AFFORDABLE HOUSING FOR THE POOR

A CASE STUDY OF THE GUARANTEE MECHANISMS INTENDED TO OVERCOME THE FINANCIAL BLOCKAGES TO THE FIRST INNER CITY CO-OPERATIVE HOUSING PROJECT IN SOUTH AFRICA

A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF BUILDING AND QUANTITY SURVEYING, FACULTY OF ARCHITECTURE, UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF SCIENCE IN BUILDING (PROJECT MANAGEMENT)

JOHANNESBURG, 1994

T. ADLER
25 October 1994

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DECLARATION

I declare that this research project is my own, unaided work. It is being submitted in partial fulfilment of the requirements for the degree Master of Science in Building, to the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other university.

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Johanneburg, 1994

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The Seven Building Project (SBP) is essentially a group effort on the part of residents and many dedicated individuals who have brought the project to its existing stage over a period of over two years. In developing the material that formed the basis of this discourse, particular mention must be made of Daan Wandrag who is responsible for the financial engineering behind the Inner City Housing and Upgrading Trust (ICHUT) model, Dion Feinblum and Mauritio Barbera who helped with the development of the feasibility study, and Monty Narsoo, Carien Englebrecht, Erica Emdon, Odette Geldenhuys and Sandi Mgidlana, who are members of the subsidy sub-committee of the SBP. I must also thank my colleagues in NewHco for their help in discussing the concepts tested in this study. My thanks to GAPP architects for making the Location Map of the SBP available. Finally my thanks to Ronnie Schloss, my supervisor, for his guidance in bringing this thesis to finality.

ABBREVIATIONS USED IN THE TEXT

CJP	Central Johannesburg Partnership
COPE	Cooperative Education and Planning
FTHBS	First Time Home Buyers Subsidy
HSRC	Human Sciences Research Council
ICHUT	Inner City Housing and Upgrading Trust
NEWHCO	The New Housing Company
NHF	National Housing Forum
SBP	Seven Buildings Project
USAID	United States Agency for International Development

SYNOPSIS

The key to the successful upgrading of inner city residential stock is the appropriate provision of end user finance.

In the wake of massive urbanisation over the past 25 years, occupation of the inner city by the poor has been a feature of most metropoles throughout the world. In the South African context this socio-economic phenomenon was initially constrained by Group Areas and Influx Control legislation. The demise of this legislation under the weight of massive urbanisation, accompanied by other socio-economic and political pressures, allowed the morphology of South Africa's major urban centres to approximate that of other cities throughout the world. Urban decay has followed the internationally familiar consequences of the poor occupying the inner cities. Overcrowding, degradation of physical stock, red lining by financial institutions, insecurity of tenure and landlord/tenant conflict are now all part and parcel of Johannesburg's inner city. The shortage of housing and the rapid deterioration of housing stock in the inner cities has become a prominent feature of post-apartheid South Africa.

Studies of specific projects assist in ascertaining the financial feasibility of providing urgently needed accommodation in the Johannesburg city centre and thus preventing urban decay. A feasibility study of the Seven Buildings Project (SBP), the first project of its kind in South Africa, reveals some reasons for urban decay, as well as the structural support necessary to make inner city housing affordable, accessible and habitable. Successful delivery of acceptable accommodation in buildings *already occupied* requires innovative end-user financing mechanisms, appropriate state subsidies, a rational local authority policy with regards to rates and utility charges, and a flexible approach to tenure options.

The key to the successful upgrading of inner city residential stock is the appropriate provision of end user finance to low income inhabitants of the inner city.

This discourse will thus concentrate on levels of affordability within the SBP, subsidies required to assist affordability of members of the projects and the guarantee mechanisms devised through the Inner City Housing and Upgrading Trust (ICHUT) which will allow the mortgage lenders to lift the red line around these particular buildings.

The SBP is the first project to raise these problems. It is certainly not the last project that will do so. An examination of the problems and solutions within the context of the SBP will thus provide pointers to more generic policies which will facilitate affordable and secure housing for poor people in the inner cities of South Africa.

CHAPTER ONE

INTRODUCTION

The structure and social character of the South African inner city is both a creation of apartheid and a creature of the post-apartheid era. Created through massive changes in demography[1], the abolition of legislated racial zoning and the economic forces which have simultaneously led to the repopulation of the inner city, and the flight to the suburbs, the inner city represents both the problems and challenges of a changing South Africa. Lack of affordable accommodation, overcrowding, social and racial tension, degrading residential stock and community facilities, in short the creation of inner city ghettos, are a very real threat to the substantial existing social and economic infrastructure in the downtown areas of our cities. The challenge is not only to preserve the existing residential, office and commercial base in the central city areas, but to ensure that this base successfully adapts and expands to ensure the continuation of a sound, racially integrated urban economy.

While urban decay is not unique to South Africa, the South African location does require specific understanding and examination. Factors of importance here include the rapidity of change once group areas legislation had been lifted, the effect of the rapidly changing political context, the impact on expectations of both landlords and tenants/potential home owners of a fairly well established retail mortgage financial sector, the withdrawal of the retail mortgage lenders from the market in the face of bond and service charge boycotts, and the non-availability of retail mortgage finance in the face of an acknowledged surplus of wholesale finance in the market.

The general context of this Research Report are the changes noted above on the quantity and quality of residential accommodation in the inner city. A major effort is required not only to provide housing for those in need, but also to preserve existing stock from deteriorating under population pressure. Specific blockages to this effort are the affordability of accommodation in the inner city, the "red lining"[2] of inner city areas by the financial institutions, existing local authority policy on rates and utility charges which were appropriate to a city of gracious, single unit accommodation in leafy suburbs, and an inappropriate and inadequate government housing subsidy policy.

1. The number of people in South Africa's Metropolitan areas is estimated to grow from 12 million in 1980 to just under 25 million in 2000. Black people are the most rapidly urbanising group, moving from 53% of the population urbanised in 1985, to an estimated 69% of the population in the year 2010. Source: Urban Foundation, 1992a

2. "red lining" refers to the practice by the financial institutions of drawing a red line around a particular geographical area, and refusing to advance home loans in that area. It seems to have developed originally in the United States, and is now common in many, particularly black, residential areas in South Africa.

The nub of the problem in the Johannesburg inner city, however, is the unavailability of affordable end user finance to low income people. Without access to home loans, inner city residents will be denied the chance to change from insecure tenants to home owners with a stake in improving the inner city environment. The scope of this Research Report is thus limited to an analysis of the first attempt to overcome the end user finance problems facing inner city residents in the post group areas period. The Seven Buildings Project (SBP), a co-operative housing project in the Johannesburg inner city has progressed some way in trying to deal with the affordability problem. It thus forms the focus of this Report. The specific analysis will concentrate on levels of affordability within the SBP, appropriate subsidy provision and the guarantee mechanisms devised through the Inner City Housing and Upgrading Trust (ICHUT) which are required before the mortgage lenders will lift the red line around these particular buildings.

THE INNER CITY OF JOHANNESBURG

The Central Johannesburg Partnership (CJP) defines the inner city as an area "bounded on the North by the Braamfontein Ridge, the East by Harrow Road, the West by and including Fordsburg, and the South by and including the vacant mining land surrounding the M2 motorway".[1]

The zone is one of mixed land-use, comprising commercial space overlain by medium to high-rise residential stock. A 1992 survey found that around 65,000 people reside in the inner city, accommodated in approximately 27,000 residential units.[2]

Under apartheid, residential segregation was rigidly enforced between the races; resulting in core white suburbs and outlying black townships. Over the past decade the inner city increasingly became a cosmopolitan area where urban residents of all races lived and worked.

This racially "grey" area was thus a significant anomaly under the notorious Group Areas Act regime. Under the Act, black inner city residents were deemed "illegal", although increasingly authorities lacked the capacity and will to effectively enforce this. The removal of the Act has placed the inner city at an historic turning point between, on the one hand decisive development action, and on the other hand, ongoing deterioration.

In quantitative terms[3], the number of people in South Africa's urban areas will have increased from 13 million people (53% of the total population) in 1985 to a projected 33,2 million people (69% of the total population) in 2010. According to the Urban

1. Minutes of the Central Johannesburg Housing Task Team, n.d.

2. Crankshaw and White, 1992

3. These figures are based on various reports in the Urban Foundation's "Policies for a New Urban Future" series

Foundation reports, the anticipated shift in movement of black people from the rural to the urban areas over this period represents an increase in black population in the urban areas of 270%.

The estimated population for the Johannesburg inner city, comprising Hillbrow, Berea, Joubert Park and the CBD is 59 240, living in 24 824 residential units.[4] It is interesting that the HSRC survey found the average number of persons per unit to be 2.3 in Hillbrow and Berea, 2.5 in Joubert Park, and 2.6 in the Residential CBD. The average number of persons per unit in the SBP is 2.15.[5]

The residents of the inner city are of many races and include both established families and comparatively young single persons. These are not the poorest people of the city. Surveys indicate that most inner city residents are employed - active in relatively unskilled through to semi-professional activities - and enjoy close access to their places of work. And while some residents see their residential future in outlying suburbs, others clearly have chosen the inner city as their permanent home.

The physical character of the inner city is diverse; ranging from scattered residual houses in Fordsburg, to the modern commercial high-rise buildings of the Newtown financial centre. Residential stock extends from shabby low-rise apartment complexes in Fordsburg, through the relatively older apartment buildings of Joubert Park and the CBD district, to the high-rise apartments of Hillbrow and Berea. In addition to buildings currently used for residential purposes, the inner city has a significant pool of under-utilised warehouse, office and public structures capable of conversion.

While some occupied residential buildings have deteriorated to a considerable degree - especially in Fordsburg and parts of Joubert Park and Hillbrow - they are far from terminal. International inner city experts have noted that the bulk of residential stock in the zone is currently of more solid quality than similar areas in cities in the United States.[6]

4. Crankshaw and White, 1992, p 109

5. Source: Cope Affordability Surveys

6. Urban Foundation, 1993

THE SEVEN BUILDINGS PROJECT

In October 1991 tenants of all the seven buildings located in the Hillbrow and Joubert Park areas (see table 1 below for a summary of the locational details of the buildings and the number of residential units. The map on p. 11 gives the location of the buildings) were issued with a notice to vacate their flats. The owner was attempting to empty all of the buildings so that the units in the building could be sold on the open market. This act, by galvanising and uniting the residents of the buildings in resistance to the notices, initiated the SBP. By November of that year the tenants had not vacated and the owner instituted legal action in two of the buildings. A process of negotiation followed, which finally resulted in agreement that the tenants would purchase the buildings. Consequently legal action was postponed until March 1992 to allow the tenants to raise the purchase price. In the event, agreements to purchase were only signed a year later in March 1993, subject to the important suspensive clause that finance for the purchase and refurbishment was to be obtained from the financial institutions.

A Seven Buildings Working Group comprising the tenants, attorneys, architects, quantity surveyors, two housing service groups, Cope and Planact, and co-ordinated by the Legal Resources Centre, was formed. The Working Group conceived a framework which aimed to create a co-operative social housing project which will meet the following objectives:

- Affordability, both in the immediate future and in the long-term;
- Security of tenure for all current tenants within a group tenure framework;
- Tenant management and control; and
- The creation of social housing stock which would remain available for low-income earners.

This framework was developed in conjunction with the tenants of the buildings in a serious of general meetings over a 12 month period. The general gist and conclusions of the arguments at these meetings are noted in the following paragraphs. It should be noted that the issues were fairly hotly debated, with the major difference being between those preferring individual tenure via sectional title compared with those who preferred communal title under the shareblocks act. Ultimately the arguments for a communal social housing project won the day. The major reason for this was related to the more probable access to end user finance under a group scheme. Individuals applying for mortgages in their own right would simply not have qualified for the bond.

