interviews with Eugene Perumal and Gaffe Vengadajellum (‘SHRA’), May 2012.
• The SHRA has commenced its first actions against accredited SHIs that have been non-compliant. In addition it has commenced the first test cases of intervention on non-accredited SHIs.

2 Funding allocations to the SHRA

The SHRA receives an annual transfer of capital funds from National Treasury through the National Department of Human Settlements. The SHRA motivates and is allocated this transfer as part of the medium term framework process, which allocates funding for a three- to five-year period, renewed every year. In terms of this allocation the SHRA must report back to National Treasury not only on the expenditure of the capital funds through the RCG, but also the impact of this grant in terms of the broader goal of spatial restructuring.

What is significant to note is that the SHRA has seen a substantial increase in the amount allocated in 2012 (the allocation has almost doubled), which shows a strong commitment by government towards social housing, both as a mechanism to restructure the city (the focus of the RCG) and to offer rental accommodation to low-income earners (the focus of the IS). This means that the SHRA is able to significantly increase its grant allocations in future years, building towards the Outcome 8 commitments for 2014, and longer-term projections set out in the social housing strategy.

As shown in the table below, funds allocated in 2011 were R1,8 billion for a four-year period. This has been increased to R4,0 billion in 2012 for the next five-year cycle.

<table>
<thead>
<tr>
<th>Year</th>
<th>2011 Operational</th>
<th>2011 Capital</th>
<th>Total</th>
<th>2012 Operational</th>
<th>2012 Capital</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011/12</td>
<td>19 305</td>
<td>226 168</td>
<td>245 473</td>
<td>2011/12</td>
<td>21 906</td>
<td>427 401</td>
</tr>
<tr>
<td>2012/13</td>
<td>21 906</td>
<td>427 401</td>
<td>449 307</td>
<td>2012/13</td>
<td>21 096</td>
<td>647 401</td>
</tr>
<tr>
<td>2013/14</td>
<td>22 151</td>
<td>554 103</td>
<td>576 254</td>
<td>2013/14</td>
<td>22 151</td>
<td>754 104</td>
</tr>
<tr>
<td>2014/15</td>
<td>30 253</td>
<td>580 576</td>
<td>610 829</td>
<td>2014/15</td>
<td>23 480</td>
<td>787 348</td>
</tr>
<tr>
<td>2015/16</td>
<td>24 889</td>
<td>829 865</td>
<td>854 754</td>
<td>2015/16</td>
<td>26 382</td>
<td>874 678</td>
</tr>
<tr>
<td>Total</td>
<td>93 615</td>
<td>1 788 248</td>
<td>1 881 863</td>
<td>2016/17</td>
<td>117 998</td>
<td>3 893 396</td>
</tr>
</tbody>
</table>

It is noted that the funds allocated are still insufficient to meet estimated demand and certainly the number of projects submitted by SHIs.

3 Grant allocations by the SHRA

The SHRA has commenced its grant allocation programme, which comprises two components: first, managing the ISHP and, second, implementing the Social Housing Investment Programme ('SHIP'). For both programmes, private sector developers were previously excluded from making submissions (only SHIs were considered). For the first time, in 2012, private developers were also allowed to make submissions.
Table 4 summarises the grant allocations made to date, both in respect of the ISHP and SHIP ('RCG') programmes. (Details on the grants provided can be seen in section 4.)

