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Challenges in affordable rental housing delivery: A comparative study between public and private housing institutions in Johannesburg inner city

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CHAPTER 1: INTRODUCTION

1.1 Background

The Housing Act 107 of 1997 of South Africa, Part 1, Section 2 (1) (c) notes that National, provincial and local spheres of government must ensure that housing development:

(i) Provides as wide a choice of housing and tenure options as is reasonably possible

(ii) Is economically, fiscally, socially and financially affordable and sustainable.

Since 1994 the main focus of the government's low-income housing programme in South Africa has been on the provision of a capital housing subsidy to the poorest of the poor to provide households with ownership of a serviced plot and a starter home (McCarthy, 2010). Since 2004, government policy has placed greater emphasis on housing as an aspect of Integrated Human Settlement, and has extended the choice of tenure options available to the very low, low and medium-income households, particularly in better-located parts of the urban environment. (McCarthy, 2010)

Indeed many different housing typologies exist in the cities, such as rented rooms, inner city flats, apartments, rented social housing, backyard shacks in townships and RDP houses in urban townships, and therefore individuals and households have some choice between a wide variety of housing. However the issue of adequacy and affordability of the range of housing options remains in question (Tissington, 2011).

State delivery of housing in South Africa has mostly focused on the provision of home ownership through RDP housing whereas other forms of tenure and types of housing have not been in great focus (Poulsen, 2010). Even though ownership of subsidised houses has contributed a great deal to the eradication of the housing backlog there has been much criticism of this type of housing. One of the criticisms is that it has perpetuated the patterns

of apartheid planning, by providing low-density housing in peripheral townships that locate the poor furthest from the benefits of urbanity (Poulsen, 2010). However, Tissington (2011:64) notes that on the realisation that the existing housing programme, (RDP) resulted in unintended consequences, the National Department of Housing undertook a comprehensive review of the housing programme aimed at providing new policy direction. This resulted in the introduction of a new housing policy in 2004, Breaking New Ground. Another criticism of the RDP programme is that it tends to overlook that the urban population consists of both indigenous residents as well as circular migrant residents, who come to the cities in search of employment opportunities. Poulsen (2010:21) writes that " [h]ousing provision in South Africa has focused on the delivery of ownership houses at the expense of other forms of tenure and types of housing. This strategy presumes that people live close to where they work. However, migrant workers who do not want to own but need affordable accommodation in the city are still prevalent in urban areas". Poulsen (2010:23) further notes that for some migrant workers, it makes economic sense to work in the city and send remittances to the rural areas than to bring a family to the city. Government provides subsidised rental housing through social housing projects. These projects are perceived not to be affordable to the low income people. Poulsen (2010:23) argues that social housing projects are proving expensive to build and manage, and as a result housing units are not affordable for the poor, and only serve the very upper end of the subsidised income level. This therefore indicates that one type of accommodation in demand in the urban areas is affordable rental accommodation. Poulsen (2010) thus notes the problem lies in the limited provision of affordable accommodation.

This research report aims to examine the delivery of affordable rental housing in Johannesburg inner city, and to assess options currently provided by role players in this sector and constraints that are faced in achieving successful delivery of this accommodation. The rationale is that, as the need for affordable rental accommodation in urban areas grows, a greater awareness and understanding of the impeding factors associated with the delivery

of this form of accommodation is needed to provide a perspective for improved housing delivery in cities such as Johannesburg.

1.2 Problem statement

Johannesburg is the largest city in South Africa and the major driving force behind the South African economy (Statistics SA, 2011a). Johannesburg is reported to have 4, 4 million people with the estimated growth rate at 3.18% per year. It has 1, 4 million households with 249 823 households living in informal dwellings (Statistics SA, 2011b). The demographics of Johannesburg are evidence of a large and ethnically diverse metropolitan area (City of Johannesburg, 2013). As a leading metropolitan area, Johannesburg is a gateway for migrants from other provinces across South Africa as well as international migrants (City of Johannesburg, 2013). Other factors such as natural increase, new household formation and decreasing household sizes also have an effect in the demand for city accommodation. City of Johannesburg (2010) concedes that Johannesburg is faced with a housing predicament. The Johannesburg Inner City Charter projects the establishment of "an Inner City Housing Plan [that] will drive the development of many more affordable accommodation units in the inner city" (Housing Development Agency, 2013:17).The expected outcomes are to provide or ensure at least 50 000 (and ideally 75 000) new residential units by 2015, either in the inner city or near to it. On rough estimates of demand it is projected that some 20 000 of these units must be affordable to households in lower income bands if the collective problem of a stressed inner city residential environment is to be solved (Housing Development Agency, 2013:17).

The inner city affordable rental housing supply consists of rented rooms in high-rise buildings, hostels, social rental housing and privately rented rooms and apartments run by large property development companies (Melzer and Moothilal, 2008). The affordable rental market in the inner city has both formal and informal landlords participating in this sector as well as large and small to medium landlord (Melzer and Moothilal, 2008). Informal landlords

are normally found in dilapidated buildings that may have been abandoned by original landlords due to reasons such as failure to sustain and manage rates. Due to desperation for affordable accommodation, people resort to illegal occupancy of these types of buildings. Formal landlords are considered to be legally registered companies or organisations whose involvement in this market is also recognised by the City of Johannesburg.

The purpose of this research is to assess affordable rental accommodation supplied by formal landlords, with the focus on large organisations with a fairly large number of residential buildings or units in their portfolio. This does not mean that small or medium organisations' contribution in this market is overlooked. The main focus of the report is to compare the practice, experience and challenges facing social housing organisations and large private organisations in this market.

1.3 Objectives of the study

The aim of the research report is to examine the delivery of affordable rental housing in the Johannesburg inner city. The research looks at models of affordable rental housing being delivered, the income group being serviced by this housing, and finally constraints faced in delivery of this accommodation. The report takes a form of a comparative analysis between large private and public organisations identified as major participants in Johannesburg inner city affordable rental housing. The study is informed by perceptions, opinions, and information from various key people in the affordable rental market. The specific objectives are:

- To review the current status of affordable rental housing development in the inner city of Johannesburg, in order to establish the extent to which the supply has met the demand.
- To use this insight to investigate factors that impede the successful delivery of affordable rental housing by both large private and public organisations

- To conduct a comparative analysis between large private and public organisations involved in this market in order to find ways of improving the delivery processes.

While the central objective of the proposed research report is not to determine solutions, the anticipation is that this research will add to the existing research on initiatives towards sustainable delivery of affordable rental housing.

1.3.1 Research assumptions, questions and hypothesis

Based on the above, an assumption underlying the research report is that the current supply of affordable rental housing has not met the demand of the target market (McCarthy, 2010). I therefore take it for granted that both private and public organisations are faced with challenges in accomplishing the successful delivery of affordable rental housing.

The research report thus asks the following questions;

a) What is the present status of affordable rental housing development in the Johannesburg inner city?
b) What models of housing are being delivered and which income group are they serving?
c) What are the constraints faced by both private and public organisations in delivering affordable rental housing in the Johannesburg inner city?
d) How have both private and public organisations addressed the challenges identified so far?
e) What options might this insight point to for future affordable rental housing in Johannesburg inner city?

1.4 Research methodology

This section outlines the research design and approach taken in this study. Mouton (1996: 107) writes that a research design develops subsequent to the formulation of the research problem and that the main function of the research design is to enable the researcher to anticipate what the appropriate research methodology should be in order to maximise the validity of the eventual results.

1.4.1 Data collection method

The research report's basis of data collection was empirical research. It was in the form of literature review, analysis of grey literature (unpublished documentation made available by relevant departments and affordable housing organisations) and in depth interviews. The grey literature was relevant documentation from housing organisations such as, the Centre for Affordable Housing Finance (CAHF), Housing Development Agency (HDA), Social Housing Regulatory Authority (SHRA) and archives documentation from Social Housing Foundation (SHF), National Department of Human Settlements, and Gauteng Provincial Department of Housing, City of Johannesburg's Directorate.

In-depth interviews were conducted with key people from selected private and social housing organisations and institutions involved in Johannesburg inner city. The targeted organisations were purposefully selected due to their dominance in this market when taking into consideration the magnitude of residential projects in their business models, the number of housing units delivered as well as the period they have been in the market. The targeted social housing institutions and private rental organisations were; (1) Johannesburg Housing Company (JHC), (2) Johannesburg Social Housing Company (Joscho), (3) Affordable housing Company (AFHCO), (4) Madulammoho Social Housing Company, (5) City Properties and (6) Ithemba Housing Trust. Regulatory and Support institutions targeted were: National Association of Social Housing Organisations (NASHO), National Housing

Finance Corporation (NHFC) and Social Housing Regulatory Authority (SHRA). All of the targeted social housing institutions and private rental organisations are operational in the Johannesburg inner city. In total the study targeted nine (9) organisations for interviewing as per the table below, however due to problems encountered, outlined in the scope and limitations section, only five responses (5) were received. The table below provides an indication of which organisations were targeted for interviews and actual interviewed organisations.

Table 1.0 Planned and Actual interviewed organisations

Name of organisation	Type of organisation	Profit / Non profit	Role in rental housing	Interviewed
Johannesburg Housing Company (JHC)	Social housing institution	Non-profit	Develops and manages social housing	YES
Johannesburg Social Housing Company (Joscho)	Social housing institution	Non-profit	Develops and manages social housing	YES
Affordable Housing Company (AFHCO)	Private rental organisation	For profit	Develops and manages affordable rental housing	YES
Madulammoho Social Housing Company	Social housing institution	Non-profit	Develops and manages social housing	NO
City Properties (Pty) Ltd	Private rental organisation	For profit	Manages rental housing	NO
Ithemba Property Trust	Private rental organisation	For profit	Manages rental housing	NO
National Association of Social Housing Organisations (NASHO)	Government agent	Non-profit	Organisational support for social housing institutions	YES
National Housing Finance Cooporation (NHFC)	Government agent	Non-profit	Provides funding for affordable housing	YES
Social Housing Regulatory Authority (SHRA)	Government agent	Non-profit	Regulatory body for social housing	NO

The aim of the interviews was to draw from experiences and opinions of participants in the proposed organisations. The interviews targeted in particular management representatives from the institutions listed above. Interviews included both closed and open questions. May (2001) indicates that the purpose of open questions is to give respondents freedom to answer questions in a way that suits their interpretation while closed questions limit the number of possible answers to be given. The prospective interviewees were consulted in advance in order to assess any ethical requirements. According to Creswell (2009:177), researchers in qualitative research need to address ethical and personal issues, as they are involved in a sustained and intensive experience with participants. In conducting the empirical data collection, it was ensured at first communication, telephonically or through email, that the participant was fully aware of the status of the research by introducing the researcher as a Masters student in Housing at the University of the Witwatersrand in Johannesburg.