TABLE 1
LOCATION OF BUILDINGS

BUILDING	ADDRESS	STAND NOS	ZONING	UNITS		
Argyle Court	252 Smit Street,	2248 2250	Bus 1	72	Single Bachelor 1Bed 2Bed Shops	36 24 12 0 0
Branksome Towers	Cnr Wanderers and Bok Streets	2037 2038	Bus 1	69	Single Bachelor 1Bed 2Bed Shops	0 23 37 9 3
Coniston Court	Cnr Catherine Avenue and Pretoria Street	205 206 208	Res 4	37	Single Bachelor 1Bed 2Bed Shops	0 8 13 16 0
Manhattan Court	43 Plein Street	1651 1652	Bus 1	108	Single Bachelor 1Bed 2Bed Shops	0 108 0 0 4
Margate Court	73 Banket Street	3121 3122	Res 4	37	Single Bachelor 1Bed 2Bed Shops	0 0 24 13 0
Protea Mansions	Cnr Wanderers and Leyds Streets	2177	Bus 1	33	Single Bachelor 1Bed 2Bed Shops	0 15 12 6 2
Stanhope Mansions	Cnr Von Weilligh and Plein Streets	5197	Bus 1	90	Single Bachelor 1Bed 2Bed Shops	0 48 24 18 3
			TOTAL	446		

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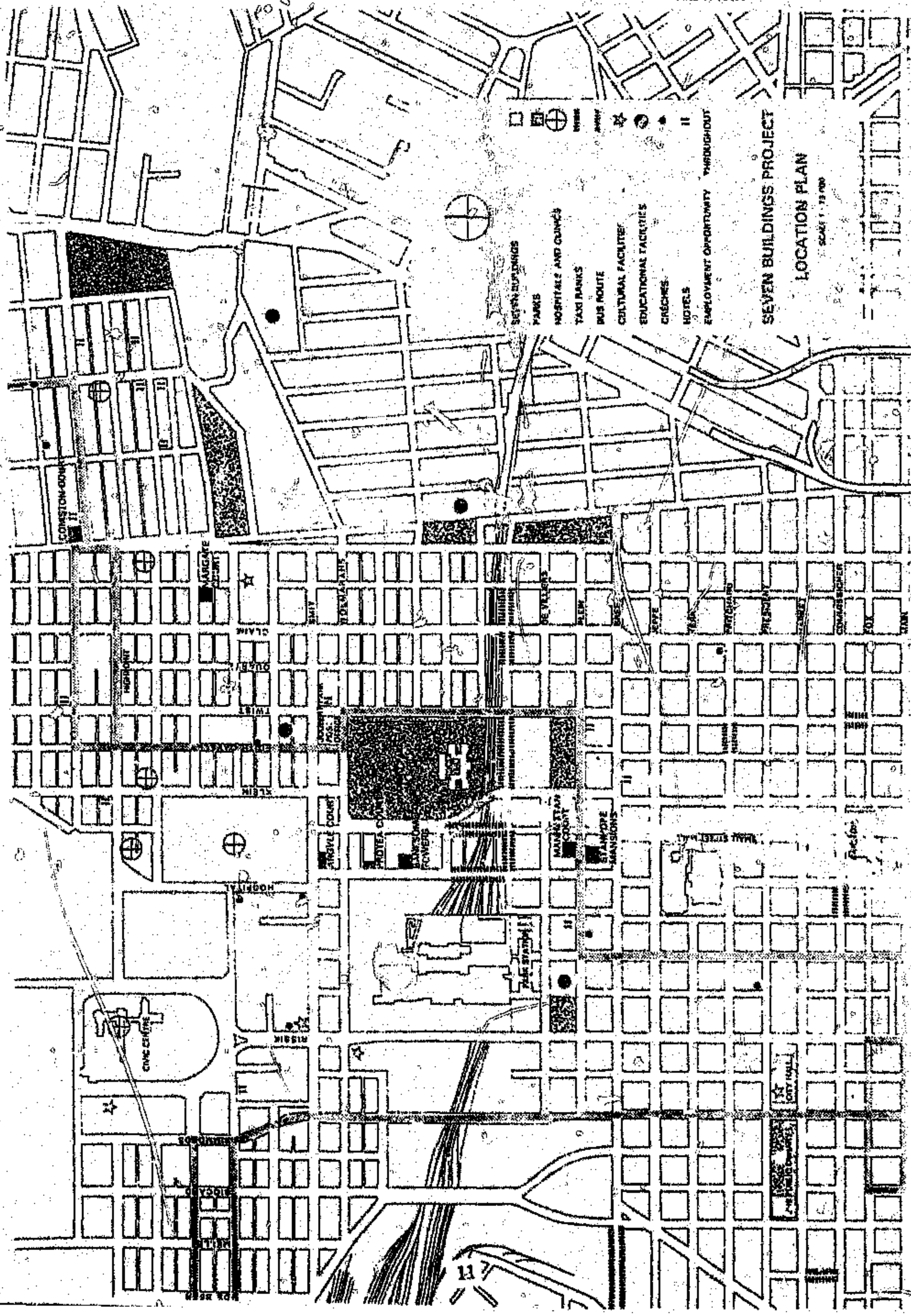
MAP INDICATING LOCATION OF THE SEVEN BUILDINGS



Co-operative housing, in the Seven Buildings context, is founded upon the principles of occupant control and management of accommodation within a subsidized framework. Group ownership would be committed to ensuring that the price of the units does not increase over time and that the units are retained as an affordable stock of social housing within the co-operative structure. In general this means that ownership is limited to rights related to security, with a limited right to any capital appreciation in the value of the building or the unit. If ownership is passed through a share in a share block company, for example, the sale of such shares would be prescribed by requiring that the share is sold back to the corporate body, with the owner being entitled only to his or her original deposit, plus an agreed interest rate, and the value of any improvements made to the unit during the period of occupation. Co-operative housing provides the opportunity for co-operative ownership to persons such as the current tenants, who have indicated their preference for this form of ownership. It should be emphasised that those who wish to participate in this form of ownership, are generally primarily motivated by the need for security of tenure. While not widespread, co-operative housing associations are an established form of ownership among lower income communities in the United States, Canada, Britain and Australia.[7]

Co-operative housing has also generally implied tenant management of the building. While there is a general commitment to this within the SBP, its exact nature and form have not yet been defined. There is general commitment to tenant involvement on a voluntary basis to building maintenance and upkeep, the provision of security services and the collection of rent and levies. It may be, however, that tenant participation in this is phased in over a period, and the initial operating and control systems are set up and managed through a joint venture with an established property group such as Anglo American Properties. A condition of the joint venture agreement would be that expertise and control is gradually moved over to the co-operative body.

A second consequence of cooperative ownership is that the financial obligations of the members are accepted and managed in a collective manner. Group credit and risk management has been the basis of high successful lending institutions to poor communities locally and internationally.[8] The Bangladesh based Grameen Bank, which lends amounts of between US$30 and US$300 to approximately 1,6 million clients, 96% of whom are women, and has assets of US$250 million from savings, is the most prominent of the thousands of group credit schemes operating around the world. In South Africa, the stockvel movement is often quoted as a successful indigenous example of a group credit scheme, while at a more formal level approximately R40 million is currently being saved and circulated amongst group credit schemes such as the Group Credit Company and the Rural Finance Facility. Group management of financial risk

7. Australian Government, 1992; Urban Foundation, 1992 ; Seven Building Project, 1993

8. Information for this paragraph is based on discussions with Frans Pretorius, CEO of the IDT Finance Corporation, Chris Hock, CEO of the Rural Finance Facility, and Christine Glover, CEO of the Group Credit Company

has been accepted by the financial consortium[9] who are willing to make a bulk loan available to the SBP. They have clearly done this in the face of their failure to enact legal sanctions against individual loan defaulters in black areas, and in the anticipation that the members of the housing cooperative will perform the credit control function in the interests of the group as a whole.

This framework, which was developed prior to the joint venture agreement between the Seven Buildings Residents Association and the New Housing Company (NewHco), guides the agreement between the two parties. The joint venture was initiated in November 1992 with a view to bringing the project to fruition.

Following the formation of the Joint Venture, a feasibility study was undertaken to consider the viability of the project from a financial point of view. The feasibility study has indicated that the total cost of the project (and hence the bond required from the financial institutions) will amount to R15, 7 million. Of this amount R5,9 million will be the capital cost of the buildings, while the remaining R9,8 million will cover the cost of transfer fees, refurbishment, and interest. The implications of this figure from an affordability point of view will be discussed in Chapter 2.

OBJECTIVES OF THE RESEARCH

The objectives of the research are to test the assumptions of the SBP feasibility study specifically in relation to the questions of affordability and its impact on the availabity of end user finance. While other areas of research such as the appropriateness of existing local authority policy on rates and utility charges, the legal feasibility of a social housing project which provides collective ownership within a limited equity framework in such a way as to preserve the affordability of the housing stock for future generations of owner/occupants, and the viability of tenant management and control are important, this discourse will focus on questions related to the provision of appropriate end user finance. Failure to resolve this issue will prevent any scheme from being in a position to test the other propositions around a co-operative housing development. Thus the crucial area of concern for the SBP was identified as affordability, and the proposed solution has been in the form of the proposed government subsidy scheme and the proposed ICHUT mechanism. Accordingly, the specific assumptions to be tested are:

- the affordability of accommodation in the inner city:
- the appropriateness of existing subsidy schemes for co-operatives:
- the possibility of overcoming "red lining" of inner city areas by the financial institutions using the ICHUT mechanism.

9. A consortium of the major financial institutions, viz NedPerm, Standard, ABSA and First National has been formed to consider the application for mortgage finance from the project.

RESEARCH METHODOLOGY

The research for this Report is based on work done by the author as project coordinator of the SBP project team over a eighteen month period from November 1992 to April 1994. This Research Report comprises a critical analysis of this work.

The author was involved in the conception and development of the ICHUT Guarantee mechanism, is a founder trustee of ICHUT, attended meetings of the Seven Buildings tenants, weekly project meetings with the appointed project team and meetings between the SBP and the five major home loan financial institutions where these mechanisms were discussed and refined. The author was also involved in the legal sub committee which debated and developed the share block ownership mechanism as it was applied in the case of the project.

As co ordinator, the author either commissioned or reviewed affordability surveys done specifically for the project by COPE, or done on behalf of the Johannesburg City Council and the Human Sciences Research Council. The latter covered the geographical area containing the seven buildings. These surveys have been subjected to critical analysis for the purposes of this Report.

In addition, as chairperson of the National Housing Forum's Subsidy Task Team, and of the Joint Technical Committee on subsidies between the Forum and the Dept of Housing, the author was involved in developing subsidy policy which specifically addressed the issue of co operative tenure.

In general the original and unpublished material consulted were minutes of the Seven Buildings joint steering committee, the legal sub committee, the subsidies sub committee and the financial sub committee. In relation to subsidies, the minutes of the National Housing Forum's Task Team 2 deal with subsidies and end user finance, the minutes of the Joint Technical Committee between the National Housing Forum and the Department of Housing and the regular reports by consultants to these two committees were analysed and reviewed.

In addition a literature search and review of published and unpublished material related to affordability, urban renewal and housing policy related to the issues under discussions was undertaken. The works consulted are listed in the bibliography.

Specific research commissioned and reviewed by the author in relation to the problem areas identified are listed below:

- the affordability of accommodation in the inner city: A survey of the existing tenants was done by COPE and verified to assess levels of affordability both in terms of existing mortgage lender requirements and in terms of the long term viability of maintaining property in the inner city. Where possible the findings of the SBP surveys are compared with other surveys done in the Johannesburg Inner City. (See Appendix One). Independent conclusions in relation to levels of affordability and the implications this has for the success of the project are noted in Chapter two.

- the appropriateness of existing subsidy schemes for co-operatives: This is done in Chapter three through an examination of specific subsidy schemes which may assist the tenants to assume ownership of the buildings. Modifications for changes to existing schemes such as the First Time Home Buyers Subsidy are examined. The basis of this chapter is the author's assessment of the requirements of the SBP in relation to evolving government policy. The author reviewed many drafts of proposed subsidy policy, was involved in the debates around these policies, and led the SBP team that presented the SBP view of changes required in order to apply the evolving subsidy policy to the circumstances of the SBP.
- the possibility of overcoming "red lining" of inner city areas by the financial institutions. The conclusion reached after many discussions with the financial institutions and within the project team was the need to establish a guarantee mechanism which will allow the financial institutions to lend in these areas. In order to fulfil this requirement, the author was involved in discussions which conceptualised and established the Inner City Housing and Upgrading Trust (ICHUT). The proposal that the newly established ICHUT to perform this function is examined in Chapter four. Any assessment of its success can only be done in the fullness of time.[10]

The application of the material and the conclusions reached are clearly my own and are not necessarily in accord with those of the tenants association or the SBP project team.