<table>
<thead>
<tr>
<th>Programme</th>
<th>Project</th>
<th>SHI</th>
<th>Province</th>
<th>Municipality</th>
<th>Grant value</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISHP I</td>
<td>Signal Hill</td>
<td>Msunduzi</td>
<td>KZN</td>
<td>Msunduzi</td>
<td>R21,9m</td>
<td>364</td>
</tr>
<tr>
<td></td>
<td>Lyndar House</td>
<td>Sohco</td>
<td>KZN</td>
<td>eThekwini</td>
<td>R8,5m</td>
<td>142</td>
</tr>
<tr>
<td></td>
<td>Umkumbaan and Hillary</td>
<td>Sohco</td>
<td>KZN</td>
<td>eThekwini</td>
<td>R29,4m</td>
<td>487</td>
</tr>
<tr>
<td></td>
<td>Joe Slovo Part Phase II</td>
<td>Thubelisha</td>
<td>WC</td>
<td>City of Cape Town</td>
<td>R42,5m</td>
<td>705</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R102,6m</td>
<td>1498</td>
</tr>
<tr>
<td>ISHP II</td>
<td>Emerald Sky</td>
<td>Sohco</td>
<td>EC</td>
<td>Buffalo City</td>
<td>R63,1m</td>
<td>480</td>
</tr>
<tr>
<td></td>
<td>Steenberg</td>
<td>Sohco</td>
<td>WC</td>
<td>City of Cape Town</td>
<td>R57,9m</td>
<td>450</td>
</tr>
<tr>
<td></td>
<td>Roodepoort</td>
<td>Johannesburg Social Housing Company ('JoshiCo')</td>
<td>GP</td>
<td>Johannesburg</td>
<td>R49,5m</td>
<td>432</td>
</tr>
<tr>
<td></td>
<td>City Deep</td>
<td>Joshco</td>
<td>GP</td>
<td>Johannesburg</td>
<td>R64,4m</td>
<td>531</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R235,2m</td>
<td>1893</td>
</tr>
<tr>
<td>ISHP III</td>
<td>Park Towers</td>
<td>Own Haven Housing Association ('OHHA')</td>
<td>EC</td>
<td>Nelson Mandela Bay</td>
<td>R20,9m</td>
<td>136</td>
</tr>
<tr>
<td></td>
<td>Southernwood</td>
<td>OHHA</td>
<td>EC</td>
<td>Buffalo City</td>
<td>R34,1m</td>
<td>249</td>
</tr>
<tr>
<td></td>
<td>Reservoir Phase 1</td>
<td>OHHA</td>
<td>EC</td>
<td>Buffalo City</td>
<td>R58,7m</td>
<td>429</td>
</tr>
<tr>
<td></td>
<td>Tau Village</td>
<td>Yeast</td>
<td>GP</td>
<td>Tshwane</td>
<td>R10,2m</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td>Howell Heights</td>
<td>First Metro Housing Company ('FMHC')</td>
<td>KZN</td>
<td>eThekwini</td>
<td>R6,1m</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>Strathdon</td>
<td>FMHC</td>
<td>KZN</td>
<td>eThekwini</td>
<td>R3,1m</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>Lakehaven</td>
<td>FMHC</td>
<td>KZN</td>
<td>eThekwini</td>
<td>R39,2m</td>
<td>312</td>
</tr>
<tr>
<td></td>
<td>Drommedaris</td>
<td>Communicare</td>
<td>WC</td>
<td>City of Cape Town</td>
<td>R27,2m</td>
<td>219</td>
</tr>
<tr>
<td></td>
<td>Emerald Sky Phase IV</td>
<td>Sohco</td>
<td>EC</td>
<td>Buffalo City</td>
<td>R23,2m</td>
<td>176</td>
</tr>
<tr>
<td></td>
<td>Tashmeera Garden Phase 1 and 2</td>
<td>Moko</td>
<td>KZN</td>
<td>Phoenix</td>
<td>R38,6</td>
<td>n/s</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R251,3</td>
<td>1674</td>
</tr>
<tr>
<td>SHIP I</td>
<td>Fleurhof</td>
<td>Madulammoho</td>
<td>GP</td>
<td>City of Johannesburg</td>
<td>R36,1m</td>
<td>286</td>
</tr>
<tr>
<td></td>
<td>Walmer</td>
<td>Imizi</td>
<td>EC</td>
<td>Nelson Mandela Bay</td>
<td>R48,8m</td>
<td>347</td>
</tr>
<tr>
<td></td>
<td>Brandwag</td>
<td>Freshco</td>
<td>FS</td>
<td>Mangaung</td>
<td>R54,4m</td>
<td>402</td>
</tr>
<tr>
<td></td>
<td>Lleyds</td>
<td>Yeast</td>
<td>GP</td>
<td>Tshwane</td>
<td>R1,4m</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Gilead</td>
<td>Yeast</td>
<td>GP</td>
<td>Tshwane</td>
<td>R0,7m</td>
<td>5</td>
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<td>Subtotal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R141,4m</td>
<td>1050</td>
</tr>
<tr>
<td>SHIP 2A</td>
<td>Jabulani Views</td>
<td>Madulammoho</td>
<td>GP</td>
<td>City of</td>
<td>R42m</td>
<td>300</td>
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</table>
Table 4: SHI Projects