1.4.2 Design and administration of semi-structured interview questions

In social studies, interviews are more popular than many other methods of data collection (Brynard and Hanekom, 1997). According to Brynard and Hanekom (1997: 32) this is so because interviewing allows the researcher to explain questions whenever respondents are not clear about the questions. Interviewing can take any form, such as;

- Formal interviews in which questions are asked in a standardised format.
- Less formal interviews which allow the interviewer to modify the sequence of the questions, alter the wording, explain and/or add to the wording.
- Completely informal interviews whereby an interviewer may raise numerous key issues instead of having a set questionnaire.

- The non-directive interview in which the interviewer takes more of a subordinate role during the interview process to give more room and contribution to the respondent (Mahlangu, 1987: 88).

In this study, the interviews adopted both a formal and less formal approach. They were formal because questions were asked in a standardised format but at the same time, there were some open-ended questions. (See Annexure A for the questionnaire)

1.4.3 Scope and limitations of the study

The study area was limited to the Johannesburg inner city. The election of Johannesburg inner city was based on findings of literature review that indicate great demand of affordable rental housing in Johannesburg inner city. Poulsen (2010:23) writes that despite the perception that only immigrants occupy inner city high-rise buildings "[m]any local people have also chosen to locate in the inner city to gain easier access to employment opportunities, apartments are sublet to make them affordable." The inner city falls under Region F of the seven regions of City of Johannesburg metropolitan municipality. The inner city covers Yeoville and Braamfontein in the north to Marshalltown and Benrose in the South, and Vrededorp and Fordsburg in the west to Jeppestown, Bertrams and Troyville in the east (City of Johannesburg, 2012). The Johannesburg inner city was significant due to it consisting of the three (3) large social housing institutions that are sound and dominant in the market namely; Johannesburg Social Housing Company (Joscho), Johannesburg Housing Company (JHC) and Madulammoho Housing Association. The selection of the three (3) social housing institutions was informed by the archives reports of the Social Housing Foundation (2009) that reported these social housing institutions as the most sustainable in the inner city. Given this reason, it was deemed important that therefore more insight will be gained from their experiences. Due to the level of these organisations and the protocol associated with large organisations, difficulty in securing meetings with the targeted

key people was the main challenge experienced during the data collection of the study. Furthermore, the targeted participants were key personnel in their organisations and these were generally individuals with very busy schedules, which made securing interview sessions a difficult process. Also obtaining the correct contact information for the relevant people involved numerous phone calls and a few emails that were not answered or "bounced" back. Some of the private affordable rental organisations declined participation for the reason that questions asked were confidential business information, while others were of the opinion that researchers have been conducting similar studies, but have not seen any changes in the affordable rental market brought by the results of these studies. As a result they felt no need to participate. For these reasons of inaccessible respondents, the number of responses received against the targeted interviews was two large social housing institutions, one large private affordable rental housing organisation and two regulatory and support organisations. Given the outcome, I acknowledge that the information contained in this research report may be biased in a sense that it predominantly reflects the views of social housing institutions and less of private rental organisations.

1.5 Structure of the report

Chapter one provides a background to the study and introduces the research objectives, questions and assumptions as well as outlining of methodology. The issues regarding obstacles and challenges that were experienced during the data collection process are also highlighted in this chapter. Chapter two examines affordable rental housing, discussing the supply and demand of this sector with the focus study area, Johannesburg inner city. In the chapter, challenges on delivery of affordable rental housing are outlined. Chapter 3 provides an overview of social housing as a government / public programme that addresses the delivery of affordable rental housing. It provides a brief history of social housing development, nationally and internationally. The chapter further discusses challenges facing social housing institutions and housing associations. Chapter 4 presents interview findings

and analysis of the findings. The chapter provides information on the models of affordable rental housing delivered in the Johannesburg inner city, the income groups that are served by the affordable rental housing providers and views on the constraints on delivery of affordable rental housing. Finally, in Chapter 4, comparative analysis of the study findings between private and public rental organisations is drawn. Chapter five outlines the study conclusion and recommendations.

CHAPTER 2- OVERVIEW OF AFFORDABLE RENTAL HOUSING

2.1 Chapter introduction and objective

For various reasons millions of people in developing and developed countries rent, rather than own the housing unit in which they dwell (Gilbert, 2003:1). Rental housing is an important form of housing tenure, providing opportunities and choice for households seeking housing. It comes in many forms in both the formal and informal sectors. Some people live their whole lives in rental housing either by choice or because there are no other options. For others, rental accommodation is an alternative they use for a particular period in their lives for a range of different reasons (McCarthy, 2010).

According to Gilbert (2003:13), in developing countries the general aim of most governments over the last twenty years has been to encourage homeownership. Gilbert (2003:13) indicates that, by so doing, governments have been closing their eyes to reality and perpetuating the myth of the achievability of universal home-ownership, instead of accepting that millions of households live in rental housing and that at some point in their family lives, most people need rental accommodation. While ownership has been encouraged, the rental sector has been neglected, even disparaged (Gilbert, 2003:1)

Rental housing provides access to affordable, well-located accommodation for those who choose not to, or may not be able to, purchase property. It plays a critical role for those who cannot access housing finance, a segment likely to grow in light of the global turmoil in credit markets (which impacts on the willingness of lenders to finance higher risk clients) as well as increasing interest rates in South Africa (Melzer and Moothilal, 2008). Rental accommodation in general provides for greater flexibility and mobility, important considerations for those employed in more elementary occupations where job security is

low. It can also be more affordable than ownership, particularly where there is fractional occupation and sharing of units (Melzer and Moothilal, 2008).

The objective of this chapter is to present a literature review on affordable rental market in South Africa. The chapter discusses a conceptual framework of rental housing, its legislative framework in South Africa as well as the benefits of rental housing. It further provides a literature review on the supply and demand for affordable rental housing, as well as discussion of key factors that inhibit the development of affordable rental market.

2.2 Conceptual framework of rental housing

Rental generally refers to consensual occupation of accommodation on the basis of a rental lease (either written or verbal) in exchange for regular rental payments. However, there are a range of tenure options that are loosely grouped under the concept of “rental” that almost cross the spectrum to ownership. As such, the South African rental market needs to be examined from different perspectives (McCarthy, 2010:17).

In gathering census data, Statistics SA distinguishes between the formal and informal rental sectors however from an economic perspective, the rental sector is classified as falling under the public sector (government-owned or managed) or the private sector. The private sector is then further classified as private non-profit or private for-profit. Affordability, delivery options, tenure, geographic typology and other factors also come in to play in helping to understand the sector (McCarthy, 2010:17). For the purpose of this report, the economic perspective classification of public and private rental sector is adopted. Under public sector rental housing, this report refers to “social housing” and private sector rental housing, the report focuses only on “large corporate landlords”. These classifications are discussed in detail in the following section of the chapter.

2.2.1 Benefits and shortcomings of rental housing

Gilbert (2003:5) writes that whatever the advantages that ownership may or may not bring, hundreds of millions of people still rent their homes. Rental housing (in contrast to owner occupation) has a different emphasis and targets a segment of the population within a specific income group. It provides flexibility and mobility for households and is generally better located and linked to a range of urban services and opportunities (McCarthy, 2010: 20). Rental properties in urban areas generally provide opportunities for higher density developments, which mean better use of urban land as well as reduced transport costs and emissions because of their location (McCarthy, 2010:20). Gilbert (2003) is also of the view that an adequate supply of reasonably priced rental accommodation is likely to reduce the temptation for poor families to mount land invasions or to buy plots in illegal subdivisions.

Formal rental housing requires higher level skills for building, including greater involvement by architects, engineers and skilled builders (McCarthy, 2010). This means that building quality and standards are high, and as such the lifespan expectancy is double that of RDP housing (McCarthy, 2010:20). Rental housing also creates on-going employment opportunities in organisations managing and maintaining the stock (ibid: 21). McCarthy (2010) further notes that for poor residents, proximity and integration underlie improved access to urban opportunities. Being well located means access to employment, transport, urban opportunities and basic services. For the poor, location is often more important than housing quality, as it directly impacts on their livelihood strategy (reduced transport costs, increased access to urban services, increased access to social networks and urban opportunities). This therefore means rental accommodation that is affordable and located close to areas of employment is needed (ibid).

Gilbert (2003:2) notes that rental housing, particularly at the lower end of the market, has often been seen as being shrouded in illegality and as contributing to inner-city decay. Whereas homeownership is a source of pride, happiness and stability, renting is perceived

as providing unsavoury accommodation for the unsuccessful. However, these are myths that should be debunked. While rental housing has social problems such as evictions, overcrowding and tenants exploitation, it has much more potential of providing affordable housing for the poor (Gilbert, 2003). Some of the myths around rental housing are outlined as follows;

Everyone owns in rich countries. There is little relationship between a country's level of economic development and the incidence of homeownership and tenancy. Homeownership is actually lower in many wealthy European countries, e.g. Switzerland, where rental markets have developed to satisfy the needs of any income group that prefers to rent rather than to own.

Everyone wants to be a homeowner. All over the world, people are bombarded with the message that homeownership is the best and indeed the only sensible choice of tenure. Yes, there are big advantages from owning one's own home, but renting also offers its own benefits such as mobility, flexibility, and reduced financial commitments. Yet, many households that could afford to own choose not to.

Homeownership offers people a better life. Ownership is often presented as a superior tenure to renting. People who own are more responsible citizens with closer links to their community and neighbourhood. But homeownership has its problems: maintenance costs have to be borne by the owner household alone, and failure to pay the monthly mortgage payment puts tenure security at risk. Of course, most homeowners were once tenants and perhaps at times in their lives renting offered them what they needed.

Nobody invests in rental housing. Investing in rental housing may not be as attractive to either businesses or governments as it once was. Nevertheless, there are few cities where the rental housing stock has not increased in size. The paradox is explained by the proliferation of small units produced by large numbers of small-scale landlords.

Renting is inequitable. In the days when most landlords were rich and most tenants were poor, the rental housing market was indeed inequitable. Today, however, rich landlords tend to rent to rich tenants, and poor landlords to poor tenants. The landlord-tenant relationship is

often one of mutual benefit and dependence. The real gulf in cities is between rich owners and the poor who can never afford to buy.