10. It is interesting to note that the agreement announced on 20 October 1994 between the government and the financial institutions to released mortgage finance into the low income market is based in, amongst other things, a government guarantee. One root of this view is the assessment of affordability in the inner cities and a careful note of the ICHUT mechanism reported here.

CHAPTER TWO

INCOME LEVELS AND AFFORDABILITY IN THE SBP

The SBP comprises 961 people living in 446 units across the seven buildings. Information obtained from surveys[11] indicate that the average monthly household income level is R1270 pm. The table below gives the average income per building.

TABLE 2
AVERAGE MONTHLY HOUSEHOLD INCOME PER BUILDING

BUILDING	AVERAGE INCOME (R)
Argyle Court	1027
Branksome Towers	1157
Coniston Court	1539
Manhattan Court	1099
Margate Court	1682
Protea Mansions	1230
Stanhope Mansions	1535
Average All Buildings	1270

Comparisons with a comprehensive survey of the Johannesburg inner city area done by the Human Sciences Research Council [12] (HSRC) make for interesting reading. While the level of detail obtained by the HSRC is not matched by the SBP surveys, making direct comparisons difficult, it is informative to consider both the income and the occupational structure of the area as described by the HSRC survey. [13]

The HSRC survey found that the largest single occupational group (18%) comprises men and women of all races who are employed in routine clerical and sales work. The

11. Information obtained from unpublished income surveys done by Cooperative Education and Planning, June 1992

12. Crankshaw and White, 1992

13. As yet unpublished data arising from doctoral research done by Alan Morris of the Sociology Department, University of the Witwatersrand indicate similar occupational, population density and income figures to those of the HSRC and SBP surveys. Research findings were presented to an HKS inner city housing conference, 17 August 1993.

next largest group (8%) comprises African workers who are employed in fairly secure, but unskilled and low paid jobs. Other numerically significant groups which comprise members of all races are semi-professionals (7%), factory machine operators and semi-skilled manual workers (5%), artisans (3%), small business owners and traders (3%), security guards and policemen (4%) and front line managers and supervisors (4%).

Table three below compares monthly household income between the two sample groups.

TABLE 3
MONTHLY HOUSEHOLD INCOME: HSRC SURVEY COMPARED WITH SBP

CATEGORY	HSRC (%)	SBP (%)
No Answer/Students	1	N/A
Less than R1000	21	51
R1001 to R2000	32	36
R2001 to R3000	18	8
R3001 to R4000	11	2
R4001 to R5000	3	3
R5001 to R6000	3	3
R6001 to R7000	1	N/A
Over R7000	4	.3
Total*	103	100.3

* Amounts total more than 100% due to rounding off.

The inhabitants of the SBP have a larger grouping of people earning below R1000 than the average for the area as a whole which was covered by the HSRC survey. This obviously has implications for the viability of the project, and by implication, the level of subsidy required for the SBP.

In order to assess both viability and affordability of the project to the current occupants, it is appropriate now to consider the costs of refurbishing the buildings to levels acceptable both to the occupants, and, very importantly, to the financial institutions who would only be willing to bond properties of a standard which would protect their investment.

UNIT COSTS AND MONTHLY REPAYMENTS

While the discussion below does indicate unit costs, it is important to remember that the project is conceived within a cooperative tenure framework. The institutional framework for the project will be seven share block companies. At the time of writing, the exact form of these companies (either as section 21 shareblocks, or companies limited by guarantee) had not been resolved. Neither had the mechanisms for limited equity provision as required by the existing tenants been finalised. These complex issues have been excluded from the scope of this discourse. However, it is important to note that the proposal by the Residents Association for a bulk loan per building has been accepted by the financial institutions. It is for this reason that it is possible to deal with the buildings as a whole, instead of dealing with individual affordability. The principles involved here have already been discussed in Chapter 1.

Table 4 below summarises the average unit costs per building. Note that these averages vary because each building has a different mix of unit sizes. It also indicates the total monthly payments by the tenant to (a) service the bond, and (b) to pay for the current targeted operating costs i.e water, sewerage, electricity etc.

Unit costs comprise the capital cost of the building, including transfer fees, and the estimated cost of refurbishment and interest on the bridging finance. At the current stage of project estimates, this cost translates into a total bond of R15,7 million for all of the buildings.

Monthly repayments are calculated on the cost of the bond at 16.5% interest, as well as the cost of running and maintaining the buildings (operating costs). This latter category includes utility charges, building maintenance and building administration fees. The figures in Table 4 are based on the targeted operating costs in the buildings. [14]

Actual operating costs are also affected by the poor quality of the plumbing systems. While consumption of water and electricity does play a role in the operating costs, the extent of this in the face of the leakages due to the poor quality of the water reticulation in particular, is not yet clear. The targeted operating costs have been determined by comparing the actual current operating costs to those in other similar but well-maintained buildings. The target has been set as the average between the actual current costs and those determined for a well-maintained building.

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14. It must be borne in mind that the operating costs are influenced by the discriminatory City Council policies in respect of rates and utilities. Council policy to date did not allow any rebates on flats in the CBD, and also did not allow for separate metering of mixed use buildings. Accordingly residential units in mixed use properties would suffer the rates applicable to business premises, contributing to the high cost of living in the inner city. Under pressure from the SBP in particular, these policies were recently amended by the Council and will only come into effect from July 1993. As the details of the charges are not yet available, the feasibility is costed at the existing rates.

TABLE 4
UNIT COST AND MONTHLY REPAYMENTS (R's)

BUILDING	AV UNIT COST[1]	MONTHLY REPAYMENTS WITH TARGETED OPERATING COSTS
Argyle Court	29 939	554
Branksome Towers	38 969	630
Coniston Court	37 911	723
Manhattan Court	33 355	571
Margate Court	38 562	717
Protea Mansions	36 203	573
Stanhope Mansions	35 877	568

1. These costs were developed at an early stage of the feasibility, and refer to an average over all of the 446 units irrespective of the size of the specific unit.

Having now established the costs, it is possible to measure these against the affordability of the current residents of the buildings. Before doing so, however, it is interesting to note that an analysis of the applications for guarantees submitted to ICHUT indicates that the average cost of a refurbished unit in the inner city is around the R35 000 mark. The implications for affordability as discussed below in relation to the SBP would thus have a wider applicability to the inner city as a whole.

MONTHLY REPAYMENTS AND LEVELS OF AFFORDABILITY

Tables 5, 6 and 7 indicate the levels of affordability in each of the buildings under the scenarios of no external subsidies, a R10 000 capital subsidy and a R17 500 capital subsidy. These amounts were based on information that the new subsidy amount being debated in the negotiations between the National Housing Forum and the Department of National Housing would be at either of these two levels.

It should be noted that the repayments are based on the financial modelling developed under ICHUT. The ICHUT scheme makes a substantial contribution to the viability of the project in two ways. Firstly ICHUT will provide security to the mortgage lenders which guarantees that the capital advanced will be paid back in full after 15 years, irrespective of the loan repayment record of the borrowers. Secondly, the ICHUT mechanism allows for the purchase of a progressive annuity which, by releasing a specified cash flow over the specified period, will relieve the burden of the interest payment somewhat for the first five years. This relief is not a subsidy, for the shortfall in payment in the first five years is made up by increased loan repayments in the subsequent fifteen years after that. The mortgage lenders have agreed in principle to support projects which are funded in terms of the ICHUT model.

The ICHUT mechanism is explained more fully in Chapter 4 .

Table 5 below indicates the levels of affordability under a scenario which would assume the servicing of a mortgage bond of R15,7 million and the targeted costs of maintaining the building under refurbished circumstances with no external subsidies. The unit prices are as in Table 4 above. The affordability levels are determined to suit financial institution requirements.

TABLE 5
MONTHLY REPAYMENT AND PERCENTAGE AFFORDABILITY PER UNIT PER MONTH WITH NO SUBSIDY (R's)

BUILDING	MONTHLY REPAYMENTS WITH TARGET OPERATING COSTS: NO SUBSIDY	% OF TENANTS WHO CAN AFFORD THE REPAYMENTS
Argyle Court	554	41
Branksome Towers	630	39
Coniston Court	723	56
Manhattan Court	571	35
Margate Court	717	65
Protea Mansions	573	50
Stanhope Mansions	568	83

From the information provided in the above table, it is clear that a large number of the existing tenants would not be able to afford to own and maintain themselves in accommodation of their choice. From both a project and a general policy point of view, it is clearly unacceptable that large numbers of people who have made their home in the inner city under extremely difficult conditions would be displaced under a scheme which was precisely intended to provide security of tenure. Some form of subsidy is thus clearly necessary. Tables 6 and 7 below calculate affordability under different subsidy scenarios.

Table 6 is based on a capital subsidy of R10 000. The unit price is thus reduced by R10 000 in each case.

TABLE 6
MONTHLY REPAYMENT AND PERCENTAGE AFFORDABILITY PER UNIT PER MONTH WITH R10 000 SUBSIDY (R's)

BUILDING	MONTHLY REPAYMENTS WITH TARGET OPERATING COSTS: R10 000 SUBSIDY	% OF TENANTS WHO CAN AFFORD THE REPAYMENTS
Argyle Court	448	66
Branksome Towers	523	59
Coniston Court	617	72
Manhattan Court	465	63
Margate Court	611	86
Protea Mansions	467	79
Stanhope Mansions	462	100

Table 7 is based on a capital subsidy of R 17 500,00.

TABLE 7
MONTHLY REPAYMENT AND PERCENTAGE AFFORDABILITY PER UNIT PER MONTH WITH R17 500 SUBSIDY (R's)

BUILDING	MONTHLY REPAYMENTS WITH TARGET OPERATING COSTS: R17 500 SUBSIDY	% OF TENANTS WHO CAN AFFORD THE REPAYMENTS
Argyle Court	369	89
Branksome Towers	444	83
Coniston Court	537	95
Manhattan Court	385	94
Margate Court	531	100
Protea Mansions	387	100
Stanhope Mansions	382	100

As can be seen from the above tables, affordability levels of the tenants improve by an average of 50% when a capital subsidy of R17 500 is granted. The variations per building are noted in the tables.

From the data provided in both the SBP and the HSRC surveys, and corroborated by Morris's unpublished findings to date[15], it is clear that massive displacement would take place from the inner city unless a subsidy mechanism is found. Without subsidies, the inner city either continues on the path of degrading stock in slum conditions inhabited by people who have no stake in their accommodation, or gentrifies, a process which would require the replacement of poor people by people of means. The solution to this situation clearly lies in the provision of a subsidy, and it is to this topic , in the context of the requirements of the SBP, that we now turn.

15. See footnote 13 above

CHAPTER THREE

SUBSIDIES

A key feature of the urban housing crises is that the majority of those families requiring housing will be very poor. An Urban Foundation study indicates that approximately 34% of the metropolitan black population (excluding the various homelands) earn less than the minimum living level of R700 pm.[16] As noted in the Urban Foundation study, "This reality of urban poverty must inform future housing policy." Subsidies thus become essential to enhance the affordability of prospective owners in general, as well as in the specific SBP.

The First time home buyer's subsidy (FTHBS), administered by the Department of National Housing and Local Government, is the only subsidy which, with some modification, may be able to facilitate affordability in relation to the SBP. The details of the FTHBS are listed below. The amendments put to the Department to make the subsidy applicable to the SBP are discussed at the conclusion of this chapter.

In essence the FTHBS subsidises a third of the interest payable for the first five years up to a notional bond of R40 000. The subsidy is paid monthly over a seven year period, fixed for the first two years, then declining annually over the next five years. Subsidies are paid directly to the mortgage lender, who in turn decreases the bond amount required of the bond holder. The subsidy is adjusted in harmony with prevailing mortgage rates. It should be noted that in the past, this subsidy has been suspended when budgeted amounts allocated by the natio[illegible] housing budget have been spent, an unhappy situation for both existing and prospective subsidy beneficiaries.