<table>
<thead>
<tr>
<th>Programme</th>
<th>Project</th>
<th>SHI</th>
<th>Province</th>
<th>Municipality</th>
<th>Grant value</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of these projects is under way.</td>
<td>Bothasig</td>
<td>Communicare</td>
<td>WC</td>
<td>Cape Town</td>
<td>R15m</td>
<td>120</td>
</tr>
<tr>
<td></td>
<td>Brandwag Ph 2</td>
<td>Freshco</td>
<td>FS</td>
<td>Mangaung</td>
<td>R68m</td>
<td>495</td>
</tr>
<tr>
<td></td>
<td>Avoca Hills</td>
<td>FMHC</td>
<td>KZN</td>
<td>eThekwini</td>
<td>R65m</td>
<td>520</td>
</tr>
<tr>
<td></td>
<td>Lakehaven Phase 2</td>
<td>FMHC</td>
<td>KZN</td>
<td>eThekwini</td>
<td>R35m</td>
<td>272</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>R225m</strong></td>
<td><strong>1 707</strong></td>
</tr>
<tr>
<td>SHIP 2B</td>
<td>Implementation of these projects is about to commence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Klarinet</td>
<td>Emalahleni Housing Institution</td>
<td>Mpu- malanga</td>
<td>eMalahleni</td>
<td>R13m</td>
<td>104</td>
<td></td>
</tr>
<tr>
<td>Fleurhof Junction</td>
<td>Joshco</td>
<td>Gauteng</td>
<td>Johannesburg</td>
<td>R51m</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>Milner Court</td>
<td>OHHA</td>
<td>EC</td>
<td>Nelson Mandela Bay ('NMB')</td>
<td>R1,6m</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Talana Court</td>
<td>OHHA</td>
<td>EC</td>
<td>NMB</td>
<td>R1,8</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Emerald Sky Phase 5</td>
<td>Sohco</td>
<td>EC</td>
<td>Buffalo City</td>
<td>R25m</td>
<td>180</td>
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</tr>
<tr>
<td>Steenberg Phase 2</td>
<td>Sohco</td>
<td>WC</td>
<td>Cape Town</td>
<td>R19m</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>Salvokop</td>
<td>Yeast</td>
<td>Gauteng</td>
<td>Johannesburg</td>
<td>R11m</td>
<td>88</td>
<td></td>
</tr>
<tr>
<td><strong>Private Sector Developers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bluebay Housing</td>
<td>Balmoral</td>
<td>EC</td>
<td>NMB</td>
<td>R4,4m</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Medical Forum</td>
<td>Bluebay Housing</td>
<td>EC</td>
<td>NMB</td>
<td>R4,4m</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>E-Junction Phase 1</td>
<td>Domus Property Development</td>
<td>WC</td>
<td>Cape Town</td>
<td>R15m</td>
<td>120</td>
<td></td>
</tr>
<tr>
<td>Jabulani Ridge</td>
<td>Indiza Terra Housing Project</td>
<td>Gauteng</td>
<td>Johannesburg</td>
<td>R13m</td>
<td>90</td>
<td></td>
</tr>
<tr>
<td>O’Reilly Road</td>
<td>Norvena Property Consortium</td>
<td>Gauteng</td>
<td>Johannesburg</td>
<td>R34m</td>
<td>271</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>R193,2m</strong></td>
<td><strong>1 487</strong></td>
</tr>
</tbody>
</table>

Source: SHRA Second Quarter Report, 1 July to 30 September 2011, as well as data provided by the SHRA.

In addition to the above a call for proposals for SHIP 3A has been issued, with submissions due on 18 May 2012.