Governments should prohibit poor quality rental housing. Many tenants in African, Asian and Latin American cities live in crowded, under-serviced and dilapidated housing, because that is all they can afford. If governments respond by demolishing this housing, it only makes housing problems worse and leads to even greater overcrowding elsewhere. A much better approach is to find ways to improve the quality of the existing shelter and to encourage the construction of more rental housing.

Mobility is bad for you. Poor people often need to move home as their jobs are insecure and they need to go where they can make a living. For some, mobility means survival and the flexibility that rental housing offers is highly desirable.

Homeownership generates political stability. In the USA, tenants were not allowed to vote until 1860, because home-owners were considered to be "better citizens, better neighbours and even better persons." This kind of thinking is still widespread among policymakers today, who see tenants only as transient, poor, unsettled and undesirable characters (Gilbert, 2003:3)

Government in South Africa has responded to challenges in the rental sector through the following specific programmes: These are discussed in detail in the following section, with the exception of social housing which is discussed fully in chapter three of the report as the mainstream government programme for addressing provision for affordable rental housing. Government rental housing programmes are:

- Social housing
- Community residential units (CRU)
- Informal private rentals.

2.3 Legislation, policy and government rental housing programmes

The Rental Housing Act (1999) is a piece of national legislation that regulates rental housing and the relationship between landlords and tenants in all types of rental housing in South Africa. Section 2(1)(a)(i) of the Act stipulates that it is the government's responsibility to "promote a stable and growing market that progressively meets the latent demand for affordable rental housing among persons historically disadvantaged by unfair discrimination and poor persons, by the introduction of incentives, mechanisms and other measures that improve conditions in the rental housing market." (Rental Housing Act (1999) of South Africa)

Section 7 of the Rental Housing Act provides for the establishment of provincial Rental Housing Tribunals to resolve disputes between landlords and tenants concerning "unfair practices". According to section 15(1)(f), unfair practices can *inter alia* relate to: the changing of locks; deposits; damage to property; demolitions and conversions; forced entry and obstruction of entry; house rules; intimidation; issuing of receipts; tenants committees; municipal services; nuisances; overcrowding and health matters; tenant activities; maintenance; reconstruction or refurbishment work etc. Section 14(1) of the Act states that a local authority *may* establish a Rental Housing Information Office to advise, educate and provide information to tenants and landlords in regard to their rights and obligations, as well as to refer parties to the Tribunal and keep records of enquiries to submit to the Tribunal on a quarterly basis (Tissington, 2011:47).

In 2001, Unfair Practices Regulations (amended in 2002) were prescribed by the Gauteng MEC for Housing, and other provincial departments have also passed their own regulations. In 2007, the principal Act was amended by the Rental Housing Amendment Act 43 of 2007, in which section 7 states that the Minister *must* make national Unfair Practices Regulations in consultation with each MEC (Tissington, 2011: 47).

Section 2(3) of the Rental Housing Act stipulates that national government *must* introduce a policy framework on rental housing which sets norms and standards intended to facilitate provincial and local government's efforts to promote rental housing. Further, section 3 of the Act empowers the Minister to introduce a rent subsidy programme to stimulate the supply of rental housing property for low income persons (Tissington, 2011:47).

In the light of the Act requirements, Tissington, (2011:47) argues that it is unclear if the Department of Human Settlements (DoHS) regards its current social/rental subsidy programmes as having fulfilled these obligations. This is important to ascertain, as section 13(4)(c)(iii) of the Act empowers the Tribunal to discontinue "exploitative rentals" and section 13(5) empowers it to make rent determinations having regard to prevailing economic conditions of supply and demand; the need for a realistic return on investment for investors in rental housing; and incentives, mechanisms, norms and standards and other measures introduced by the Minister in terms of the rental housing policyhousing policy framework referred to in section 2(3). Neither the Rental Housing Act nor the Unfair Practices Regulations passed by provinces explicitly define exploitative rental as an unfair practice. The first two factors stated above clearly favour the landlord and in the absence of the third factor – prescribed ministerial norms and standards - at best the Tribunal in determining a reasonable, non-exploitative rental is restricted to considering whether a rental is so far in excess of an ordinary market-related rental as to be exploitative (Tissington, 2011:48).

The Rental Housing Amendment Act in 2007 made a number of important changes to the Act, including criminalising "constructive evictions" i.e. illegal cut-offs/disconnection of services, and removing the power of the Tribunal to evict tenants. Also important is that tenants have the right not to have their possessions seized unless by a Tribunal ruling or an order of court. Landlords have *inter alia* the right to prompt regular payment of rental, or any charges that may be payable as part of a lease, and can recover unpaid rental or other

amounts due after obtaining a ruling by the Tribunal or an order of court. They have the right to terminate a lease on grounds that do not constitute an unfair practice and are specified in the lease. However, a landlord must give a tenant at least two months written notice of an intention to increase rental (Tissington, 2011:48).

2.3.1 Community residential units (CRU)

Another policy framework in the rental housing is the Community Residential Unit Policy Framework and Guidelines of 2006. The community residential unit policy framework and programme guidelines were developed in November 2006. The community residential units programme, which replaces the national hostel redevelopment programme, intends to provide rental accommodation to very low income households who are currently underserved and accessing informal rental housing opportunities. In line with the national rental housing strategy of 2006, the aim was to deliver 100 000 rental units by 2010, 25 000 of which will be community residential unit stock (McCarthy, 2010).

The introduction of the community residential programme was intended to encourage more efficient and effective management of the existing public stock while helping provinces and municipalities to develop new stock using their own land and existing buildings. The development of new stock and refurbishment of existing stock is financed through the provision of a government grant covering the full physical development costs of rental stock that must then remain in the ownership of provincial or local government. The operational management and administration costs must be covered through the charging and collecting of Economic Cost Recovery (ECR) rentals. Community residential unit programme is intended to assist in the financing of the development of new rental stock for households on incomes between R800 and R3 500 per month (McCarthy, 2010:26).

Funding of community residential unit capital costs is through a government grant, while the administration and management costs are financed through the setting and collecting of

economic cost recovery rentals. The community residential unit grant covers the total cost of the planning and development of community residential unit housing projects. It also includes amounts to cover community consultation around the project; any demolition of existing buildings that may be required; decanting of people living in buildings targeted for demolition or redevelopment as part of a community residential unit project; and assisting with the preparation of tenants for the completed stock. The intention is to cover these costs so that they do not have to be included in the rental charges. There is also grant provision for the longer-term planned maintenance of the stock after five years if properly managed (McCarthy, 2010:26). All administration and management costs must be included in economic cost recovery rentals charged to the tenants and paid by them. The challenge is to manage these operational costs to ensure that the rentals are affordable to the target income group (McCarthy, 2010:26).

In terms of ownership, this stock is owned by and remains in the ownership of the municipality or the province. The stock and linked tenancies can be managed by a municipality, a social housing institution or management agent (McCarthy, 2010:27). The author comments that a critical success factor in these projects is ensuring that a competent and properly resourced management agency is identified and involved from the beginning of any community residential unit project. Development of community residential unit projects can take the form of greenfield, infill, refurbishment of existing buildings including hostels and redevelopment of existing buildings (McCarthy, 2010).

Location of development is not restricted to restructuring zones. Housing Development Agency (2010:9) defines restructuring zones as “geographic areas identified for targeted investment based on the need for social, spatial and economic restructuring of the areas.” However, given the large amount of subsidy per unit, it is important that the investment also assists in providing low-income households with access to rental housing opportunities in physical locations that ensure easy access to socio-economic opportunities. The major

intention is to have medium- and higher-density developments that maximise the use of scarce land. Therefore community residential unit developments should be designed with layouts that encourage social cohesion. The programme is designed to provide for a variety of accommodation options in order to facilitate and address access by the low-income target market (McCarthy, 2010). Another advantage of community residential unit projects is the allowance to include other tenure such as transitional, communal and self-contained units either separately or in combination. The programme however is reported to be experiencing challenges, key challenges outlined as follows;

- Lack of developed institutional capacity to manage the completed stock
- Danger of spending too much on refurbishment and not creating new housing opportunities
- Lack of structured capacity to manage the programmes within provinces
- Spending too much on large units and so reducing the number of households benefiting
- Spending large capital amounts in areas with poor locational advantage
- Poor contract management of project design and construction
- Lack of capacity to monitor and evaluate the management of the stock over its lifespan
- Over-concentration on this as a subsidy for hostel redevelopment and neglecting the potential of other forms of development.

2.3.2 Informal private rental

Unsubsidised low-income private rental is an increasingly important component of the housing rental sector. An important, but largely unacknowledged sector in South Africa is the small-scale landlord (McCarthy, 2010). Low-income private rental is significant, efficient, and effective, in providing poor people with affordable accommodation that is well located. Significantly, low-income private rental also provides a significant income for many poor

households. Numbers demonstrate that low-income private rental has provided more accommodation for poor households than the housing subsidies to date (Carey, 2009:2).
Carey (2009:12) notes that data sources differ, but regardless of which figures are used, shack rentals comprise a significant proportion of the rental market: Statistics SA , census (2011) indicates 249 823 number of households living in informal main dwelling in Johannesburg (Statistics South Africa, 2011c).

However, despite the evidence, low-income private rental is viewed negatively. It is associated with informal housing, and as such is seen as illegal, exploitative, bad, inadequate and linked with slums and disorder. Government responses to low-income private rental have been limited to date, despite Breaking New Ground (BNG) supporting this form of rental and advocating for further exploration of this market (Carey, 2009: 2).

On the other hand, McCarthy (2010:28) notes that the government is presently undertaking policy research on possible support of this sector. However, as yet there is no coherent government policy or developed programmes in this sub-sector in the rental market. The developing policies and implementation mechanisms are concentrating on how to stimulate the development of private sector backyard and shared accommodation rentals that provide decent basic accommodation as well as enhancing security of tenure for tenants. Some governmental initiatives at provincial and municipality level have been piloted such as the Gauteng backyard rental programme. One of the objectives of this programme was to eradicate informal backyard structures and to replace them with structures that are compliant with the minimum norms and standards approved by the Gauteng Department of Housing and formalise informal backyard rental in Gauteng (McCarthy, 2010:28).

This programme envisaged an affordable rental accommodation grant to be given to qualifying landlords to repair or rebuild backyard accommodation. The Department of Housing would have first right of refusal should the landlord wish to sell the property, but the

beneficiary is required to stay in the property for five years before selling. No further shacks can be built in the backyard. The relationship between landlord and tenant is regulated in terms of the Rental Housing Act of 1999 as amended. Should the landlord cancel the lease, he/she will be obliged to enter into another lease agreement with a tenant relocated from another property. However the pilot survey outcomes indicated challenges which need to be addressed for a better programme going (McCarthy, 2010:29).