Currently both existing or new houses or flats qualify for the FTHBS provided the unit is the first home owned by the applicant. Eligible applicants would include married couples, single parents and persons with dependents provided their joint income does not exceed R3 500 per month. In addition the applicant and family must occupy the unit permanently. Neither the applicant or spouse may receive any other state financed housing subsidy.

A number of limits are also provided in terms of the subsidy. In the case of existing units, the purchase price (house and land) may not exceed R65 000. As far as new houses are concerned, the building costs (ie excluding land) may not exceed R45 000. An additional R5 000 for additional costs incurred due to poor land conditions is permitted. The total cost may rise to R75 000 where a scarcity premium has to be paid for cheap land.

Currently only units owned under individual freehold or 99 year leasehold or sectional title would qualify for the FTHBS. This is clearly a problem for the cooperative

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16. Urban Foundation, 1992c

shareblock scheme proposed by the SBP. Accordingly a proposal was made to the Department in March 1993. which would permit *a single lump sum subsidy aggregating the 446 individual subsidies* to be available on a single bulk loan for the entire building, a model approved by the mortgage lenders in respect of the SBP.

The proposal to the Department envisaged that the subsidies be allocated collectively to the shareblock company and managed by the cooperative instead of being allocated individually to the occupants of the buildings. This means that no subsidy would be attributable to any single member of the cooperative, although the members derive the benefits indirectly through the provision of decent and affordable accommodation. The subsidisation of the product, rather than the individual also ensured that the housing stock, by retaining the subsidy, would remain affordable to subsequent generations of cooperative members. Thus if a member left the cooperative, the subsidy would not leave with them. That person would therefore be eligible for another state subsidy in relation to their new accommodation.

The proposal to the Department proposed certain administrative procedures which would allow the SBP bulk loan to fall within the ambit of the existing FTHBS, while at the same time giving comfort to the administrators of the scheme that the subsidy allocations are not misdirected.

In order to demonstrate that individuals within the project comply with the criteria of the FTHBS, individual details of occupants i.e full names, proof of income, details of dependents, marital status and the existence (or otherwise) of housing assistance, as well as the value of the allocated loan, will be obtained and collated by each Shareblock company. These individual details will be provided, in aggregate form, to the Department. Details of blanket loans advanced by the consortium of financial institutions to each shareblock company would be provided to the Department upon the registration of the bond over the buildings. Finally, the payment of the FTHBS would be recorded against the name and company details of each shareblock company (as opposed to the individuals currently resident in the buildings), and the interest subsidy payable is to be calculated monthly, upon the value of the blanket loan payable by each shareblock company to the consortium of bankers.

A second change required of the Department [illegible] to agree that a capital subsidy paid up front would be preferable to an interest [illegible] subsidy payable over a number of years. A capital amount would assist in both decreasing the mortgage loan required for the project as a whole, and also assist in bringing down the finance charges of a lesser working capital loan required for the refurbishment.

The original approach to the Department was not successful. Existing policy, in the Department's view, does not provide for first time home buyers subsidies unless individual title is held. Should the ownership be registered under sectional title, then the Department stated it would be able to accommodate the scheme under the existing policy. However, the Department noted that it was not opposed to group tenure, and indeed, believed it to be an important addition to the tenure options currently covered by government subsidy schemes. However, they were unwilling to make any changes to existing policy unilaterally and urged that the subsidy request be referred to the National Housing Forum (NHF). [17]

On the assumption that the NHF would be disbursing an amount of up to R500 million allocated as an additional item under the last State budget by Finance Minister Keys, an application for subsidies was submitted to the forum in July 1993. The NHF responded to the effect that it was a negotiating forum, not an executive agency. Its function was therefore to negotiate the setting up of a structure which would both make the policy for allocating state finance, and then disburse that finance. While negotiations were taking place with the government to set up the executive agency (probably to be known as the National Housing Board), the NHF could do little more than agree to forward the proposal to the new agency once it has been established.

In recent months, however, it appears that the political will to extend the tenure options supported by the FTHBS has been found. A technical sub-committee of the South African Housing Advisory Committee has been asked to make recommendations to the Minister of Housing on the possibility of giving subsidies specifically to the SBP. The SBP was invited to make representations to the committee in early August 1993. At the time of writing this sub-committee had not made its recommendations. It does seem likely, however, that a capital amount equivalent to the maximum amount payable under the FTHBS might be made available to the SBP. This will probably be in the region of R10 000. Should this happen, the affordability of the SBP to the existing tenants would be markedly improved, and adjustments to the standards of refurbishment would have to be made to ensure that the project remained affordable to the balance of those still unable to afford at proposed levels, even with a R10 000 subsidy.

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17. The NHF, whose president is Eric Molobi of the Kagiso Trust and Executive Chairman is Matthew Nell, is a negotiating forum comprising representatives of the South African National Civic Organisation, existing extra-parliamentary political groups, the business sector and the Non Governmental Sector. Government itself is not represented on the NHF. The major task of the NHF is to develop policy on housing, approved by a representative grouping.

CHAPTER FOUR

THE INNER CITY HOUSING AND UPGRADING TRUST

The Inner City Housing and Upgrading Trust (ICHUT) was developed specifically to overcome the increasing "red lining" of inner city areas by the financial institutions. The mortgage lenders have, over the past five years, refused to make bonds available in Hillbrow, Joubert Park, the central city area, and some of the surrounding suburbs such as Doornfontein and Bertrams. They have argued that there has been an unacceptable increase in the non-financial risks of lending in these areas. Potential bond repayment boycotts, the inability to take over the properties of bond defaulters, irrespective of whether such defaults are for political or economic reasons, the long term degradation of housing stock in the area which would overcapitalise their investment over time, are all reasons given for the refusal to lend.

Without end user finance in place, no physical development is possible and many of the predications of the financial institutions with regard to the degradation of the areas would become self-fulfilling prophecies. Those designing ICHUT thus saw a need for a major intervention which would guarantee the investment of the financial institutions from political risk, and which would at the same time facilitate the end user finance to not only provide new housing for those in need, but also to preserve existing stock in the inner city from deteriorating under population pressure. If ICHUT could succeed in Johannesburg, similar trusts could be established in the other metropolitan areas in South Africa.

ICHUT

ICHUT was established under the auspices of the newly launched Central Johannesburg Partnership (CJP). The CJP is a non-profit company incorporated in terms of section 21 of the Companies Act. Its board of directors, under the chairmanship of Mr. G Leissner, the Managing Director of Anglo American Property Services and executive directorship of Mr. N Fraser, is representative of the three groups of shareholders, the community living in the defined area, the Johannesburg City Council and the business sector operating in central Johannesburg. ICHUT's board of trustees similarly reflect the major stake holders in the inner city, as well as persons with a specialist knowledge which would be of assistance in the running of a funding mechanism to facilitate the upgrading of the inner city.

The functions of the ICHUT are:

- to raise the money necessary to securitize loans to be made to community organisations and developers involved in the purchase and/or refurbishing of affordable accommodation in the inner city.

- to process and approve applications for funding

- to facilitate the negotiation on the terms of mortgages between prospective owners on an individual or group basis and the financial institutions

- to monitor the repayment of such loans

In essence ICHUT is a guarantee mechanism, a structural necessity in many situations around the world where private sector financial institutions are required to lend to poor people. A USAID review of housing projects around the world suggests that not only are mortgage guarantees necessary in Asia, South America, Africa and Eastern Europe, but that they were required even in the United States (through the Fanny Mae and Ginny Mae programmes after World War II) to ensure that poor people could get access to housing finance.[18]

At the same time as addressing the problems of the financial institutions through the provision of guarantees, ICHUT also seeks to overcome the problem of the affordability levels of inner city residents through a form of progressive annuity which allows for a lower level of repayment in the early years of the bond. This lower repayment is recouped by a higher monthly repayment after year 5 of the loan. The way in which it does this is described below.

It is important to note at this stage that the model described below is not the only method of guarantee which will be offered by ICHUT. It is, however, the only one which has reached a sufficient level of development to be accepted by the mortgage lenders.[19]

THE ICHUT MECHANISM

As noted previously, the two major stumbling blocks in the preservation and upgrading of the inner city are, firstly the affordability levels of inner city residents, and secondly the reluctance of financial institutions to make funding available for the purchasing and upgrading of inner city accommodation. The financial mechanism described below addresses both these problems. It operates on the following base assumptions:

- Affordability to potential home owners

- Sustainability over the long term.

- Financial self reliance in that it does not depend on interest rate subsidies, capital subsidies and large sums of donation money.

18. United States Agency for International Development, 1991

19. At a meeting on 12 August 1992, representatives of Nedcor Bank, Standard Bank, First National Bank and ABSA agreed that in broad principle the financing mechanism was acceptable to them, subject to a number of project specific conditions.

- Leveraging and recycling of soft money to provide for long term sustainability

- Conveying full ownership, either individual or group, with all it's rights and obligations, to the borrowers.

- Acceptable to mortgage lenders by addressing concerns about credit and area risk

A tri-partite agreement between mortgage lenders, the body corporate (representing borrowers) and ICHUT forms the backbone of the proposed structure. In order to make the model more anderstandable, a step by step break down is given below:

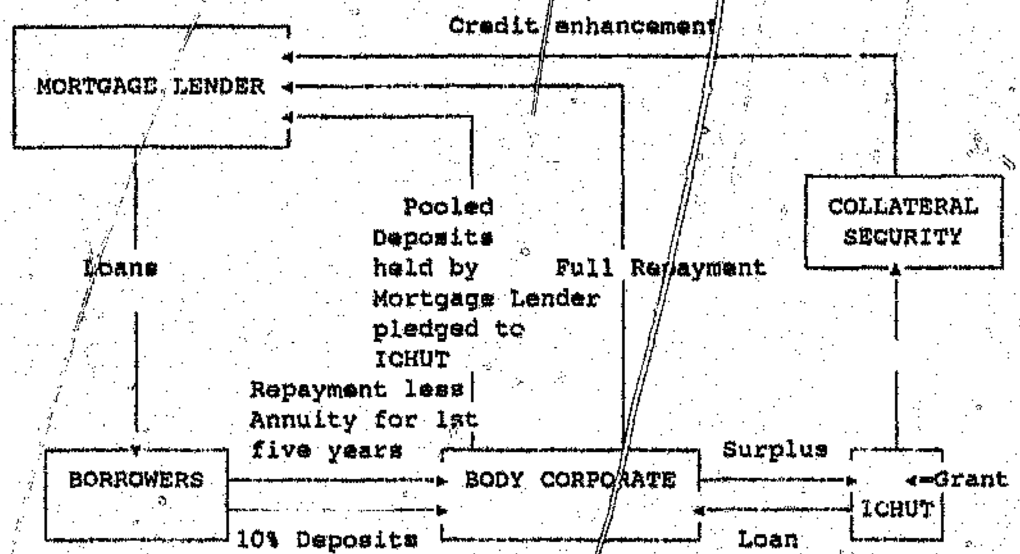
Step 1: The mortgage lender agrees to fund a particular project, either for the upgrading of existing stock or the building of new stock, and advances the capital loan to the body corporate against security provided by ICHUT.

Step 2: The guarantee provided by ICHUT is in the form of a capital instrument, a zero coupon bond, which is designed in such as way that by year 15 of the loan, it will be able to repay 100% of the original capital advanced by the mortgage lender.

Step 3: The repayments by the borrowers are via their body corporate, through ICHUT, back to the mortgage lenders. The repayment profile has been structured in such a way so as to emulate rental flows which start low and escalating over time as affordability levels increase. In the first five years of the loan, a progressive annuity purchased by ICHUT assists affordability levels of the individual borrowers by supplementing their repayment. This initial supplement is recovered in the later years of the bond, when historically the financial position of individual borrowers has allowed them to pay higher amounts. The present value of the "rental" flows will, however, be equal to the present value of the conventional bond.

The structure and cash flows within the ICHUT model are illustrated in the diagram below. The particular roles of each of the participants in the model are further elaborated in the section after the diagram. The SBP version of the model, based on the existing SBP loan requirements, is attached as Appendix Two.