In addition to the RCG under SHIP 3A as detailed above, the SHRA has also awarded Institutional Interventions Grants (for more details see section 4 below). These were awarded to SHIs on the grounds that the submitted projects showed potential, but they did not pass all the assessment criteria. The grant allows the SHRA to give technical assistance to the SHIs to address these issues and submit the project with the next call for proposals. The projects awarded Institutional Grants are shown in the table below.

Table 5: Institutional Interventions Grants

<table>
<thead>
<tr>
<th>Project</th>
<th>Institution</th>
<th>Province</th>
<th>Municipality</th>
<th>Grant</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerald Phase VI</td>
<td>Sohco</td>
<td>EC</td>
<td>Buffalo City</td>
<td>R200 000</td>
<td>Complete</td>
</tr>
<tr>
<td>Steenberg Phase 2</td>
<td>Sohco</td>
<td>WC</td>
<td>City of Cape Town</td>
<td>R198 000</td>
<td>Complete</td>
</tr>
<tr>
<td>Klarinet</td>
<td>EMaLahleni Housing</td>
<td>MP</td>
<td>eMalahleni</td>
<td>R221 600</td>
<td>Complete</td>
</tr>
</tbody>
</table>
4 Restructuring zones

Approximately 72 provincial restructuring zones have been provisionally identified and published.18 These are located in 7 provinces and 13 local authorities (for details see Appendix C). In terms of the policy, the SHRA will only provide the RCGs in projects located in these areas. However, a need for some projects outside of restructuring zones has been identified and there is a proposal for an interim status to get projects approved and funded in these areas.

There is no doubt that the restructuring zones are changing the behaviour and the basis on which projects are located and structured. It is too early to determine the extent to which the restructuring zones have been correctly identified, however, and whether they are making the desired impact. Some argue that the basis on which projects are undertaken within the restructuring zones is too ad hoc and that this is undermining the potential restructuring impact of the policy. These critics argue that a precinct approach, where all projects are clustered together, would be more effective.19

5 Establishing a project pipeline

The SHRA has established a project pipeline. This pipeline comprises 263 projects representing 95 000 units to be implemented between now and 2017. These projects were identified through the provincial steering committees and include the approved projects in the table above. It is intended that all of these projects will be funded. The estimated period in which they will receive their funding allocation is specified in terms of the pipeline. The list of projects is currently being ratified by ministers and members of the executive steering committee (‘MINMEC’) and is therefore not yet publicly available.

The creation of a project pipeline is significant in that it allows all role players (the SHRA, provinces and other funders) to coordinate their funding allocations, and will enable SHIs to plan their projects. The pipeline is not fixed and will be revised on an ongoing basis as required, but it does create a framework in which alignment can occur. The SHRA will be establishing a National Social Housing Implementation Task Team comprising, among other stakeholders, provinces, the NHFC and the HDA to oversee the coordination of the pipeline.

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18 It is not certain when and on what basis the restructuring zones will be finalised.
19 Financing Social Housing, Investing in Urban Regeneration, Workshop Report, 12 – 13 October 2011, National Association of Social Housing Organisations and the AFD.
3.6 Delivery approaches

The approach that an SHI takes to deliver a social housing product depends on the relative strength, capacity and track record of the institution. Established and successful SHIs generally seek to control the entire process, undertaking the roles of landowner/provider, developer, and property manager internally. The JHC and the Sohco both operate in this way.

The smaller SHIs, however, generally opt to outsource one or more of the functions associated with a social housing project. In some cases the SHI performs the role of landowner and developer and hands over the property management to a specialist entity. More often, SHIs with limited capacity, equity and bridging finance commission social housing projects on a turnkey basis, where the land provision and development are undertaken by a private sector developer who hands over the completed project to the SHI, who then takes ownership of the project and undertakes the property management.

The turnkey project approach works especially well for developers who have a land asset already – this provides them with the equity necessary to undertake the project. From the SHI’s perspective, the turnkey approach offers certainty on the unit cost, as this is set upfront. The developer then manages the entire risk of the project development process and hands over completed units to the SHI at the end. From a funding perspective developers need to raise project finance to cover the development until the end when they sell it to the SHI, who then pays the costs with the RCG, IS and any other funding required.