2.4 Outline of demand and supply of affordable rental housing in South Africa

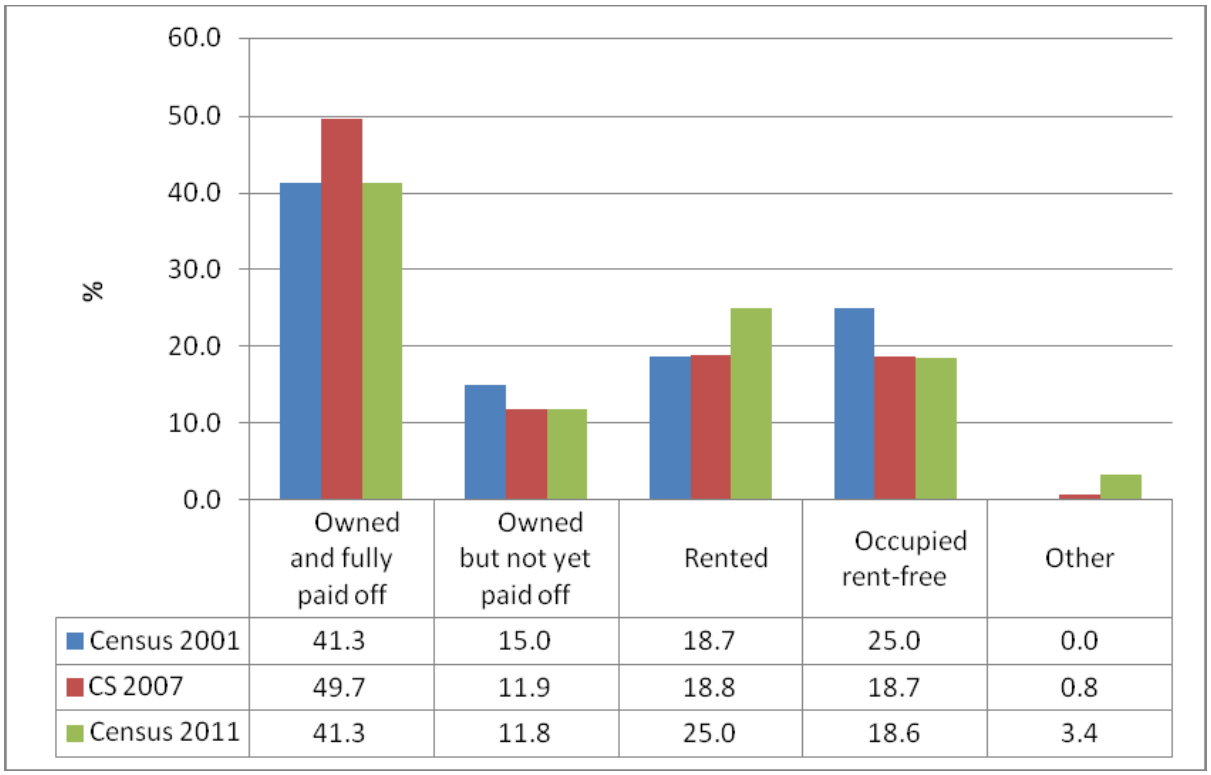
2.4.1 Demand for affordable rental housing

Demand for rental accommodation is not only a function of income, but also of the availability of infrastructure, easy access to places of work, and an array of other factors (McCarthy, 2010). Rust (2006:10) notes that an understanding of housing pressures in South Africa depends on an analysis of demand; which is analysis of who, throughout the income spectrum, wants what kind of housing, and critically, who, given low levels of affordability, lacks even the most basic accommodation. Rust (2006) advises that there is lack of distinctive study on the demand for rental housing in South Africa.

On the other hand, Tissington (2011) reports that demand for rental accommodation is likely to grow strongly in the City of Johannesburg, City of Cape Town, Ekurhuleni and Tshwane. Within these markets significant growth in demand for rental accommodation is strongest in lower income market segments. In Johannesburg alone Tissington, (2011) notes the estimated demand for rental housing will be 317 000 units, with 81 000 units in the low-income band. Statistics SA (2011b) thus confirms the afore-mentioned growth in demand for rental accommodation. It reports that nationally the proportion of households that live in rented accommodation increased from 18.7% in 2007 to 25.0 % in 2011.On a provincial level, Statistics SA (2011b) reports Gauteng to have the highest proportion of households in rented accommodation at 37.1% while 41.2% of households in the City of Johannesburg municipality are renters. Figures 2.1 and 2.2 below illustrate these rental housing numbers.

From these figures there is an indication of a general decline in the proportion of households that own their dwellings and an increase in the proportion of households whose dwellings are rented. Furthermore, table 2.1 below provides a summary of City of Johannesburg statistics of population size, growth rate and household numbers.

Figure 2.1: National percentage distribution of households by tenure status: Censuses 2001, 2011, and Community Survey 2007



	Owned and fully paid off	Owned but not yet paid off	Rented	Occupied rent-free	Other
Census 2001	41.3	15.0	18.7	25.0	0.0
CS 2007	49.7	11.9	18.8	18.7	0.8
Census 2011	41.3	11.8	25.0	18.6	3.4

Source: Statistics SA Census (2011) release P0301.4

Figure 2.2: Percentage distribution of households by tenure status and district municipality census 2001 - 2011



Source: Statistics SA Census (2011) release P0301.4

Table 2.1: City of Johannesburg population and household statistics

Description	1996	2001	2011
Total area of city of Johannesburg			1,645 km2
Population density			2696 persons/km2
Total Population	2 638 471	3 226 055	4 434 827
Household population	2 544 846	3 119 151	4 132 148
Number of households	732 845	1 006 910	1 434 856
Average household size	3.6	3.1	2.9
No of households in formal main dwelling	561 885	779 720	1 167 935
No of households in informal main dwelling	155 467	212 693	249 823
No of households in traditional dwelling	3 127	11 701	5 626

Source: Statistics SA, Census 2011, Municipal report No. 03-01-55 Gauteng

Carey (2009:15) notes that in the inner city areas, demand for low-income rental housing outstrips supply. The demand is driven by two factors: a desire to live in the inner city because of its locational advantages, as well as the undersupply of housing stock to cater for the gap market (people who earn above the subsidy bands, but who cannot buy any stock at a mortgage they could afford). Demand for rental accommodation is also influenced by other factors such as interest rates and access to mortgage rates. Pattison, Diacon and Vine (2010:32) comment that social drivers such as demographic and lifestyle changes are relatively slowly moving and most likely to have a cumulative impact over many years on the rental housing system of the United Kingdom. Pattison et al (2010) note that economic drivers can change more quickly and there is clearer evidence of their likely impact on the private rented sector. Rents have increased in line with earnings over the last fifteen years whilst both house prices and mortgage costs have increased much faster. This has increased the affordability of private renting relative to owner occupation. The timing and scale of this change in affordability suggests it could be a significant factor in the relative growth of the private rented sector. However, Pattison et al (2010:7) caution that, in light of the observed trends towards high demand of rental accommodation, there is a need to ensure that private renting is able to meet the requirements of the households who would prefer to live in other tenures.

2.4.2 Supply of affordable rental housing

Reliable data on supply of rental market from both public and private rentals organisations is not readily available (Melzer and Moothilal, 2008). In the private sector, lack of reliable source of data could be due to the fragmentation of the sector and possible withdrawals of the institutions from the market in the past years. McCarthy (2010) notes that even though there is no reliable figures on supply of rental accommodation, estimates of supply indicate that supply does not meet demand in terms of annual household growth nor does it support affordability thresholds of the various sub-markets.

Rust (2010) also notes that South Africa has an undersupply of rental housing which has been clearly recognised by policy makers. Government has committed itself to the delivery of 80 000 rental units by 2014. It is estimated that 24 132 of these will be social housing, a further 8 487 will be institutional housing and 26 600 will be private rental (including small-scale and larger, corporate sector landlords) (Rust, 2010:5). Gardner (2010) notes the limitation in the current national human settlements programme as the shortfall in the delivery of affordable rental accommodation. The author notes that the social housing and the community residential unit programmes provide limited new affordable rental housing stock to the market. According to Gardner (2010) supply shortages exist in the rental market right up to R3000 plus monthly rental level. It is therefore important to note that lack of analytical data on supply of rental accommodation is likely to pose a challenge in the assessment of the rental market performance.

2.5 Johannesburg inner city affordable rental accommodation

Johannesburg city was established after the discovery of gold, since then, many sectors of society has perceived it as a place for better opportunities (Poulsen, 2010). Johannesburg as the economic powerhouse of South Africa and increasingly the rest of Africa, as well as making its mark globally continues to attract migrants from the rural areas, immigrants (both legal and illegal) from neighbouring states and beyond: all seeking fame and fortune, business opportunities, employment, education and an escape from poverty (Poulsen, 2010:21). As a result Johannesburg has become a city of excessive wealth and extreme poverty, a city of great diversity and disparity, but nevertheless a city of hopes and dreams (ibid). Poulsen (2010:22) notes that Johannesburg displays many of the characteristics of western cities. A CBD with adjacent high-density high-rise flatland neighbourhoods, surrounded by suburban sprawl and subsequent decentralised commercial nodes, but Johannesburg also has the added characteristics of the racially segregated apartheid city. Since the early mining days, the city has been divided into the wealthy northern and poorer

southern suburbs by the industrial mining belt that runs east/west through the city (Poulsen, 2010). The author writes that “a journey through Johannesburg traverses extreme models of housing and urban neighbourhoods. From enormous houses with vast landscaped gardens in tree lined avenues, to shacks sitting shoulder to shoulder separated by muddy paths. From high-rise high density blocks of flats in the inner city, to low-rise suburban sprawl” (Poulsen, 2010:22).