STRUCTURE AND CASH FLOWS OF THE ICHUT MODEL



ICHUT FUNDING

ICHUT will fund itself by raising grant and loan funding from a variety of sources. It is intended that the money raised for guarantee purposes by ICHUT will gear up mortgage funding of four times the guarantee amount. To date an amount of R13 million has been secured. Of this, R7 million has been a grant obtained by the Johannesburg City Council from the Central Wits Regional Council, R5 million in the form of a grant from USAID, and R1 million in the form of a loan from Anglo American Property Services. The intention, however, is to raise R25 million on the assumption that the ICHUT will be gearing up finance for projects to the value of R100 million in the Johannesburg inner city.

THE MORTGAGE LENDER

The mortgage lender will make a bulk loan available to the body corporate[20] for a 15 year period. The capital guarantees will be established through the purchase of a zero coupon bond which will be structured so as to repay the capital portion of the bond in year 15. The financial structuring of the zero coupon would be such that the

20. The Body Corporate would represent all the owners in a building and would act as the interface between the owners, the mortgage lender and the ICHUT. Legally, the Body Corporate may be constituted as either a shareblock company or a body corporate in terms of the Sectional Title Act. In the SBP model, 7 shareblock companies will be registered.

mortgage lenders guarantee will be equal to 58% of the loan amount at the inception of the loan, and would grow as the interest was capitalised to allow for full repayment of the capital amount in year 15. On that date, the liability of the borrowers will effectively switch from the mortgage lenders to the Body Corporate and ultimately ICHUT. Between years 15 and 20, the amount is paid off to ICHUT. In the SBP model, an amount of R3,9 million would be required as the initial guarantee.

THE BORROWER

Borrowers will be required to pay a deposit equal to 10% of the amount to be borrowed. The deposits will be pooled and used as security for the ICHUT's commitments. Any credit standing to the account at the end of the loan term will be available for distribution to the borrowers.

In order to enhance affordability, ICHUT provides a supplement to the repayment. This supplement comes from an annuity purchased by ICHUT as part of its initial investment into the project. The supplement amount is structured into the repayment profile in such a way that the borrower's monthly repayments for the first five years are less than a conventional mortgage loan. However, after five years, when the annuity is exhausted, mortgage repayments increase over time to more than that required under a conventional loan. The additional amounts are used to repay ICHUT for the cost of the annuity.

The following table illustrates a typical repayment profile on a loan of R15,7 million. It should be noted that these figures relate only to mortgage repayments and that owner/occupiers will be required to pay, in addition, a monthly levy to cover operational and maintenance costs. The incremental increases are structured so that they escalate at an annual rate of 6,31% which is substantially below the prevailing inflation rate. (See Appendix two for the full costs, on average, to a borrower in the SBF under the unsubsidised scenario).

TABLE 8
COMPARISON OF MONTHLY MORTGAGE PAYMENTS: REGULAR VS ICHUT

Period	Monthly Instalments	
	Regular Mortgage	ICHUT Mortgage
Year 1	R494	R352
Year 5	R494	R454
Year 10	R494	R625
Year 15	R494	R860
Year 20	R494	R1183

The initial saving will be gradually eroded over time and repayments will exceed that of a regular mortgage loan from year 6,5 onwards.

THE RISK TO ICHUT FUNDING

ICHUT thus acts as a catalyst by effectively gearing up on seed capital to secure mortgage finance for individuals or cooperatives. Its exposure is limited in the first instance to the extent of donation money received and deployed. It should be noted that grant money will be subordinated to monies borrowed from investors in the event of any losses. The potential loss from defaulting borrowers has partially been addressed through the deposit mechanism. Defaults must consistently exceed 8,81% per annum before the grant money will be exposed to any potential losses. The following table quantifies the risk in the SBP model. It is of interest that in the SBP, 91% of the current tenants are paying their rentals regularly and timeously.

Default (%)	Amount available in Deposit Fund (Rm)
0,00	31,0
5,00	13,4
8,81	0,0

Clearly, to the extent that default can be contained, ICHUT's money will be available for recycling.

ICHUT'S IMMEDIATE FUTURE

As has already been noted, end user finance is the major blockage to the provision of decent and affordable accommodation in the inner cities. The ICHUT model is the first serious attempt at overcoming the red lining of the inner city areas by the financial institutions. To date it has received the support of the donor community who have placed R14 million at ICHUT's disposal for guarantee purposes, the property sector of the business community who have loaned R1 million for the same purpose, of the banks who have agreed to lend under the mechanism, and obviously of developers and community groups who have made 32 applications worth approximately R54 million, which will provide 1650 units to ICHUT.[21] While clearly the mechanism will have to prove itself over time, ICHUT has, in its early formulation, made a useful start.

21. ICHUT has yet to process these applications, and it is likely that many of them will not fall under the general conditions which relate to affordability, location and ownership rights.

CHAPTER 5

CONCLUSION

The SBP is a "project waiting to happen" in two senses. Firstly, it has reached the stage where the physical refurbishment and upgrading could take place within a month of appropriate end user finance, in the form of both subsidies and mortgage bonds, being approved. The blockage to the delivery of the 446 units rests in the institutional failure of the government and the mortgage lenders to provide these two elements of end user finance in a form appropriate to the needs of inner city residents .

Secondly, the SBP encompasses many of the historical processes of urban transformation in South Africa which need to be addressed. In the course of the project official policy and practice in the urban areas have been challenged as never before. As a result, and whatever its fate, the SBP will have made an important contribution to the development of inner city accommodation for low income people in the South African city.[22] Given its demonstration nature (in that a number of practical and policy issues not yet addressed will be faced in the physical rehabilitation and the social processes supporting that rehabilitation) policy forums such as the NHF and the CJP, as well as relevant local, regional and national government departments will be able to absorb the unique experience gained in the project into their own policy formulation around subsidy policy, inner city housing, and the transformation of the urban centres in South Africa.

It is worth noting in the conclusion the specific policy and programme issues that have been raised, and in some instances addressed, by the SBP.

The SBP is the first major inner city upgrading project undertaken at the initiative of tenants. In a time of decreasing resources and official capacity to deal with problems, the efforts of ordinary people to take initiatives to provide for their own accommodation at sustainable levels is to be commended and encouraged.

The SBP is also the first initiative in the South African context to require group tenure forms. Communal tenure as a form is recognised internationally, and has been used to make housing secure and affordable for poorer people in many contexts. Again this aspect of the project is to be encouraged so that policy around tenure forms can be guided by the progress of a practical project on the ground.

The inadequacy of local authority policies and practices in relation to rates, service charges, and incentives has been highlighted by the SBP. In the Johannesburg context, the recent changes in City Council policy in relation to differential rates, equitable rebates and remissions with regard to utility charges as well as the noticeable change

22. The role of local pilot projects in assisting the formulation of national policy has been recognised in the United states. Cluster, (1989) notes. "In fact a good deal of our thinking [around a national housing programme] has been drawn from such local success. Much of this work has been done by local agencies and non-profit organisations that already provide a model"

in attitude on the part of the Council and its officials to the problem of the inner city can directly be attributed to the SBP.

The SBP is also the first project to challenge the adequacy of state subsidies in relation to the transformation of the urban sector and reversing the apartheid city. Given that to date state subsidies have generally been available only to those purchasing property in the form of individual tenure, The SBP requires the state to rethink the nature, form and administration of the first time home buyers subsidy. Negotiations on these questions are currently ongoing, on the possible liberalisation of this state subsidy.

The SBP represents the first major challenge to the financial institutions in relation to their lending policies in the transformation of the urban sector. Financial institutions are having to rethink their policy not only in relation to the red lining of the inner cities, but also in relation to the form and administration of their loans. The group tenure nature of the project has required discussion on the administration of the loan repayment mechanisms.

The SBP project has facilitated the development of important new guarantee mechanisms to allow the financial institutions to lend to poorer people in the inner city. The development of ICHUT is a direct response to the need to reverse the red lining of the inner city. The SBP has not only played a role in the development of the thinking around ICHUT, but has also facilitated major grant monies into the ICHUT. Donors have been willing to put money into ICHUT as a result of presentations made to them by the SBP.

Finally, and perhaps most important in the long run, the SBP is the first project to test local initiative and capacity in relation to maintaining and administering buildings at a managerial, technical and financial level. The SBP project has been developed with a high degree of tenant participation, and will require this participation to continue into the ownership and management structures of the project both during refurbishment, and in the post refurbishment phase. This feature is both the promise and the challenge of the SBP, and merits support.

While it is true that the essential ingredient to the SBP coming to fruition is the provision of adequate subsidies, it must also be noted that the residents have made a very difficult project even more difficult to manage through the insistence that all buildings be dealt with at the same time. The buildings are not at the same levels of physical condition, and there are also different levels of affordability in the different buildings. Upgrading the buildings on a building by building basis would make sense both from the point of view of getting the project going even before subsidies came through, from a risk management point of view, and from a project management point of view. The tenants would be well advised to consider a building by building strategy.

The SBP is a fore-runner of other similar projects already in the pipeline. Its pioneering and demonstration value cannot be stressed sufficiently. With a R10000 capital subsidy, the project becomes viable for the current occupants who have fought for the last two years to have a place of their own. However, actual delivery is dependent on the availability of end user finance. This discourse has indicated how, through the amendment of existing subsidy policy and the establishment of guarantee mechanisms, appropriate and affordable end user finance could ensure that the SBP, and the hundreds of others that will follow, could provide decent accommodation to thousands of inner city residents.

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APPENDIX ONE

SBP AFFORDABILITY STUDIES

TABLE 1 Average monthly household income from the two surveys

	Average Income (R)		
	June 92	Nov91-Jan92	Difference
Argyle Court	1027	2172	1145
Protea Mansions	1230	1522	292
Branksome Towers	1157	1881	724
Stanhope Mansions	1535	1605	70
Margate	1682	2798	1116
Manhattan	1099	2183	1084
Coniston	1539	1533	6
All	1324	1956	633

TABLE 2 Combined household income for all blocks of flats

Value Label	Income	N of resp	Percent	Valid Percent	Cum Percent
	0	1	.3	.3	.3
	120	1	.3	.3	.6
	150	1	.3	.3	.9
	160	1	.3	.3	1.3
	200	3	.9	.9	2.2
	250	1	.3	.3	2.5
	280	1	.3	.3	2.8
	285	1	.3	.3	3.1
	300	6	1.9	1.9	5.0
	350	2	[illegible]	.6	5.6
	360	1	[illegible]	.3	6.0
	400	4	1.3	1.3	7.2
	450	2	.6	.6	7.8
	457	1	.3	.3	8.2
	460	3	.9	.9	9.1
	488	1	.3	.3	9.4
	500	5	1.6	1.6	11.0
	509	1	.3	.3	11.3
	510	1	.3	.3	11.6
	520	2	.6	.6	12.2
	550	4	1.3	1.3	13.5
	559	1	.3	.3	13.8
	560	1	.3	.3	14.1
	562	1	.3	.3	14.4
	600	9	2.8	2.8	17.2
	601	1	.3	.3	17.6
	629	1	.3	.3	17.9
	640	2	.6	.6	18.5
	650	1	.3	.3	18 8
	659	1	.3	.3	19.1
	660	1	.3	.3	19.4
	680	1	.3	.3	19.7
	700	16	5.0	5.0	24.8
	720	1	.3	.3	25.1
	740	1	.3	.3	25.4
	746	1	.3	.3	25.7
	750	2	.6	.6	26.3
	775	2	.6	.6	27.0
	788	1	.3	.3	27.3
	800	26	8.1	8.2	35.4
	810	1	.3	.3	35.7
	[illegible]	1	.3	.3	36.1
	[illegible]	1	.3	.3	36.4
	816	1	.3	.3	36.7
	822	1	.3	.3	37.0
	825	1	.3	.3	37.3
	830	1	.3	.3	37.6
	840	1	.3	.3	37.9

TABLE 2 Combined household income for all blocks of flats (cont.)