Developers that are currently active in this regard include:

- Motheo
- Calgro M3
- M5
- Basil Read
- Steffanutti Stocks

Key challenges in respect of the delivery of social housing projects include: 20

- Development costs, including –
  - The availability of well-located land at affordable prices.
  - High-bulk infrastructure contributions.
  - An unforgiving tax regime: VAT is charged on construction linked to the Reconstruction Capital Grant, which increases the costs of development and reduces the impact of the government grant contribution. Some SHIs operate through two legal entities to address this issue.
  - Escalating construction costs and fixed development standards.
  - Increasing municipal and utility charges, which increases the cost of the development and also undermines the ability of tenants to pay rentals.

20 Financing Social Housing, Investing in Urban Regeneration, Workshop Report, 12 – 13 October 2011, National Association of Social Housing Organisations and the AFD.
• Institutional constraints, including –
  – Limited capacity in the social housing sector. This remains a problem, even in the new environment. Since the establishment of the SHRA, only three SHIs have been fully accredited.

• Regulatory environment –
  – Obtaining planning approvals from local authorities.
  – SHIs need to draw the funding from a range of sources including the SHRA, provincial governments and other funders. All have their own qualifying and reporting requirements. This is very onerous on the SHI and it is very difficult to line up all the funding.

• Revenue potential –
  – SHIs must structure projects to meet a fixed income profile.
  – Payments of rentals by tenants. Both the economy and escalating costs undermine the tenant’s ability to make rental payments. In addition, the expectation by the primary target group of a ‘free house’ created by the housing subsidy programme can undermine some tenants’ willingness to make payments. Poor policing and the ability to enforce evictions of non-paying tenants can also be a problem in some areas.
4 Conclusion

4.1 The future of social housing in South Africa

It is clear from the level of investment in and the profile ascribed to the SHRA, as well as the unprecedented level of investment in the delivery of social housing stock, that social housing is a key priority of government. Especially interesting is that this priority is not only held by the National Department of Human Settlements, but also by National Treasury, which sees social housing as a key tool for the spatial restructuring and integration of South Africa’s cities. From the social housing sector’s perspective, this has been a long, hard-won battle. Social housing practitioners are therefore all keenly aware that the investment must lead to positive outcomes – not only in terms of the number of units delivered, but also in terms of the quality of living environments and the sustainability of the human settlements in South Africa.

Social housing has experienced significant consolidation in South Africa in the past twenty years – including the establishment of viable SHIs, the creation of a whole host of facilitative interventions, and the development of a track record against which new development can be planned. The establishment of the SHRA is a particularly important development – SHIs and the sector as a whole are now held accountable for implementation. The level of regulation and facilitation is something on which investors can depend – the viability and long-term sustainability of SHIs and projects are the concern of and are being closely monitored by many.

Eugene Perumal of the SHRA sees the vision for the future as having 50 000 new units under management and 40 active and stable SHIs by 2020. He notes that the overall policy intention is not to provide a capital grant indefinitely but to transition from a large grant capitalisation amount to a tapered grant, to a government loan and then to the private sector market. He envisages, however, that this will not occur until after 2020.

In the immediate future the SHRA would like to see stronger coordination within the sector – specifically with regard to the project pipeline that has been developed. In this regard the SHRA would like to see:

- Grant finance being aligned (the SHRA RCG, and the Provincial IS).
- Loan finance being accessed from private sector financiers in concert with the grant as part of the pipeline allocation, ie SHIs will receive a full package including a grant and loan.
- Large construction companies partnering with SHIs to undertake the development of projects, taking advantage of economies of scale.

It is envisaged that the social housing sector will continue to see significant funding from government through the SHRA and IS for at least the next eight years. By that time it is envisaged that there will be a number of SHIs operating in the sector that are well managed and have a substantial amount of rental stock, which will result in an income stream that can be used to gear commercial loans.
5 References

1. A social housing policy for South Africa, July 2003, National Department of Housing
2. Interim Social Housing Programme, Business Plan, 2009/10
6. Outcome 8, Sustainable Human Settlements and Improved Quality of Life, 2010, The Presidency
7. SHRA Annual Report, 2010/11
8. SHRA Second Quarter Report, 1 July – 30 September 2011
10. Social Housing Act Draft Regulations, Department of Human Settlements, 2010
12. The National Housing Code – Social & Rental Interventions – Part 3 Institutional Subsidies