In the inner city, rental housing was used by white middle class workers during the apartheid regime (Beavon, 2003). Beavon (2003:221) writes that “[by] 1985 the housing shortage for African people in the Johannesburg area was estimated to be between approximately 121200 and 141600 units. It was not long before numbers of black people felt they had no choice but to move into the relative calm and better accommodation to be had in the inner city.” Beavon (2003) notes that during that time, landlords and property owners abandoned their responsibility of maintaining and ensuring that services were working in their buildings, instead they were more concerned about ways of creating and collecting revenue. Beavon (2003:221) outlines the whole transformation. The author notes that from surveys, it was observed that the majority of the African people that moved into the central city were either low-income employees, under- employed or even unemployed people. Beavon (2003:221) notes that given their circumstances, the majority of them could not afford to pay rent, water and electricity. By the late 1980’s, the area had changed, and Johannesburg newspapers carried report of terrible conditions in Hillbrow and the inner city (Beavon, 2003:222). The reports were that residents were refusing to pay for electricity and water, electricity had been cut off completely in some buildings and blocked sewer pipes were not being cleared. Beavon (2003:222) notes that the impression created by the press was that the law-abiding middle class white people had been replaced by unemployed , lower class, lawless vandals and that the whole area had been transformed into a giant new slum. Landlords of the buildings claimed that they could not maintain the buildings because African tenants refused to pay economic rents, engaged in vandalism and took in sub-tenants creating

overcrowding. However, Beavon (2003:222) contends that landlords aggravated the situation as they were only interested in collecting rents and not maintenance of the buildings, as their interest in investing in the buildings had diminished. Some landlords appointed what was called "head lessors" who collected whatever rent could be collected using any method, and the head lessors paid landlords an agreed fee, and kept the rest of the revenue. In that form of agreement, the head lessor had no responsibility for maintaining and managing the building, and the landlord had no reason to be seen close to that building (Beavon, 2003:222). This created distant and absent landlords, and thus had a negative impact in the whole area. Consequently, by the end of 1980s, building societies and financial institutions had begun to redline area (Beavon, 2003:224).

Poulsen (2010:23) notes that the problem in Johannesburg inner city lies in the limited provision of alternative accommodation that is affordable. Apartments are sublet to make them more affordable and often several households share one apartment. This has resulted in extensive deterioration of the buildings as overcrowding puts a strain on the services and a lack of management and maintenance aggravates the situation (Poulsen, 2010:23)

However it is argued that when the new democratic government came into power in 1994, it did not focus on rental housing and its problems as a way of housing for the poor, instead it emphasised the delivery of mass housing in Johannesburg's peripheral areas (townships), through the RDP programme (Poulsen, 2010). It is only in 2004 ,with the introduction of Breaking New Ground Housing Policy , when government reconsidered the relevance of affordable rental housing as another way of housing delivery for the poor (Tissington, 2011).

2.5.1 Landlord typology in Johannesburg inner city

In order to understand the constraints of delivery of affordable rental accommodation in Johannesburg, a proper identification of landlord typology must be made (Rust, 2006). Identification of landlord typology will assist in determining strategies and interventions that

can be applied in order to increase the supply of affordable rental accommodation. For instance, acknowledging that large organisations are mostly motivated by profit gains in the rental housing, it therefore becomes effective to provide interventions that will make inner city rental market profitable to large organisations. Melzer and Moothilal (2008) determine and categorise landlord typology in the inner city according to;

- Sectorial Profile of landlord-(public, private, non-profit, community).
- Nature of Landlord -(large-scale, small-scale, household scale)
- Primary Motivation of landlord -(profit, not for profit)
- Target Market of landlord- (low-income, high-income)

Based on the above, Johannesburg consists of the following types of landlords;

- Social Housing Institutions
- Public Rental Institutions
- Large Corporate landlords
- Company landlords
- Small Private landlords
- Individual landlords
- Household landlords

Johannesburg's inner city rental accommodation is dominated by large corporate landlords (Melzer and Moothilal, 2008). These types of landlords provide rental accommodation in high-rise building blocks of flats, which either existed as residential or have been converted from office to residential units. Large corporate landlords' primary motivation is profit gains, therefore incentives such as accessibility of below-replacement building stock for conversion or refurbishment purposes will attract these landlords in the rental housing. The large corporate landlords' target market is low-income groups as these landlords are able to invest in a large number of units, from 1000 units upwards. The second dominant inner city landlord is Social Housing Institutions (SHIs). A significant number of Social Housing Institutions have emerged in South Africa since the introduction of the institutional subsidy

mechanism in 1995. According to the Social Housing Regulatory Authority (SHRA) as at April 2013 there are 18 accredited social housing institutions nationally; Gauteng shows the highest number of social housing institutions mostly involved in Johannesburg inner city (see Annexure D for list of accredited social housing institutions produced by SHRA). Social Housing Institutions are non-profit landlords, with the motive to procure, hold and manage housing stock to be affordable in a long-term. The institutions' target market in terms of income ranges and type of accommodation is similar to large corporate landlords and would similarly benefit by acquiring low priced building stock for residential units. Unlike the large corporate landlords, social housing institutions highly dependent on subsidies for financial support, and that is the major inhibiting factor for their successful delivery of units (Melzer and Moothilal, 2008). To some extent, large corporate landlords are also faced with financial constraints in the form of securing loans from financial institutions; however they are not bound by the subsidy regulations and requirements and therefore can mitigate their risk by adopting mixed income residential units. The following section of the chapter discusses factors that impact on the delivery of affordable rental accommodation.

2.6 Challenges of supply of affordable rental housing

McCarthy, (2010:16) notes that rental housing market participants, (including landlords, financiers and property managers) have noted constraints of investment in the rental housing sector that include poorly-aligned regulations and legal institutions that together create lengthy and expensive processes related to evictions, inefficient, insufficient and expensive municipal service delivery, and delays in gaining access to properties. However, on the positive side, social housing policy now exists to enable the development of the low-income rental sector. Policy is supported by favourable tax incentives such as the urban development zones (UDZ) to encourage greater private sector investment.

Melzer and Moothilal, (2008) indicate that other challenges of rental accommodation are the long lead times to bring stock to the market. Lack of suitably located, serviced and affordable land for new housing development is also viewed as the major inhibiting factor. Melzer and Moothilal, (2008) note that providers and other market participants cite several other factors that impede the functioning of the rental market, particularly in lower income sub-segments as follows :

The macro or institutional layer: This includes the policies, regulations, laws and institutions that govern the conduct of various providers of rental accommodation. This layer primarily seeks to balance the rights and duties of tenants and landlords, to encourage the creation of rental stock through various incentives and to provide mechanisms to create affordable rental stock for those unable to access accommodation at prevailing market rentals.

It is believed that the alignment of this layer with the needs of investors is arguably the most critical determinant of market participation in the rental sector. In order to succeed in encouraging private investment in the rental sector greater emphasis must be placed on ensuring that it is attractive, therefore a balanced legal framework, balancing the landlord's and tenant's rights and duties relating to issues such as eviction, maintenance, rent setting and rent increase, payment of taxes is the critical condition to attract private investors (Melzer and Moothilal, 2008).

In discussing the regulations and laws that deal with rights and duties of landlords and tenants, Tissington (2011) refers to the Rental Housing Tribunal. Tissington (2011:4) notes that the busiest of all rental tribunals is the Gauteng rental tribunal. Section 7 of the Rental Housing Act provides for the establishment of provincial Rental Housing Tribunals to resolve disputes between landlords and tenants concerning unfair practices (Tissington, 2011:18). Tissington (2011:4) notes that according to a recent report by the tribunal, it was formed during a time when the rental housing sector in Gauteng was characterised by a high number of disputes between landlords and tenants ;a lack of maintenance to rental property, particularly multi-tenanted buildings; the invasion of buildings by unscrupulous tenants

committees, civic organisations, so-called estate agents and security firms; the failure of local authorities to enforce their own by-laws; estate agents contravening the Estate Agency Affairs Act and its code of conduct; and a general decay in living environments. Since 2001, the Tribunal's case load has increased from 551 cases per year to 2 021 cases per year in 2009, with 84 percent of these cases occurring in Greater Johannesburg (mostly in the inner city). The majority of these cases have been related to unlawful evictions (35 percent), non-refund of deposits (13 percent), disputed utility charges (12 percent), disputed rental charges and rental determinations (10 percent), and lack of maintenance (10 percent). As private landlords do not have to look for tenants, as the demand for accommodation is insatiable, they are de-incentivised from fully complying with legislation/regulations and treating tenants fairly and appropriately (Tissington, 2011:4).

The most concerning issue amongst the above mentioned is the regulations and processes relating to evictions, which most landlords consider inefficient and expensive (Melzer and Moothilal, 2008). The most expensive scenario is the case where occupants of an entire building need to be evicted either because the building has been hijacked or because a new owner wishes to refurbish. In the case of single units, while each case differs, landlords report that it typically takes between six months and one year to evict a tenant through the courts and for a group of tenants it takes years (Melzer and Moothilal, 2008). During that time landlords receive no rent and usually have to continue paying for services, rates and taxes as usual. Investors and landlords characterize tribunals as not "having teeth", due to their incapacity to give an eviction ruling. Secondly they are perceived to lack consistency across the country both with respect to the capacity of the tribunals as well as the rulings they make, which creates confusion in terms of the capacity of the Rental Housing Tribunal.

The support layer: This layer comprises the entities that facilitate the functioning of the market for rental accommodation and support the activities of the providers as well as players at the macro level (Melzer and Moothilal, 2008). Participants in this layer include providers of housing finance and market information as well as entities that provide key

services such as municipalities, property management companies and legal professionals. Services delivered by municipalities are criticised as poor, particularly in the inner city of Johannesburg; the issues range from long delays in responding to reported problems to incorrect billings (Melzer and Moothilal, 2008). The role of municipalities in releasing stock for development is noted to be unfavourable to the rental market. Melzer and Moothilal (2008) note that the costs of buildings suited to refurbishment or conversion have escalated significantly, particularly in inner city Johannesburg. This has been aggravated by the collapse of the Better Buildings Programme which was viewed as a positive intervention by investors and inefficient by other parties (Melzer and Moothilal, 2008). The role of the Better Buildings Programme on the supply of rental housing in the inner city is discussed in the following section. McCarthy, (2010:16) comments that clearly demand for rental accommodation will grow, however government chooses to respond. It is also increasingly recognised that the rental sector can make a huge contribution to urban integration, restructuring of apartheid planning in urban areas, and poverty alleviation. However, the formal rental instruments that are currently available do not meet the needs of the majority of the urban population (McCarthy, 2010).