Value Label	Income	N of resp	Percent	Valid Percent	Cum Percent
	850	4	1.3	1.3	39.2
	859	1	.3	.3	39.5
	860	1	.3	.3	39.8
	880	2	.6	.6	40.4
	900	12	3.8	3.8	44.2
	916	1	.3	.3	44.5
	930	2	.6	.6	45.1
	947	1	.3	.3	45.5
	950	3	.9	.9	46.4
	960	1	.3	.3	46.7
	972	1	.3	.3	47.0
	97[illegible]	1	.3	.3	47.3
	1000	13	4.1	4.1	51.4
	1030	1	.3	.3	51.7
	1042	1	.3	.3	52.0
	1048	1	.3	.3	52.4
	1050	1	.3	.3	52.7
	1057	1	.3	.3	53.0
	1080	2	.6	.6	53.6
	1091	1	.3	.3	53.9
	1100	4	1.3	1.3	55.2
	1115	1	.3	.3	55.5
	1140	1	.3	.3	55.8
	1150	3	.9	.9	56.7
	1160	2	.6	.6	57.4
	1165	1	.3	.3	57.7
	1200	12	3.8	3.8	61.4
	1210	1	.3	.3	61.8
	1220	1	.3	.3	62.1
	1225	1	.3	.3	62.4
	1232	1	.3	.3	62.7
	1246	1	.3	.3	63.0
	1250	1	.3	.3	63.3
	1272	1	.3	.3	63.6
	1277	1	.3	.3	63.9
	1288	1	.3	.3	64.3
	1300	3	.9	.9	65.2
	1320	1	.3	.3	65.5
	1340	1	.3	.3	65.8
	1350	2	.6	.6	66.5
	1360	1	.3	.3	66.8
	1363	1	.3	.3	67.1
	1400	4	1.3	1.3	68.3
	1470	1	.3	[illegible]	68.7
	1472	1	.3	.3	69.0
	1485	2	.6	.6	69.6
	1500	13	4.1	4.1	73.7
	1502	1	.3	.3	74.0
	1508	1	.3	.3	74.3

TABLE 2 Combined household income for all blocks of flats (cont.)

Value Label	Income	N of resp	Percent	Valid Percent	Cum Percent
	1512	1	.3	.3	74.6
	1530	1	.3	.3	74.9
	1550	1	.3	.3	75.2
	1574	1	.3	.3	75.5
	1600	4	1.3	1.3	76.8
	1640	1	.3	.3	77.1
	1650	1	.3	.3	77.4
	1680	1	.3	.3	77.7
	1700	5	1.6	1.6	79.3
	1705	1	.3	.3	79.6
	1709	1	.3	[illegible]	79.9
	1744	1	.3	.3	80.3
	1800	5	1.6	1.6	81.8
	1805	2	.6	.6	82.4
	1840	1	.3	.3	82.8
	1850	1	.3	.3	83.1
	1900	6	1.9	1.9	85.0
	1950	1	.3	.3	85.3
	1980	1	.3	.3	85.6
	2000	6	1.9	1.9	87.5
	2084	1	.3	.3	87.8
	2100	2	.6	.6	88.4
	2110	1	.3	.3	88.7
	2120	1	.3	.3	89.0
	[illegible]50	1	.3	.3	89.3
	[illegible]153	1	.3	.3	89.7
	2200	2	.6	.6	90.3
	2210	1	.3	.3	90.6
	2230	1	.3	.3	90.9
	2250	1	.3	.3	91.2
	2300	3	.9	.9	92.2
	2350	1	.3	.3	92.5
	2450	1	.3	.3	92.8
	2458	1	.3	.3	93.1
	2505	1	.3	.3	93.4
	2550	1	.3	.3	93.7
	2600	2	.6	.6	94.4
	2700	2	.6	.6	95.0
	2780	1	.3	.3	95.3
	2900	1	.3	.3	95.6
	2990	[illegible]	.3	.3	95.9
	3160	[illegible]	.3	.3	96.2
	3200	[illegible]	.6	.6	96.9
	3600	1	.3	.3	97.2
	3900	1	.3	.3	97.5
	3940	1	.3	.3	97.8
	4000	2	.6	.6	98.4

TABLE 2 Combined household income for all blocks of flats (cont.)

Value Label	Income	N of resp	Percent	Valid Percent	Cum Percent
	4200	1	.3	.3	98.7
	5000	2	.6	.6	99.4
	6300	1	.3	.3	99.7
	9700	1	.3	.3	100.0
	.	1	.3	Missing	
	Total	320	100.0	100.0	

TABLE 3 Distribution of combined household income of Argyle court residents

Income	Number	Percent	Percent	Percent Cumulative
200	2	4.5	4.5	4.5
285	1	2.3	2.3	6.8
300	2	4.5	4.5	11.4
350	1	2.3	2.3	13.6
360	1	2.3	2.3	15.9
400	2	4.5	4.5	20.5
450	1	2.3	2.3	22.7
460	1	2.3	2.3	25.0
500	2	4.5	4.5	29.5
600	2	4.5	4.5	
629	1	2.3	2.3	[illegible]
680	1	2.3	2.3	38.6
700	3	6.8	6.8	45.5
800	6	13.6	13.6	59.1
859	1	2.3	2.3	61.4
900	2	4.5	4.5	65.9
1000	2	4.5	4.5	70.5
1080	1	2.3	2.3	72.7
1150	1	2.3	2.3	75.0
1200	2	4.5	4.5	79.5
1350	1	2.3	2.3	81.8
1600	1	2.3	2.3	84.1
2000	1	2.3	2.3	86.4
2300	1	2.3	2.3	88.6
2458	1	2.3	2.3	90.9
2600	1	2.3	2.3	93.2
2700	1	2.3	2.3	95.5
2900	1	2.3	2.3	97.7
3900	1	2.3	2.3	100.0
Total	44	100.0	100.0	

TABLE 4 Combined household income of Protea Mansions residents

Income	N of resp	Percent	Valid Percent	Cum Percent
400	1	4.2	4.2	4.2
500	1	4.2	4.2	8.3
520	1	4.2	4.2	12.5
550	1	4.2	4.2	16.7
562	1	4.2	4.2	20.8
810	1	4.2	4.2	25.0
900	1	4.2	4.2	29.2
976	1	4.2	4.2	33.3
1000	2	8.3	8.3	41.7
1042	1	4.2	4.2	45.8
1100	1	[illegible]	4.2	50.0
1200	2	8.3	8.3	58.3
1300	1	4.2	4.2	62.5
1472	1	4.2	4.2	66.7
1500	1	4.2	4.2	70.8
1600	1	4.2	4.2	75.0
1705	1	4.2	4.2	79.2
1709	1	4.2	4.2	83.3
1840	1	4.2	4.2	87.5
1900	1	4.2	4.2	91.7
2300	1	4.2	4.2	95.8
2450	1	4.2	4.2	100.0
Total	24	100.0	100.0	

TABLE 5 Combined household income of Branksome Towers residents

Income	N of resp	Percent	Valid Percent	Cum Percent
120	1	1.6	1.6	1.6
150	1	1.6	1.6	3.1
280	1	1.6	1.6	4.7
300	2	3.1	3.1	7.8
450	1	1.6	1.6	9.4
488	1	1.6	1.6	10.9
500	1	1.6	1.6	12.5
510	1	1.6	1.6	14.1
520	1	1.6	1.6	15.6
550	1	1.6	1.6	17.2
559	1	1.6	1.6	18.8
600	2	3.1	3.1	21.9
650	1	1.6	1.6	23.4
700	4	6.3	6.3	29.7
740	1	1.6	1.6	31.3
788	1	1.6	1.6	32.8
800	5	7.8	7.8	40.6
813	1	1.6	1.6	42.2
850	2	3.1	3.1	45.3
880	1	1.6	1.6	46.9
900	1	1.6	1.6	48.4
1000	2	3.1	3.1	51.6
1030	1	1.6	1.6	53.1
1050	1	1.6	1.6	54.7
1100	1	1.6	1.6	56.3
1150	2	3.1	3.1	59.4
1160	1	1.6	1.6	60.9
1200	1	1.6	1.6	62.5
1232	1	1.6	1.6	64.1
1246	1	1.6	1.6	65.6
1288	1	1.6	1.6	67.2
1300	1	1.6	1.6	68.8
1320	1	1.6	1.6	70.3
1350	1	1.6	1.6	71.9
1400	1	1.6	1.6	73.4
1485	1	1.6	1.6	75.0
1500	2	3.1	3.1	78.1
1502	1	1.6	1.6	79.7
1530	1	1.6	1.6	81.3
1650	1	1.6	1.6	82.8
1680	1	1.6	1.6	84.4
1950	1	1.6	1.6	85.9
1980	1	1.6	1.6	87.5

TABLE 5 Combined household income of Branksome Towers residents (contd)

Income	N of resp	Percent	Valid Percent	Cum Percent
2100	1	1.6	1.6	89.1
2120	1	1.6	1.6	90.6
2153	1	1.6	1.6	92.2
2200	1	1.6	1.6	93.8
2250	1	1.6	1.6	95.3
2780	1	1.6	1.6	96.9
3600	1	1.6	1.6	98.4
3940	1	1.6	1.6	100.0
Total	64	100.0	10	

TABLE 6 Combined household income of Stanhope Mansions residents

Income	N of resp	Percent	Valid Percent	Cum Percent
300	1	1.7	1.7	1.7
400	1	1.7	1.7	3.3
560	1	1.7	1.7	5.0
660	1	1.7	1.7	6.7
700	4	6.7	6.7	13.3
720	1	1.7	1.7	15.0
775	1	1.7	1.7	16.7
800	5	8.3	8.3	25.0
816	1	1.7	1.7	26.7
880	1	1.7	1.7	28.3
900	1	1.7	1.7	30.0
947		1.7	1.7	31.7
950	2	3.3	3.3	35.0
1000	2	3.3	3.3	38.3
1048	1	1.7	1.7	40.0
1057	1	1.7	1.7	41.7
1080	1	1.7	1.7	43.3
1091	1	1.7	1.7	45.0
1200	3	5.0	5.0	50.0
1220	1	1.7	1.7	51.7
1225	1	1.7	1.7	53.3
1250	1	1.7	1.7	55.0
1277	1	1.7	1.7	56.7
1340	1	1.7	1.7	58.3
1400	1	1.7	1.7	60.0
1485	1	1.7	1.7	61.7
1500	3	5.0	5.0	66.7
1512	1	1.7	1.7	68.3
1600	1	1.7	1.7	70.0
1640	1	1.7	1.7	71.7
1700	1	1.7	1.7	73.3
1800	2	3.3	3.3	76.7
1850	1	1.7	1.7	78.3
1900	1	1.7	1.7	80.0
2100	1	1.7	1.7	81.7
2110	1	1.7	1.7	83.3
2200	1	1.7	1.7	85.0
2210	1	1.7	1.7	86.7
2505	1	1.7	1.7	88.3
2550	1	1.7	1.7	90.0
2700	1	1.7	1.7	91.7
3200	1	1.7	1.7	93.3
4000	1	1.7	1.7	95.0
[illegible]200	1	1.7	1.7	[illegible]
[illegible]000	1	1.7	1.7	[illegible]
6300	1	1.7	1.7	100.0
Total	60	100.0	100.0	

TABLE 7 Combined household income of Margate residents

Income	N of resp	Percent	Valid Percent	Cum Percent
0	1	3.4	3.4	3.4
550	1	3.4	3.4	6.9
600	2	6.9	6.9	13.8
700	3	10.3	10.3	24.1
800	3	10.3	10.3	34.5
822	1	3.4	3.4	37.9
1100	1	3.4	3.4	41.4
1210	1	3.4	3.4	44.[illegible]
1300	1	3.4	3.4	48.[illegible]
1470	1	3.4	3.4	51.7
1500	1	3.4	3.4	55.2
1574	1	3.4	3.4	58.6
1600	1	3.4	3.4	62.1
1700	1	3.4	3.4	65.5
1800	1	3.4	3.4	69.0
1900	2	6.9	6.9	75.9
2000	2	6.9	6.9	82.8
2150	1	3.4	3.4	86.2
2230	1	3.4	3.4	89.7
2600	1	3.4	3.4	93.1
4000	1	3.4	3.4	96.6
9700	1	3.4	3.4	100.0
Total	29	100.0	100.0	