5.1 Documents received and reviewed

1. QuickScan B: Project Technical Feasibility
   a. Declaration
   b. SHIP 3A Project Technical Feasibility Tool

2. QuickScan C: Project Financial Viability
   a. Declaration
   b. SHI Project Financial Viability Tool – 16 April 2012
   c. Jabulani Views Final

4. Restructuring Capital Grant 2011 Summary of projects
5. SHRA Restructuring Capital Grant Agreement
   a. with an SHI (Emalahleni Housing Institution)
   b. with an SHI ('Joshco')
   c. with another delivery agent (Norvena Property Consortium)
6. Project reports
   a. Fleurhof, Joshco
   b. O’Reilly Road, Norvena Property Consortium
   c. Klarinet Land Use, Emalahleni Housing Institution
Appendix A: Individuals interviewed

Alison Wilson: Board Member SHiFT
Gaffe Vengadajellum: Regulations Manager, SHRA
Eugene Perumal: Corporate Services Manager, SHRA
Heather Maxwell: Chief Operating Officer, Social Housing Company
Boni Muvevi: Chief Investment Officer, Gauteng Partnership Fund
Appendix B: List of Social Housing Institutions

<table>
<thead>
<tr>
<th>UNCONDITIONALLY ACCREDITED</th>
<th>CONDITIONALLY ACCREDITED</th>
<th>PREACCREDITED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Madulammoh Housing Association</td>
<td>First Metro Housing Company</td>
<td>Housing Association East London</td>
</tr>
<tr>
<td>Johannesburg Housing Company</td>
<td>Imizi Housing Utility</td>
<td>Govan Mbeki Housing Company</td>
</tr>
<tr>
<td>Communicare</td>
<td>Johannesburg Social Housing Company</td>
<td>Burning Bush</td>
</tr>
<tr>
<td>Emalahleni Housing Institution</td>
<td>Carmel Rock</td>
<td></td>
</tr>
<tr>
<td>Free State Housing Company</td>
<td>Ekurhuleni Development Company</td>
<td></td>
</tr>
<tr>
<td>Own Haven Housing Association</td>
<td>Sol Plaatje Housing Association</td>
<td></td>
</tr>
<tr>
<td>Cape Town Community Housing Company</td>
<td>Housing Company Tshwane</td>
<td></td>
</tr>
<tr>
<td>Sohco Amalinda Housing²¹</td>
<td>Badiri</td>
<td></td>
</tr>
<tr>
<td>Sohco Property Investment</td>
<td>Mbombela Housing Association</td>
<td></td>
</tr>
<tr>
<td>Yeast City Housing</td>
<td>Steve Tshawte Housing Company</td>
<td></td>
</tr>
<tr>
<td>Indiza Terra Housing</td>
<td>Polokwane Housing Association</td>
<td></td>
</tr>
<tr>
<td>Msunduzi Housing Association</td>
<td>Metsweding Social Housing</td>
<td></td>
</tr>
</tbody>
</table>

Unconditionally accredited institutions are those that have met all the criteria for accreditation set out in the Social Housing Act.

Conditionally accredited institutions have a number of conditions that have to be met for them to obtain unconditional accreditation. These institutions may participate in the investment programme as they have met all the critical criteria for accreditation.

²¹ Sohco does not have full accreditation status because of a tenant rental boycott in 2011 that threatened the viability of the company. The SHRA is confident that this is a temporary situation that will be resolved shortly and has stressed that the pending accreditation should not limit Sohco from accessing loan finance. The rental boycott was instigated by a few tenants acting illegally and seeking to gain financial advantage. It impacted three projects of Sohco, of which two have been fully resolved. The resolution of the third is pending and the company is on its way to recovering from the impact of these events. It must be noted that this was the first and, to date, the only mass rental boycott in an SHI. Critically, the Constitutional Court upheld the eviction order pursued by Sohco and issued by the courts, demonstrating Sohco’s adherence to the legal framework and their justification in pursuing eviction for the non-payers.
Preaccredited institutions are those that have not met the critical criteria for accreditation, but have the potential to become accredited. These institutions may apply for an institutional grant but cannot participate in the investment programme yet.