2.7 Programmes that impact on affordable rental housing in South African cities

Urban regeneration strategies

In the South African context, urban regeneration is a process that was initially primarily led by property owners and the business sector concerned to protect their investment in CBD areas suffering from urban decay. At the beginning of the 1990s these stakeholders started implementing Community or Business Improvement Districts (CIDs and BIDs) as a key mechanism to tackle CBD urban decay. This required municipal involvement through partnerships in jointly tackling issues of ‘crime and grime’ (Housing Development Agency, 2013). This process of lobbying for more municipal accountability in order to restore confidence and create an enabling environment for investment had some success. The three spheres of government added urban regeneration to their agenda – with a varied

commitment – and this process ended notably with legislation on urban development zones and community improvement districts. Urban development zones programme can be considered as the only piece of policy related to urban regeneration established at a national level. Community improvement districts legislation and policy has happened within the Provincial and Municipal spheres of government (Housing Development Agency, 2013:13)

It is noted that metropolitan municipalities have taken the primary leadership role in establishing urban regeneration strategies to help reverse the decline of their urban centres, protect their asset base and support their own fiscal objectives. Their interventions have generally concentrated on supporting public private partnerships for property owners to tackle 'grime and crime' and infrastructure investment as a way of drawing on increased private sector investment. Most of these plans and strategies are either silent on the role of affordable housing or at best vague keeping it to statements within broad policy objectives. However the City of Johannesburg is considered to be the exception. (Housing Development Agency, 2013:14)

In the 1990s, the inner city of Johannesburg faced a big challenge with a high quantity of dilapidated buildings in the CBD. The existence of strong associations working on affordable housing in the inner city (in particular COPE and Johannesburg Housing Company) has probably also played a role. The Central Johannesburg Partnership established in 1992 was responsible for some far-reaching initiatives in terms of housing. The first one was the establishment of the Inner City Housing Upgrading Trust – which later became the Trust for Urban Housing, which aims to drive inner city investment by helping potential investors become property entrepreneurs. (Housing Development Agency, 2013:14)

The second one was the establishment of the Johannesburg Trust for the Homeless (JTH) through which the first transitional housing model in the city was developed. In 1998, the newly established inner city office, put housing on its agenda. Two of the priorities were the

development of a social housing policyhousing policy (which has never been developed) and a programme to address 'Bad Buildings'. Housing Development Agency, (2013) indicates that there was a shift after the mid-2000s in attention given to affordable housing delivery in inner cities. The Inner City Charter, in 2007 in Johannesburg and the Central City Development Strategy written in 2006 by the Cape Town Partnerships both balance concerns for growth with social considerations. In both documents, affordable housing has been prioritised. The Johannesburg Inner City Charter projects the establishment of 'an Inner City Housing Plan [that] will drive the development of many more affordable accommodation units in the Inner City'. (Housing Development Agency, 2013:17)

Bad/ Better Buildings Programme (BBP)

The Bad Building Programme, better known as the Better Building Programme (BBP), was launched in 1999, and ended in 2007, replaced by the Inner City Property Scheme. The BBP aimed to identify buildings that were in a particularly bad state of repair and particularly those where the amount of arrears in rates and service charges exceeded the value of the building. In this latter case, the Council would take over (through rehabilitation or demolition) the building and hand it to the private sector (if a private investor is willing to buy a derelict building, the city scraps the arrears). The first social housing schemes in the city developed by social housing institutions, such as the Johannesburg Housing Company and Cope Housing Association, and latterly Madulammoho, have benefited from this programme – in the days before the restructuring capital grant. However, after early successes, the programme went into decline and there is currently discussion about a similar such programme in the city. (Housing Development Agency, 2013:17)

2.8 Chapter conclusion

This chapter discussed literature on the status quo of affordable rental housing in South Africa, with the main focus on Johannesburg inner city. Factors impeding the development and growth of affordable rental were outlined. Challenges mentioned are mostly regarding

funding and costs of rates in the inner city. Poorly-aligned regulations and legal institutions that together create lengthy and expensive processes related to evictions, inefficient, insufficient and expensive municipal service delivery, and delays in gaining access to properties were mentioned as the major impeding factors.

What emanates from the discussion is that there is a need to encourage investment and development of affordable rental housing in Johannesburg inner city. While urban regeneration strategies do encourage rental accommodation growth in cities, the observation is that they are not having enough impact. Furthermore, the literature review showed the importance of affordable rental housing in the livelihoods of poor households. It indicated that rental housing, if supported fully can contribute significantly to the supply of mainstream housing in South Africa. It can contribute towards alleviating current housing shortages in urban housing.

CHAPTER 3- OUTLINE OF SOCIAL HOUSING

3.1 Chapter Introduction and objective

Social housing is a significant feature of many European housing markets. It is defined as good quality housing provided through state subsidies for the low-income groups (Rust, 2012). Social Housing in South Africa is defined as: “a rental or co-operative housing option for low to medium income households at a level of scale and built form which requires institutionalised management and which is provided by social housing institutions (SHIs) or other delivery agents in approved projects in designated restructuring zones with the benefit of public funding*”* (Social Housing Policy of South Africa, 2005).

This chapter provides a literature review of social housing; its historical development, its target market and the challenges faced by the social housing sector. The chapter provides a brief historical overview of social housing by looking at the international and South African context. From the international perspective, the focus is on the European countries where there is a similar mode of social rented housing, in particular the Netherlands and the United Kingdom. Rust (2012) notes that South African social housing institutions have been influenced by the models operating in these countries as a result of the extensive technical assistance that has been received from the Dutch and Britain during the formative period in the 1990’s. In consequence, it is expected that the discussion will provide insights for the South African social housing sector.

3.2 Historical development of social housing

Social housing is said to have its origin in Europe hundred years ago (Bertoldi and Reid, 2010). According to Harloe (1998: 41) “the origin of social housing dates back to the nineteenth century and its major growth has occurred since”. Harloe (1998) further notes that there are different causes for the rise of social housing in different contexts: regardless of

these different causalities, social housing is generally targeted for low- income groups. Harloe (1998) indicates that the major aspect of social housing is that it is provided by landlords at prices that are not primarily determined by considerations of profit

3.2.1 Background of social housing in Europe

Rust (2012) notes that social housing in Europe developed intensely after both the first and the second world wars due to housing needs during post-war reconstruction periods. Priemus and Dieleman (1997) note that in most of the Western Europe countries after the Second World War, governments embarked on social housing programmes. At the same time much of the investment went into the reconstruction of infrastructure and industries. Governments intervened through rent control legislations and subsidies because scarcity of housing increased housing prices beyond the affordability of the masses (Priemus and Dieleman, 1997). At the time, the purpose was to increase housing provision for the masses and achieve economies of scale in order to reduce construction costs. The result was that social housing built form was very easily distinguishable: "Entire districts consisting of monotonous high-rise social rented dwellings" (Priemus and Dieleman, 1977:422). The provision of social housing in Western Europe peaked in the 1950's and 1960's, and in some countries like Britain, the Netherlands and Sweden continued into the 1980's (Priemus and Dieleman, 1997). The Netherlands social housing sector is now the largest in Europe. In 1993, about 41 % of the Netherlands' total housing stock was in the social rented sector (Smith and Oxley, 1997). In terms of supply of social housing stock in the Western Europe, Priemus (1997) notes that countries with the largest numbers of social housing stock are Germany, UK, France and the Netherlands, however the countries with the largest proportion of social housing as a percentage of the total housing stock in Western Europe are the Netherlands, Sweden, UK, Denmark, France and Germany. Whitehead and Scanlon (2007) also confirm that the social housing rental stock in Netherlands is one of the largest in Europe after France and the UK. Whitehead and Scanlon (2007:130) write that "Nowhere else in Europe does social housing dominate the housing market as it does in the

Netherlands. Over one third of all households rent a social-sector dwelling". Petitjean (2011:4) writes that the concept of social housing varies from one member of state to the next, as evidence by different terms used by states. It is referred to "housing at moderate rent" in France, "not –for-profit housing" in Denmark, and "people housing "in Austria. The author is of the view that this heterogeneity which results from the different national histories and cultures as well as the absence of a common framework at European level affects the level of principal characteristics of social housing namely; its financing, target population, allocation criteria, ambitions and management (Petitjean, 2011:4).

3.2.2 Overview of the social housing sector in the Netherlands

Looking briefly at the development of social rented housing in the Netherlands, Priemus (2003) posits that the sector experienced an exponential growth after the Second World War when its overall market share represented 41% of the housing stock. However the shifts in housing policies and strategies after 1990 have reduced the market share of social housing to about 37% which is still large compared to other European countries. Priemus (2003) argues that the Netherlands rental market can be considered a unitary rather than a dual rental market. The author notes that while the Dutch social rental sector might be considered to be anti-market it still conforms to market principles. Priemus (2003) notes that the rapid growth of the social rented sector in the Netherlands has been prompted by a range of factors: Firstly, between 1945-1990, the Netherlands had an acute shortage of housing and policy instruments and strategies focused on addressing the housing shortage through mass housing (Priemus, 2003). Whitehead and Scanlon (2007:133) write that "In the period after WW II, housing shortages led the government to take a leading role in the planning and construction of new housing". Secondly subsidies also explain the growth of the social rented sector in the Netherlands. After 1945, housing production was heavily subsidised. Alongside rent regulations, allocations were also made to produce dwellings for current and future generations of tenants. Priemus (2003) notes that subsidies and renting were like twins: that subsidising owner occupation would only have helped the first

subsidised buyers. For the next generation (of non-subsidised) buyers, the affordability of housing would not have been guaranteed (Priemus, 2003:329). The author's argument is that what qualifies social housing to be considered social are the below market rentals charged to tenants. When rents are pegged to the market-rates, the social element of the social rented sector is erased (Priemus, 2003).

Whitehead and Scanlon (2007) similarly undertook a study on the social housing sector in the Netherlands. Whitehead and Scanlon (2007:130) report that of a total of 6.8 million dwellings in the Netherlands, in 2005, some 2.4 million were social rented dwellings owned by housing associations. Housing associations own almost all social housing with only a few numbers of municipally-owned dwellings. While the total amount of social sector dwellings has remained constant since 1995, their share in the total housing stock has slowly decreased from 39% to 35% (Whitehead and Scanlon, 2007:130). Though social housing is more common in urban areas, all municipalities and provinces in the country contain a significant amount. In cities such as Rotterdam and Amsterdam, about 55% of all dwellings are social rented, while even in remote and less populated provinces like Drenthe and Zeeland, over 25% of housing is social rented housing (ibid). It is important to note that, unlike in some countries, where social housing landlords do not often purchase housing; housing associations in the Netherlands freely buy and sell their dwellings. They may buy from or sell to individual households or other landlords for a variety of reasons - in particular to improve their own financial position or to spur urban renewal. Housing associations can sell vacant properties on the open market; tenanted properties must be offered to tenants, who can choose to continue renting; however there is no right to buy (Whitehead and Scanlon, 2007:133).