TABLE 8 Combined household income of Manhattan residents

Income	N of resp	Percent	Valid Percent	Cum Percent
200	1	1.3	1.3	1.3
250	1	1.3	1.3	2.5
300	1	1.3	1.3	3.8
3[illegible]0	1	1.3	1.3	5.0
457	1	1.3	1.3	6.3
460	2	2.5	2.5	8.8
500	1	1.3	1.3	10.0
509	1	1.3	1.3	11.3
550	1	1.3	1.3	12.5
600	2	2.5	2.5	15.0
601	1	1.3	1.3	16.3
640	1	1[illegible]	1.3	17.5
659	1	1.3	1.3	18.8
700	2	2.5	2.5	21.3
746	1	1.3	1.3	22.5
750	2	2.5	2.5	25.0
775	1	1.3	1.3	26.3
800	7	8.8	8.8	35.0
811	1	1.3	1.3	36.3
825	1	1.3	1.3	37.5
830	1	1.3	1.3	38.8
840	1	1.3	1.3	40.0
850	2	2.5	2.5	42.5
860	1	1.3	1.3	43.8
900	6	7.5	7.5	51.3
930	2	2.5	2.5	53.8
950	1	1.3	1.3	55.0
960	1	1.3	1.3	56.3
1000	4	5.0	5.0	61.3
1100	1	1.3	1.3	62.5
1115	1	1.3	1.3	63.8
1140	1	1.3	1.3	65.0
1165	1	1.3	1.3	66.3
1200	2	2.5	2.5	68.8
1272	1	1.3	1.3	70.0
1360	1	1.3	1.3	71.3
1363	1	1.3	1.3	72.5
1400	1	1.3	1.3	73.8
1500	5	6.3	6.3	80.0
1508	1	1.3	1.3	81.3
1550	1	1.3	1.3	82.5
1700	3	3.8	3.8	86.3

TABLE 8 Combined household income of Manhattan residents (contd)

Income	N of resp	Percent	Valid Percent	Cum Percent
1744	1	1.3	1.3	87.5
1800	1	1.3	1.3	88.8
1805	1	1.3	1.3	90.0
1900	2	2.5	2.5	92.5
2000	2	2.5	2.5	95.0
2084	1	1.3	1.3	96.3
2350	1	1.3	1.3	97.5
2990	1	1.3	1.3	98.8
3200	1	1.3	1.3	100.0
Total	80	100.0	100.0	

TABLE 9 Combined household income for Coniston residents

Income	N of resp	Percent	Valid Percent	Cum Percent
160	1	5.6	5.6	5.6
600	1	5.6	5.6	11.1
640	1	5.6	5.6	16.7
900	1	5.6	5.6	22.2
916	1	5.6	5.6	27.8
972	1	5.6	5.6	33.3
1000	1	5.6	5.6	38.9
1160	1	5.6	5.6	44.4
1200	2	11.1	11.1	55.6
1400	1	5.6	5.6	61.1
1500	1	5.6	5.6	66.7
1800	1	5.6	5.6	72.2
1805	1	5.6	5.6	77.8
2000	1	5.6	5.6	83.3
2300	1	5.6	5.6	88.9
3160	1	5.6	5.6	94.4
5000	1	5.6	5.6	100.0
Total	18	100.0	100.0	

Table 10. Average combined monthly income in the blocks by marital status

Block	Marital Status		
	Married	Divorced	Single
Argyle Court	1305	415	725
Protea	1294	1150	1156
Branksome	1209	-	1103
Stanhope	1703	1189	1331
Margate	1985	1585	1100
Manhattan	1035	1342	1110
Coniston	1478	-	1617
All	1478	1204	1127

Table 11 Average combined household income by number of dependants

Block	Two or fewer Dependants	Three or more Dependants
Argyle Court	665	1330
Protea	1124	1295
Branksome	781	1369
Stanhope	1577	1472
Margate	1688	1680
Manhattan	1053	1152
Coniston	1296	2175

Table 12. Percentage of residents in each block earning at least the required income

Block	Per cent	Minimum required earning (p.m)
Argyle Court	18.2	1600
Protea	0.0	2840
Branksome	3.1	3199
Stanhope	11.7	2516
Margate	17.2	2090
Manhattan	2.5	2599
Coniston	7.7	2591

Table 13 Percentage of residents in each block earning at least the required income by marital status

Block	Married	Divorced	Single
Argyle Court	25.[illegible]	0.0	11.1
Protea	0.0	0.0	0.0
Branksome	6.1	0.0	0.0
Stanhope	17.6	0.0	0.0
Margate	27.2	0.0	0.0
Manhattan	0.0	14.3	2.5
Coniston	10.0	0.0	12.5

Table 14 Percentage of residents in each block earning at least the required income by number of dependants

Block	Two or fewer Dependants	Three or more Dependants
Argyle Court	5.0	29.2
Protea	0.0	0.0
Branksome	0.0	4.9
Stanhope	16.7	4.2
Margate	25.0	11.8
Manhattan	2.3	2.7
Coniston	7.7	20.1

APPENDIX TWO

SBP ICHUT MODEL

INNERCITY REVITALISATION

PRIVATE & CONFIDENTIAL

ASSUMPTIONS :

Purchase price		R6,600,000
Refurbishment costs		R9,100,000
Total cost		R15,700,000
Amount needed		R15,700,000
Number of units		446
Average price per unit		R35,202
Term of finance(years)		20
Mortgage rate		16.54%
Deposit	10.00%	R1,570,000
Zero future value	100.00%	R15,700,000
Zero due in year		15
Zero purchase rate		13.60%
Annuity purchase rate		13.00%
Initial rental yield		12.00%
Rental escalation (annually)		6.55%
Property escalation p.a.		5.00%
Money market interest rate		12.00%
Interest Subsidy Yes	1	0
No	0	
Loan Guarantee Fund(including deposit)		35.00%
Interest subsidy per month		
Year 1	0.0051969	
Year 2	0.0051969	
Year 3	0.0045040	
Year 4	0.0038111	
Year 5	0.0031181	
Year 6	0.0324252	
Year 7	0.0017323	
Default		7.16%
Inflation rate		7.50%
Starting salary p.m.		R1,263
Overheads p.m.		R275
Utilities p.m.		R49
Additional income		
Parking bays p.a.		R28,692
Shops p.a.		R660,000
Admin fee		6.00%

RESULTS :

ICHUT's maximum exposure		:	R18,235,152
Mortgage lender's maximum exposure		:	R15,700,000
External security as a % of total loan		:	
At start		:	61.16%
Year	5.5	:	33.55%
Year	10	:	47.70%
Year	15	:	94.10%
Rental loan yield		:	16.54%

Borrower's all in position

Term	Monthly Repayment	Additional Income	Overheads	Utilities	Sub total Monthly	Admin. Fee	Total Monthly	% of Salary	Conventional Mortgage	% of Salary
0.0	0	0	0	0	0	0		0	0	0
0.5	352.02	128.68	275.00	49.00	547.34	32.84	580.18	45.94%	701.61	55.55%
1.0	352.02	128.68	275.00	49.00	547.34	32.84	580.18	45.94%	701.61	55.55%
1.5	375.22	138.33	295.63	52.68	585.19	35.11	620.30	45.69%	716.26	52.75%
2.0	375.22	138.33	295.63	52.68	585.19	35.11	620.30	45.69%	716.26	52.75%
2.5	399.94	148.71	317.80	56.62	625.66	37.54	563.20	45.44%	732.01	50.15%
3.0	399.94	148.71	317.80	56.62	625.66	37.54	663.20	45.44%	732.01	50.15%
3.5	426.30	159.86	341.63	60.87	668.95	40.14	709.08	45.19%	748.93	47.73%
4.0	426.30	159.86	341.63	60.87	668.95	40.14	709.08	45.19%	748.93	47.73%
4.5	454.39	171.85	367.25	65.44	715.24	42.91	758.15	44.95%	767.13	45.48%
5.0	454.39	171.85	367.25	65.44	715.24	42.91	758.15	44.95%	767.13	45.48%
5.5	484.34	184.74	394.80	70.35	764.74	45.88	810.63	44.71%	786.70	43.39%
6.0	484.34	184.74	394.80	70.35	764.74	45.88	810.63	44.71%	786.70	43.39%
6.5	516.25	198.59	424.41	75.62	817.69	49.06	866.75	44.47%	807.73	41.44%
7.0	516.25	198.59	424.41	75.62	817.69	49.06	866.75	44.47%	807.73	41.44%
7.5	550.28	213.49	456.24	81.29	874.32	52.46	926.78	44.23%	830.33	39.63%
8.0	550.28	213.49	456.24	81.29	874.32	52.46	926.78	44.23%	830.33	39.63%
8.5	586.54	229.50	490.46	87.39	934.89	56.09	990.98	43.99%	854.64	[illegible]
9.0	586.54	229.50	490.46	87.39	934.89	56.09	990.98	43.99%	854.64	[illegible]
9.5	625.19	246.71	527.24	93.94	999.67	59.98	1,059.65	43.76%	880.76	36.[illegible]
10.0	625.19	246.71	527.24	93.94	999.67	59.98	1,059.65	43.76%	880.76	36.[illegible]
10.5	666.39	265.21	566.78	100.99	1,068.95	64.14	1,133.09	43.53%	908.85	34.91%
11.0	666.39	265.21	566.78	100.99	1,068.95	64.14	1,133.09	43.53%	908.85	34.91%
11.5	710.31	285.18	609.29	108.56	1,143.06	68.58	1,211.64	43.30%	939.04	33.56%
12.0	710.31	285.18	609.29	108.56	1,143.06	68.58	1,211.64	43.30%	939.04	33.56%
12.5	757.12	306.49	654.99	116.71	1,222.33	73.34	1,295.67	43.07%	971.50	32.30%
13.0	757.12	306.49	654.99	116.71	1,222.33	73.34	1,295.67	41.07%	971.50	32.30%
13.5	807.01	329.47	[illegible]	125.46	1,307.11	78.43	1,385.54	42.85%	1,006.39	31.12%
14.0	807.01	329.47	[illegible]	125.46	1,307.11	78.43	1,385.54	42.85%	1,006.39	31.12%
14.5	860.19	354.18	756.92	134.87	1,397.80	83.87	1,481.67	42.62%	1,043.90	30.03%
15.0	860.19	354.18	756.92	134.87	1,397.80	83.87	1,481.67	42.62%	1,043.90	30.03%
15.5	916.88	380.75	813.69	144.98	1,494.81	89.69	1,584.50	42.40%	1,084.22	29.01%
16.0	916.88	380.75	813.69	144.98	1,494.81	89.69	1,584.50	42.40%	1,084.22	29.01%
16.5	977.30	409.38	874.72	155.86	1,598.58	95.91	1,694.49	42.18%	1,127.56	28.07%
17.0	977.30	409.30	874.72	155.86	1,598.58	95.91	1,694.49	42.18%	1,127.56	28.07%
17.5	1,041.70	440.00	940.32	167.55	1,709.57	102.57	1,812.15	41.96%	1,174.16	27.19%
18.0	1,041.70	440.00	940.32	167.55	1,709.57	102.57	1,812.15	41.96%	1,174.16	27.19%
18.5	1,110.35	473.00	1,010.85	180.11	1,828.31	109.70	1,938.01	41.74%	1,224.25	26.37%
19.0	1,110.35	473.00	1,010.85	180.11	1,828.31	109.70	1,938.01	41.74%	1,224.25	26.37%
19.5	1,183.53	508.48	1,086.66	193.62	1,955.33	117.32	2,072.65	41.53%	1,278.10	25.61%
20.0	1,183.53	508.48	1,086.66	193.62	1,955.33	117.32	2,072.65	41.53%	1,278.10	25.61%

INNERCITY REVITALISATION :

R10 000 SUBSIDY PER FLAT

PRIVATE & CONFIDENTIAL

ASSUMPTIONS :

Purchase price		R2,140,000
Refurbishment costs		R9,100,000
Total cost		R11,240,000
Amount needed		R11,240,000
Number of units		446
Average price per unit		R25,202
Term of finance (years)		20
Mortgage rate		16.94%
Deposit	10.00%	R1,124,000
Zero future value	100.00%	R11,240,000
Zero due in year		15
Zero purchase rate		13.00%
Annuity purchase rate		13.00%
Initial rental yield		12.00%
Rental escalation (annually)		6.59%
Property escalation p.a.		5.00%
Money market interest rate		12.00%
Interest Subsidy Yes	1	0
No	0	
Loan Guarantee Fund (including deposit)		35.00%
Interest subsidy per month		
Year 1	0.0051969	
Year 2	0.0051969	
Year 3	0.0045040	
Year 4	0.0038111	
Year 5	0.0031181	
Year 6	0.0024252	
Year 7	0.0017323	
Default		7.16%
Inflation rate		7.50%
Starting salary p.m.		R1,263
Overheads p.m.		R275
Utilities p.m.		R49
Additional income		
Parking bays p.a.		R28,692
Shops p.a.		R660,000
Admin fee		6.00%