Appendix C: List of provisional restructuring zones

1 Gauteng Province
   1.1 Ekurhuleni
      - Germiston
      - Kempton Park
      - Brakpan
      - Springs
      - Benoni
   
   1.2 City of Johannesburg
      - Soweto
      - City Deep
      - Randburg
      - Midrand
      - Sandton metropolitan nodes
      - Johannesburg CBD
      - Roodepoort
      - Princess plots
      - Greater Alexandra
      - Ellis Park Precinct
      - Turffontein
      - Stratford
      - Lenasia district nodes
      - Eldorado Park
      - Greater Diepsloot
      - Greater Ivory Park

1.3 City of Tshwane
   - Klip-/Kruisfontein
   - Akasia
   - Pretoria North
   - Centurion
   - Menlyn
   - Eerste Fabrieke
   - Saulsville

2 Free State
   2.1 Mangaung
      - Bloemfontein CBD
      - Brandwag

3 Eastern Cape
   3.1 Buffalo City
      - East London inner city comprising Duncan Village, Chiselhurst, Belgravia, Southernwood, Sleeper Site and Quigney
      - Arnoldton/Reeston
3.2 Nelson Mandela Bay
- Innercity Greenfield and Lower Baakens Valley
- Walmer Abutting
- Mount Road

4 North West
4.1 Rustenburg
- Rustenburg CBD
- Marikana Cluster
- Boschkloof Cluster

4.2 Tlokwe
- Potchefstroom (Dassierand ext 16)
- Miederpark ext 12

4.3 Matlosana
- Klerksdorp West

5 KWAZULU-NATAL
5.1 Ethekwini
- KwaMashu Town Centre
- Springfield – River Horse Valley
- Pinetown CBD
- Greater Cato Manor
- i-TRUMP (Durban CBD and surrounds)
- Southern Durban Basic

5.2 Msunduzi
- Copesville
- Otto’s Bluff
- Raisethorpe CBD
- Eastwood/Glenwood
- Pietermaritzburg CBD
- Hayfields/Lincoln Meade
- Signal Hill
- Edendale Corridor
- Westgate/Grange
- Oribi

6 Western Cape
6.1 City of Cape Town
- CBD and surrounds (Salt River, Woodstock and Observatory)
- Southern Near – Claremont, Kenilworth, Rondebosch
- Southern Central – Wakelake – Steenberg
- Northern near – Milnerton
- Northern Central – Bellville, Bothasig, Goodwood and surrounds
- South Eastern – Somerset West, Strand, Gordon’s Bay
- Southern – Strandfontein, Mitchells Plain, Mandalay and surrounds
- Eastern – Brackenfell, Durbanville, Kraaifontein, Kuils River
- Cape Flats – Athlone and surrounds (Pinelands to Ottery)
- Far South – Fish Hoek, Simonstown

7 Northern Cape

7.1 Sol Plaatje
- Kimberley – West of Hillcrest (Hillcrest, Heuwelsig, Eitoro Park and Minerva Gardens)
- Kimberley – Hull Street (Ernestville and De Beers)
- Kimberley – Colville/Floors (Square Hill Park, Floors and Colville)
## Appendix D: Frequently asked questions

The social housing financing and policy framework is complex and evolving. The following table sets out answers to some of the frequently asked questions. The SHRA takes a very pragmatic approach to these issues and is open to negotiation where strict policies have not yet been determined or particular situations have not yet been experienced.