The legal base for the Netherlands' social housing is the 1901 Housing Act, which laid down the duties and responsibilities of housing associations. The Social Rented Sector

Management Order (known by its Dutch abbreviation, BBSH), the most recent version of which came into force in 2001, states that approved housing associations have six duties:

- To house those people who are not able to find an appropriate dwelling themselves
- To maintain decent-quality dwellings
- To consult with their tenants
- To run their financial affairs responsibly
- To contribute to liveable neighbourhoods (added in 1997)
- To provide housing (but not care) for the elderly and handicapped (Whitehead, et al, 2007:133).

In exchange for performing these duties, the associations are granted exemption from corporation tax, can have their loans guaranteed by the Guarantee Fund for Social Housing (Dutch abbreviation WSW), and can buy council land at reduced prices for the purpose of building social housing. The WSW was set up in the 1980s, initially to guarantee loans for housing improvement, and later for all social housing loans. This guarantee fund is funded by the associations themselves and backed by the government, which delivers a triple-A rating. This fund enables non-profits to guarantee their loans, thus assuring access to the capital market and low interest rates (Whitehead and Scanlon, 2007: 133).

Whitehead and Scanlon (2007) report major housing policy shifts and strategies that shaped the Netherlands housing associations as the following: The introduction of a housing allowance in 1974, the White paper on housing (‘nota Heerma’) in 1989, the crossing and balancing operation (brutering) in 1995 and the White Paper on urban renewal in 1997. The housing allowance’s introduction has enabled more market oriented rents while safeguarding affordability for those on lower incomes. According to Priemus (1997) the resultant of the housing allowance has been the reduction of the rent-to-income ratio of low-income households. It marked the start of a shift from bricks-and-mortar subsidies to means-tested

allowances and contributed to the complete abandonment of bricks-and-mortar subsidies until the 1990's (Whitehead and Scanlon, 2007).

The White Paper introduced a new approach to social housing and the role of government. It proposed the retreat of central government and the delegation of power to local government, housing associations and other actors. This has been an important step towards the independence of housing associations (Whitehead, et al, 2007: 141). Furthermore, the issue of "skewness" (higher income groups living in social rented dwellings) was first identified as a problem in the white paper. This was an important step in targeting the social rented sector for lower income groups. Moreover, the White Paper introduced the sale of social rented dwellings as a normal activity of housing associations (Whitehead and Scanlon, 2007:145). The introduction of the sale of social housing stock created a step towards financial independency of housing associations. It raised capital for housing associations to have their own resources and be able to make future investments (Priemus, 2003). Finally, the White Paper recommended the transfer of municipal housing to housing associations. Since the 1990s almost all social housing in the Netherlands has been owned by private housing associations (Whitehead and Scanlon, 2007).

The introduction of the "grossing and balancing operation" (brutering in Dutch) in 1995, brought up the financial independence of the housing associations in the Netherlands. Through this system, the government wrote off all outstanding loans of the sector, and at the same time cancelled its subsidies. Smith and Oxley (1997) note that the high costs of subsidy system led to the cancellation by government and the decision to channel the housing construction subsidy only for the needy through housing benefits. However, Whitehead and Scanlon (2007) note that the "grossing and balancing" has been a major milestone that led to the financial independence of the housing associations. According to Priemus (2003), the write off loans resulted in the increased capital at the disposal of the

housing associations. Housing associations are funded by rents and sale of properties, supported by prudent financial management (Whitehead and Scanlon, 2007).

Although the associations have been completely independent in financial terms since 1995, they still require approval under the terms of the Housing Act. This also allowed for the abolition of supply-side subsidies to social rented housing. At the same time, the government liberalised rents, allowing non-profit associations to raise rents by different amounts under an overall government maximum. (The maximum applies to each association; the rent on individual dwellings may rise by different amounts.) Since 2001, non-profit and for-profit landlords have been treated differently. The government limits the rent increase per dwelling for both sectors, and for the social rented sector also imposes a maximum average rent increase for the organisation as a whole. (Whitehead and Scanlon, 2007:134).

Looking at the current status of the social rented sector and the housing associations in the Netherlands, one can deduce that the model approached by the state to let the sector be run by housing associations has demonstrated an effective social housing sector. Whitehead and Scanlon (2007:141-142) note that the Dutch model has clear advantages in that the financial burden of housing on the government budget has been eased. Furthermore, social housing is decentralized. Housing associations can focus on activities that have priority at a local level and they are able to develop their own policies because they generally have a healthy financial status. However, due to their healthy financial position and the control of considerable funds, political parties are questioning the use of the housing associations money and would like to interfere in the management of funds (Whitehead and Scanlon, 2007: 141-142). Politicians have therefore raised debates on the roles and tasks of the housing associations and have proposed broadening their tasks. In this regard, other new roles suggested for housing associations include caring for the environment around their dwellings; providing houses for groups other than traditional clients, ranging from the

homeless, handicapped, elderly and students to higher income groups; and providing facilities like schools and shops.

Some housing associations do offer extra services like insurance, help with removals, or discounts in shops. At the neighbourhood level, housing associations often provide play facilities for children, neighbourhood wardens, environmental maintenance and neighbourhood centres, particularly where local authorities can't afford or don't want to do so. Housing associations justify these investments as a way to improve the quality of life in their neighbourhoods and maintain the value of their property (Whitehead and Scanlon, 2007:141-142).

Another major challenge in the coming decades is the renewal of the housing stock, much of which was built in the post-war period. Depending on the condition and age of the housing, it may be refurbished, enlarged, demolished and replaced, or upgraded. All of these options are expensive, at least in the short run. The vast majority of urban renewal projects are situated in areas where social housing dominates. Government policy is to create a better tenure mix, offering opportunities for people to buy a house in their neighbourhood, or attracting newcomers. For the last decade, local government and housing associations have debated which organisation should initiate and control urban renewal programs. In fact, housing associations, as the largest property owners, have come to dominate the process. This reflects both capacity and financial shortages in local government, and the growing power of the associations (Whitehead and Scanlon, 2007).

According to European Union rules, housing is a Service of General Economic Interest (SGEI), for which member states are allowed to provide financial support. The EU, as well as many in the Netherlands, thinks that it is not appropriate to treat all dwellings and activities of housing associations as (SGEI). In an effort to make Dutch social housing 'Europe-proof', The Minister of Housing proposed that housing associations should distinguish between

provision of housing for the target group, and activities in which associations compete on the open market, in order to prevent state aid being used for the latter.

The distinction is supposed to ensure there are no cross-subsidies. In concrete terms this means that the following activities may be regarded as social activities:

- The construction, letting, maintenance, renovation and possible sale of dwellings with regulated rents;
- Enhancing the quality of the living environment in as far as it relates to the possession of dwellings with regulated rents;
- The construction, letting and maintenance of social property (Whitehead and Scanlon, 2007:141 -142)

3.2.3 Discussion on the on social housing sector: roles, challenges and the future

Housing practitioners indicate that many questions about the role of social housing, its allocation and regulation are uncertain and have been open to debate. Debates are about whom social housing should serve; how it should be integrated with other housing policies as well as how it can facilitate other outcomes such as employment, good health and education (Feinstein et al, 2008: 12).

In discussing what is social about social housing, Priemus (1997) argues that social housing exists only to the extent that housing providers build and manage good quality housing for the low-income populations and that such groups have preference in accessing the accommodation. However, Whitehead and Scanlon (2007:5) contend that there is no single definition of social housing across Europe. That there are definitional issues particularly around the position of cooperatives, the limited subsidies and the role of private suppliers. Furthermore, social housing serves different client groups in different countries. In some countries, it serves very poor families; while in others it serves low-waged working families or even the middle class. Petitjean (2011:4) notes that given the wide range of situations, Comite' Europeen de Coordination de l' Habitat Social (CECODHAS), Housing Europe, The

European federation of social, cooperative and public housing define financial affordability and the existence of rules for the allocation of dwellings as the two elements that constitute the core common feature of social housing in the European Union Countries . The analyst further notes that three different approaches can be identified in terms of target public, namely: a “universal approach” in which social housing is open to the entire population; a “generalist approach” characterised by the setting of income ceilings and priority criteria for access to social housing; and a “residual approach” in which social housing targets the neediest. However, according to the European Union regulations, where social housing is considered a Service of General Economic Interest (SGEI), for which member states are allowed to provide financial support, social housing should therefore be only for the poor.

It can thus be noted that there are indeed variations regarding the role and target population of social housing, however the initial conceptualisation can be deduced to be housing intended to provide affordable accommodation for the low-income households. Whitehead and Scanlon (2007:7) note that despite the differences in countries, the tensions and pressures across Europe are similar, whatever the role of the social sector in each country, the current emphasis is much on partnership and mixed communities with particular concerns about supply, affordability and segregation.

On the supply side, Whitehead and Scanlon (2007: 10) note that in Europe, most countries are still building social housing, although in most countries there has been a significant decline in output over the last two decades. Similarly, Hills (2007:6) states that provision of social rented housing has become more tightly constrained with new lettings focussed on those in greatest need. As a result, the composition of tenants has changed, with tenants much more likely to have low incomes and not in employment than in the past.

The decline in social housing provision in some countries is a result of government cutting down on subsidies in an attempt to reduce spending. Van Velzen (1997) argues that the

creation of the European Union has meant that the states which wanted to join the monetary union had to embark on measures to instil fiscal discipline by reducing government expenditure and bringing down budgetary deficits. When the reductions of fiscal deficits are implemented, the first casualty is often social spending in areas such as social security, healthcare and public housing (Van Velzen, 1997). As a result, budget cuts in public spending in Western Europe countries have impacted negatively on the social housing programmes. Furthermore, Van Velzen (1997) states that the shift in government policies from welfare system to market-oriented macro-economic policies and strategies that aimed at reducing the role of government in the sector has also impacted on the provision of social housing. In some states, the total removal of subsidies has made it difficult to provide new social housing. Priemus and Dieleman (1997) are of a differing opinion. The argument is that the provision of social housing, regulation of rents and allocation of subsidies are interventions within the housing market to ensure access and affordability. Priemus and Dieleman (1997) suggest that when housing markets normalise and home-ownerships pick up, the tendency for governments is to deregulate rents and gradually reduce subsidy allocations for the provision of social housing, which often result in the politicisation of social housing.