RESULTS :

ICHUT's maximum exposure	:	R13,054,975
Mortgage lender's maximum exposure	:	R11,240,000
External security as a % of total loan	:	
At start	:	61.16%
Year 5.5	:	33.55%
Year 10	:	47.70%
Year 15	:	94.10%
Rental loan yield	:	16.54%

Borrower's all in position

Term	Monthly Repayment	Additional Income	Overheads	Utilities	Sub total Monthly	Admin. Fee	Total Monthly	% of Salary	Conventional Mortgage	% of Salary
0.0	0	0	0	0	0	0		0	0	0
0.5	252.02	128.68	275.00	49.00	447.34	26.84	474.18	37.54%	557.78	44.16%
1.0	252.02	128.68	275.00	49.00	447.34	26.84	474.18	37.54%	557.78	44.16%
1.5	268.63	138.33	295.63	52.68	478.60	28.72	507.31	37.36%	572.43	42.16%
2.0	268.63	138.33	295.63	52.68	478.60	28.72	507.31	37.36%	572.43	42.16%
2.5	286.33	148.71	317.80	56.63	512.05	30.72	542.77	37.19%	588.18	40.30%
3.0	286.33	148.71	317.80	56.63	512.05	30.72	542.77	37.19%	588.18	40.30%
3.5	305.20	159.86	341.63	60.87	547.84	32.87	580.71	37.01%	605.11	38.57%
4.0	305.20	159.86	341.63	60.87	547.84	32.87	580.71	37.01%	605.11	38.57%
4.5	325.31	171.85	367.25	65.44	586.15	35.17	621.32	36.84%	623.16	36.95%
5.0	325.31	171.85	367.25	65.44	586.15	35.17	621.32	36.84%	623.16	36.95%
5.5	346.75	184.74	394.80	70.35	627.16	37.63	664.79	36.66%	642.87	35.46%
6.0	346.75	184.74	394.80	70.35	627.16	37.63	664.79	36.66%	642.87	35.46%
6.5	369.60	198.59	424.41	75.62	671.04	40.26	711.30	36.49%	663.90	34.06%
7.0	369.60	198.59	424.41	75.62	671.04	40.26	711.30	36.49%	663.90	34.06%
7.5	393.86	213.49	456.24	81.29	718.00	43.08	761.08	36.32%	686.51	32.76%
8.0	393.86	213.49	456.24	81.29	718.00	43.08	761.08	36.32%	686.51	32.76%
8.5	419.92	229.50	490.46	87.39	768.27	46.10	814.36	36.15%	710.81	31.56%
9.0	419.92	229.50	490.46	87.39	768.27	46.10	814.36	36.15%	710.81	31.56%
9.5	447.59	246.71	527.24	93.94	822.07	49.32	871.39	35.99%	736.94	30.43%
10.0	447.59	246.71	527.24	93.94	822.07	49.32	871.39	35.99%	736.94	30.43%
10.5	477.09	265.21	566.78	100.99	879.65	52.78	932.43	35.82%	765.03	29.39%
11.0	477.09	265.21	566.78	100.99	879.65	52.78	932.43	35.82%	765.03	29.39%
11.5	508.53	285.10	609.29	108.56	941.28	56.48	997.76	35.66%	795.22	28.42%
12.0	508.53	285.10	609.29	108.56	941.28	56.48	997.76	35.66%	795.22	28.42%
12.5	542.04	306.49	654.99	116.71	1,007.25	60.43	1,067.68	35.49%	827.67	27.51%
13.0	542.04	306.49	654.99	116.71	1,007.25	60.43	1,067.68	35.49%	827.67	27.51%
13.5	577.76	329.47	704.11	125.46	1,077.86	64.67	1,142.53	35.33%	862.56	26.67%
14.0	577.76	329.47	704.11	125.46	1,077.86	64.67	1,142.53	35.33%	862.56	26.67%
14.5	615.83	354.18	756.92	134.87	1,153.44	69.21	1,222.65	35.17%	900.07	25.89%
15.0	615.83	354.18	756.92	134.87	1,153.44	69.21	1,222.65	35.17%	900.07	25.89%
15.5	656.41	380.75	813.69	144.98	1,234.34	74.06	1,308.41	35.01%	940.39	25.16%
16.0	656.41	380.75	813.69	144.98	1,234.34	74.06	1,308.41	35.01%	940.39	25.16%
16.5	699.67	409.30	874.72	155.86	1,320.95	79.26	1,400.20	34.85%	983.74	24.49%
17.0	699.67	409.30	874.72	155.86	1,320.95	79.26	1,400.20	34.85%	983.74	24.49%
17.5	745.78	440.00	940.32	167.55	1,413.65	84.82	1,498.47	34.70%	1,030.33	23.86%
18.0	745.78	440.00	940.32	167.55	1,413.65	84.82	1,498.47	34.70%	1,030.33	23.86%
18.5	794.93	473.00	1,010.85	180.11	1,512.89	90.77	1,603.66	34.54%	1,080.42	23.27%
19.0	794.93	473.00	1,010.85	180.11	1,512.89	90.77	1,603.66	34.54%	1,080.42	23.27%
19.5	847.31	508.48	1,086.66	193.62	1,619.12	97.15	1,716.27	34.39%	1,134.27	22.73%
20.0	847.31	508.48	1,086.66	193.62	1,619.12	97.15	1,716.27	34.39%	1,134.27	22.73%

INNERCITY REVITALISATION :

R17 500 SUBSIDY PER FLAT

PRIVATE & CONFIDENTIAL

ASSUMPTIONS :

Purchase price		R2,140,000
Refurbishment costs		R5,755,000
Total cost		R7,895,000
Amount needed		R7,895,000
Number of units		446
Average price per unit		R17,702
Term of finance(years)		20
Mortgage rate		16.54%
Deposit	10.00%	R789,500
Zero future value	100.00%	R7,895,000
Zero due in year		15
Zero purchase rate		13.00%
Annuity purchase rate		13.00%
Initial rental yield		12.09%
Rental escalation (annually)		6.59%
Property escalation p.a.		5.00%
Money market interest rate		12.00%
Interest Subsidy Yes	1	0
No	0	
Loan Guarantee Fund(including deposit)		35.00%
Interest subsidy per month		
Year 1	0.0051969	
Year 2	0.0051969	
Year 3	0.0045040	
Year 4	0.0038111	
Year 5	0.0031181	
Ye[illegible]	0.0024252	
Y[illegible]	0.0017323	
Default		7.16%
Inflation rate		7.50%
Starting salary p.m.		R1,263
Overheads p.a.		R275
Utilities p.m.		R49
Additional income		
Parking bays p.a.		R28,692
Shops p.a.		R660,000
Admin Fee		6.00%

RESULTS :

ICHUT's maximum exposure		:	R9,169,842
Mortgage lender's maximum exposure		:	R7,895,000
External security as a % of total loan		:	
At start		:	61.16%
Year	5.5	:	33.55%
Year	10	:	57.70%
Year	15	:	94.10%
Rental loan yield		:	16.54%

Borrower's all in position

Term	Monthly Repayment	Additional Income	Overheads	Utilities	Sub total Monthly	Admin. Fee	Total Monthly	% of Salary	Conventional Mortgage	% of Salary
0.0	0	0	0	0	0	0		0	0	0
0.5	177.02	128.68	275.00	49.00	372.34	22.34	394.68	31.25%	449.92	35.62%
1.0	177.02	128.68	275.00	49.00	372.34	22.34	394.68	31.25%	449.92	35.62%
1.5	188.68	138.33	295.63	52.68	398.65	23.92	422.57	31.12%	464.56	34.22%
2.0	188.68	138.33	295.63	52.68	398.65	23.92	422.57	31.12%	464.56	34.22%
2.5	201.12	148.71	317.80	56.63	426.84	25.61	452.45	31.00%	480.31	32.91%
3.0	201.12	148.71	317.80	56.63	426.84	25.61	452.45	31.00%	480.31	32.91%
3.5	214.37	159.86	341.63	60.87	457.02	27.42	484.44	30.88%	497.24	31.69%
4.0	214.37	159.86	341.63	60.87	457.02	27.42	484.44	30.88%	497.24	31.69%
4.5	228.50	171.85	367.25	65.44	489.34	29.36	518.70	30.75%	515.44	30.56%
5.0	228.50	171.85	367.25	65.44	489.34	29.36	518.70	30.75%	515.44	30.56%
5.5	243.56	184.74	394.80	70.35	523.96	31.44	555.40	30.63%	535.00	29.51%
6.0	243.56	184.74	394.80	70.35	523.96	31.44	555.40	30.63%	535.00	29.51%
6.5	259.61	198.59	424.41	75.62	561.05	33.66	594.71	30.51%	556.03	28.53%
7.0	259.61	198.59	424.41	75.62	561.[illegible]	33.66	594.71	30.51%	556.03	28.53%
7.5	276.71	213.49	456.24	81.29	600.76	36.05	636.81	30.39%	578.64	27.62%
8.0	276.71	213.49	456.24	81.29	600.76	36.05	636.81	30.39%	578.64	27.62%
8.5	294.95	229.50	490.46	87.39	643.30	38.60	681.90	30.27%	602.95	26.77%
9.0	294.95	229.50	490.45	87.39	643.30	38.60	681.90	30.27%	602.95	26.77%
9.5	314.39	246.71	527.24	93.94	688.86	41.33	730.20	30.16%	629.07	25.98%
10.0	314.39	246.71	527.24	93.94	688.86	41.33	730.20	30.16%	629.07	25.98%
10.5	335.11	265.21	566.78	100.99	737.67	44.26	781.93	30.04%	657.16	25.25%
11.0	335.11	265.21	566.78	100.99	737.67	44.26	781.93	30.04%	657.16	25.25%
11.5	357.19	285.10	609.29	108.56	789.94	47.40	837.34	29.92%	687.35	24.56%
12.0	357.19	285.10	609.29	108.56	789.94	47.40	837.34	29.92%	687.35	24.56%
12.5	380.73	306.49	654.99	116.71	845.94	50.76	896.70	29.81%	719.81	23.93%
13.0	380.73	306.49	654.99	116.71	845.94	50.76	896.70	29.81%	719.81	23.93%
13.5	405.82	329.47	704.11	125.46	905.92	54.36	960.27	29.69%	754.70	23.34%
14.0	405.82	329.47	704.11	125.46	905.92	54.36	960.27	29.69%	754.70	23.34%
14.5	432.56	354.18	756.92	134.87	970.17	58.21	1,028.38	29.58%	792.20	22.79%
15.0	432.56	354.18	756.92	134.87	970.17	58.21	1,028.38	29.58%	792.20	22.79%
15.5	461.07	380.75	813.69	144.98	1,039.00	62.34	1,101.34	29.47%	832.52	22.28%
16.0	461.07	380.75	813.69	144.98	1,039.00	62.34	1,101.34	29.47%	832.52	22.28%
16.5	491.45	409.30	874.72	155.86	1,112.73	66.76	1,179.49	29.36%	875.87	21.80%
17.0	491.45	409.30	874.72	155.86	1,112.73	66.76	1,179.49	29.36%	875.87	21.80%
17.5	523.84	440.00	940.32	167.55	1,191.71	71.50	1,263.21	29.25%	922.47	21.36%
18.0	523.84	440.00	940.32	167.55	1,191.71	71.50	1,263.21	29.25%	922.47	21.36%
18.5	558.36	473.90	1,010.85	180.11	1,276.32	76.58	1,352.90	29.14%	972.36	20.95%
19.0	558.36	473.90	1,010.85	180.11	1,276.32	76.58	1,352.90	29.14%	972.36	20.95%
19.5	595.15	508.48	1,086.66	193.62	1,366.96	82.02	1,448.98	29.03%	1,026.40	20.57%
20.0	595.15	508.48	1,086.66	193.62	1,366.96	82.02	1,448.98	29.03%	1,026.40	20.57%