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>What does accreditation comprise – about what can the lender be sure when an SHI is accredited?</td>
<td>Accreditation applies to all aspects of the business, including governance, management, administration and capacity and the SHI is assessed against a comprehensive number of criteria.</td>
</tr>
<tr>
<td>Must private sector institutions that deliver (and/or manage) social housing be accredited? Does the accreditation policy apply to them, and how?</td>
<td>No, private sector institutions that are not SHIs don’t have to be accredited. Once the RCG is approved and the project is complete, the project is subject to monitoring by SHRA. A reporting mechanism is used that covers the areas of financial management, tenancy, and property management of the project.</td>
</tr>
<tr>
<td>Are requests for proposals open or closed?</td>
<td>An advert goes out about twice a year calling for social housing project applications. Usually this happens around April and then again in September. If the SHRA receives additional funding there might be a third round as well. SHIs get a preferential opportunity in the April RFP and thereafter the process is open to the private sector.</td>
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<td>Could a developer dedicate a portion of its housing development to social housing and then manage this through its own rental management company?</td>
<td>A mixed development is possible with the grant being allocated to the social housing component of the project. The developer would have to provide proof of the property management arrangement – any property management company can undertake this.</td>
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<td>How much authority does the SHRA actually have in addressing the policy grey areas? Does the SHRA’s technical authority get mediated by its relative levels of political authority? How strong is its political authority?</td>
<td>The indexing of incomes and rentals is probably the most significant grey area. This is being addressed through two avenues: firstly, the SHRA does not yet actively regulate these areas as it is not practically possible to do that; and secondly, the SHRA engages the Department of Human Settlements all the time to get it to address the changes. With regard to the SHRA powers – this has yet to be tested. The Social Housing Act is very clear about the SHRA mandate and powers. That said, the SHRA has not yet had an opportunity to exercise its powers fully, and so hasn’t yet tested whether there will or can be any political interference.</td>
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<td>What happens if a subsidy-eligible household vacates a unit after the rent has escalated beyond the affordability of a new, subsidy-eligible household? Does the institution have to reduce the rental back to the R750 initial threshold or how is this dealt with?</td>
<td>Currently, there is no clear position on this issue and the matter is under review by the SHRA.</td>
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<td>Question</td>
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<td>Are there any PFMA restrictions on the RCG or IS funds – what are the implications of the PFMA for lenders recouping their loans should they go into default?</td>
<td>The management of default has not yet been experienced and so the policy has not yet been finalised. There are two broad ideas on how to approach this: (1) The SHRA registers a bond over its portion of the funding – this option is not preferable to SHIs, as it would mean that social housing stock would always have a bond, and this would prevent the SHI from using the property to gear further finance; (2) The SHRA registers a restriction on the title deed that will ensure that the stock cannot be sold without SHRA permission. It is the SHRA’s responsibility to ensure that the stock remains social housing stock. The only place the PFMA features is when the SHRA ensures that the recipient of the RCG follows proper procurement procedures.</td>
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<td>What happens if there is a tenant boycott – will the SHRA bail them out? Does the SHRA have the capacity to do this?</td>
<td>This matter is still under consideration. There is talk of establishing a fund to assist. Sohco did receive some assistance with a reimbursement of some legal fees because it had established legal precedent useful for the sector at large.</td>
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<td>For how long are the various restraints in place – is the project ever free of them?</td>
<td>Social housing units financed with the RCG cannot be sold for the first fifteen years after construction. Thereafter, there is a formula that is applied according to which the grant portion is repaid to the SHRA.</td>
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<td>What are the returns for the private sector operator? Is there a dividend cap?</td>
<td>SHIs are not allowed to earn or distribute any dividends. Any excess/profit generated is used by the entity to achieve its objectives further. Private sector entities are allowed to earn a dividend or profit from a project, without restriction. They are, however, restricted from selling the property in the first fifteen years. After 15 years there is a formula that is applied according to which the grant portion is repaid to the SHRA.</td>
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<td>What are the IS milestones?</td>
<td>This varies from province to province. According to the National Housing Code, the MEC should, in approving the project, determine the milestones at which the approved subsidy will be paid and the amounts that will be paid as each particular milestone is reached. The milestones are then recorded in the project subsidy agreement.</td>
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<td>Does the GPF physically have Gauteng’s IS budget in its own coffers? Is there a risk that the money will not be available when it comes to payment? What about other provinces and their IS allocations?</td>
<td>The GPF does have the Gauteng’s IS funds in its own coffers. In addition, all projects funded by the SHRA always have the province’s piece of the subsidy fully committed. The SHRA then approves its grant and there have been no problems with the flow of funding. The same goes for the other provinces. In the past some provinces had bigger allocations than the SHRA and had underspent the social housing budget. Last year the SHRA received unspent allocations from two provinces, which meant that it could approve more projects.</td>
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