Priemus and Dieleman (1997)'s argument is that the reduction of social housing subsidy has made newly built social houses inaccessible to low-income groups. The result is that when housing costs are passed to tenants, these push up rents. On the other hand, Murie (1997) and Van Velzen (1997) argue that social housing will increasingly become the option for the poor. This agrees with Hills (2007) who says due to reduction in subsides the newly built subsidised social housing will prioritise the neediest households. Hills (2007:6) writes that this poses a challenge to social housing providers. The author notes that in England seventy per cent of social tenants have incomes amongst the poorest. Profile of social housing tenants has changed, consisting of high rates of disability, single people, and the elderly. Another change highlighted by the author is the location of social housing. Hills (2007: 11) notes that two-thirds of social housing is still located within areas originally built as council

estates. These originally housed those with a range of incomes, but now the income polarisation between people living in different types of housing also shows up as polarisation between areas. Hills (2007:11) is concerned that this situation poses a hindrance towards the objective of ensuring that social tenants can live in mixed-income. Stephens, Whitehead and Munro (2005: 9) add to the argument in that, the location of social housing in areas of high poverty concentration is causing the management of the social rented sector to be complex as it becomes more closely linked with wider neighbourhood management objectives, such as tackling crime and anti-social behaviour.

Having analysed the relationship between social housing and the disadvantaged, Feinstein et al, (2008:13) write that it is well known that social housing sector disproportionately houses the least advantaged households. Nevertheless study findings do not demonstrate that social housing causes disadvantage. It shows the extent to which social housing is related to complex and multidimensional needs, as this should be expected in an era where the allocation of social housing has become more increasingly needs based. Furthermore, Feinstein et al (2008:15) argue that the high prevalence of multiple disadvantage and poverty for those in social housing is also traced back to strong macro-social drivers in the history of post-war Britain. That in the face of de-industrialisation, the growing demand for skills, area deprivation , migration and changes in lifestyles and family structures, social housing has increasingly had to respond not just to housing need but also to the wider social, economic and structural needs of many of the most disadvantaged in society. Feinstein et al (2008:15) thus comment that instead of viewing social housing as disadvantaged housing, indeed social housing has played more than a role of providing basic housing, it is meeting broader social, psychological and economic needs in terms of providing the right environment for child bearing, education and career development. What needs to be asked is whether social housing could do more to reduce the disadvantage of those living in it? (Feinstein et al, 2008:15).

Despite the above discussed concerns, Whitehead and Scanlon (2007) note that since the turn of the century, there has been growing interest in expanding social sector provision in a number of countries notably because of the political pressures arising from increased problems of access and affordability. Some countries still build new social housing sectors although in others such as Germany, Hungary and other transitional countries, the means of increasing social housing supply through subsidies no longer exist, therefore provision depends on local initiatives (Whitehead and Scanlon, 2007:10).

Private sector interest and involvement in the social housing sector is growing. For example in the Netherlands, the housing association sector now funds all its own investment. In Germany, private - sector investment in the provision of social housing is commented to have always been the norm. It is also reported that some cities in Germany have sold their whole municipal housing stock to private equity owners (Whitehead and Scanlon, 2007:12). Another private participation in social housing provision is observed in Austria. Subsidies for the construction of social housing are available to private individuals and companies who are becoming increasingly important providers (Whitehead and Scanlon, 2007:13).

In addressing the challenges outlined, Hills (2007:20) suggests four directions in which policies should go in order to achieve the underlying objectives of social housing:

- To increase the attention given to the existing stock and tenant population
- To support more of an income mix within existing communities
- To support the livelihoods of tenants and others in housing need
- To offer a more varied menu for both prospective and existing tenants

The author notes that one of the encouraging aspects of the issues raised is that some potential objectives may reinforce one another. Promoting and sustaining mixed-income communities may help reduce negative neighbourhood effects and improve labour market integration. Measures that support the livelihoods of existing residents help the income mix

within the areas where they live. Offering a wider range of options to existing residents as their circumstances improve could hold in some people with the greatest economic potential (Hills, 2007:20).

3.3 Overview on housing associations in the UK

Housing associations are the most commonly known institutional form of social housing delivery (Rust, 2012:27). They are particularly found in the Netherlands, Belgium, France, the United Kingdom and Scandinavia (Rust, 2012:27). Housing associations in the UK are "not-for-profit organisations which own, let and manage rental housing. As not-for-profit organisations, revenue acquired through rent is ploughed back into the acquisition and maintenance of property" (Housing Cooporation, UK, 2005). Priemus (2003) defines housing associations as "private organisations functioning within the public framework of the Housing Act." The author notes that housing associations do not only function within the rental housing sector: they pursue a mixture of public tasks (such as housing the disadvantaged section of the population) and market activities (such as developing owner occupied housing for the middle-income households. Therefore objectives of housing associations are to provide, construct, improve and manage homes to meet general housing need (Smith and Oxley, 1997:499).

Purkis (2010) provides a history of housing associations in the UK. Purkis (2010:9) writes that most housing associations in the UK were formed from the 1960s onwards. They were promoted and regulated by the Housing Corporation from 1964. However, the main thrust of housing development for poorer people and slum clearance for most of the twentieth century was through the local authorities: the housing corporation and the housing associations emerged either to occupy niches left open by municipal development, such as co-operatives or other small community-based responses, and specialist provision for neglected groups, or to afford central government the means to bypass delays or political blockages in the local authorities' delivery of more housing (Purkis, 2010:9).

According to the Housing Corporation UK (2005) the role of housing associations has traditionally been viewed as the provision of below market price housing for those households unable to afford their own housing on the open market. In some Europe countries, housing associations have been providing good quality social housing for the low-income households at rents below market through financial subsidies by local governments (MacLennan and Stephens, 2011). However, the high cost of subsidies for example in the Netherlands led to the complete withdrawal of subsidies from 1988 to 1995 while in other countries it was a reduction of the subsidies (Smith and Oxley, 1997). Since then, housing associations in the Netherlands have been run as private organisations with the aim of achieving financial returns (Priemus, 2003). Even though they have to adopt a private business mind set, Priemus (2003) notes that Dutch housing associations are still required to comply with the four particular requirements namely: give priority to the target group, guarantee financial continuity, provide satisfactory quality in the housing stock, and consult tenants on management issues and general policies of the housing association.

Straub (2002) notes that, restriction and to some extent complete withdrawal of social housing subsidies in some countries has led housing associations to adopt the business-like management of the housing stock. Decision making has become more top-down and is informed by data derived from the management processes, market position of product lines and complexes (Straub, 2002). Wilson (2011:3) also notes that, many of the challenges of the housing associations relate to funding. However, Wilson (2011) is of the view that, the pressure on funding from traditional sources will lead to a positive change. It will lead to an evaluation of alternative financing options including the bond and equity markets as well as joint venture partnerships.

The Netherlands housing associations present a success story of independent housing institutions; however Priemus (1997:552) notes that, housing associations are not always

successful and their success is dependent on a range of factors as (of which maintaining a sustainable financial status is a key factor):

- The price /quality ratio of the inherited housing stock
- The competency of the housing managers
- The financial strength of the housing associations
- Prevailing housing market and the competition of that market
- State and local housing policyhousing policy band, its tools such as government loans, guarantees, subsidies, tax advantages, tenant security and rent regulation (Priemus, 1997)

3.3.1 Discussion on the funding and subsidisation of housing associations

In addressing the issue of subsidisation, Priemus (1997) strongly argues that despite the policy shifts that have either stopped or greatly reduced the allocation of property subsidies in the European Union, social housing has existed because of government subsidies. Priemus (1997) suggests that it is not possible to build and manage good housing that lower income groups can afford and to which these groups have preferential access without subsidies, thus an unsubsidised social rented sector is not a feasible option (Priemus, 1997: 554-555). The author warns that, although other kinds of housing tenure might be subsidised, it does not necessarily warrant their classification as social rented housing. What qualifies the social rented sector to be suitable as a public housing is government subsidisation and targeting of low income households for access to such housing (Priemus, 1997). According to Haffner and Oxley (1999:147) “a housing subsidy must give some preferential treatment to housing ….housing subsidies may be paid to either the producers or consumers of housing. They might also involve direct payments or take the form of taxation expenditures and thus also provide a benefit by way of a fiscal concession.” The authors note that any transfer of housing benefit initiative from government is conceptualised as a housing subsidy. Cross-subsidisation is also included in conceptualisation of a housing

subsidy as well as the regulation of rents by government is a form of demand-side subsidy (Haffner and Oxley, 1999: 147). Supported by this concept, Priemus (1997) therefore argues that the continued housing subsidy by government, in any form (demand or supply side subsidy) is vital for the existence of the social rented housing sector. Haffner and Oxley (1999:148) thus write, "[a] housing subsidy involves action initiated by government which by means of explicit or implicit flow of funds reduces the relative cost of producing or consuming housing. In reducing the relative cost of housing, the subsidy results in housing receiving favourable treatment compared with other commodities or investment goods."

3.3.2 Implications for South African Social Housing Institutions

Social housing development in Europe provides insights for the South African social housing sector. The Netherlands case shows successful and self-sufficient housing associations in the provision of social housing, however what is significant is that they initially received a substantial financial assistance from government. Government interventions have made it possible to ensure rent affordability for low-income people. Other incentives in the Netherlands, such as the introduction of housing allowances have contributed to the reduction of the rent-to-income ratio of low-income households. Furthermore, housing institutions in South Africa are similar to and are modelled on this type of institution, having received extensive technical assistance from Dutch and British housing associations during South Africa's formative period for social housing, in the mid- 1990s (Rust, 2012). It is therefore important that South African social housing institutions look for lessons in the development of the Netherlands and Britain housing associations

Another significant feature of social housing in Europe is the use of regulation through the encouragement of a best-practice regime. For institutions to access state funding and support they have to prove acceptance and on-going adherence to a range of benchmarks set by a government-appointed regulator. By comparison, South Africa's social housing sector is very young. The growth of the sector has been limited by the amount of financial

support it has received from government and in the past it has been poorly regulated. However, with existence of the Social Housing Act, 16 of 2008, and the Social Housing Regulatory Authority (SHRA) issues are being incrementally addressed: funding support is being significantly increased and there is an indication of a more focused regulatory framework (Rust, November, 2012). The following section is a literature review of the South African social housing development, the challenges that the sector face and interventions that have been made.

3.4 South African social housing development

3.4.1 History of South African social housing sector

The history of social housing in South Africa dates back to as far as the 1920's. The concept of social housing was first introduced in the 1920's to address white-working class poverty (Social Housing Foundation, 2004:19). South Africa's social housing sector is the product of a series of policy interventions that began in 1995 with the introduction of the Institutional Subsidy mechanism as part of the government's national Housing Subsidy Scheme. While a few social housing institutions had been operating prior to that date, there was no "sector" in existence. There were a few cooperative housing projects that had technical assistance from cooperative housing organisations in Canada and Norway, and the civic movement in Johannesburg's inner city had promoted a cooperative housing approach there. With the introduction of the Institutional subsidy mechanism, government policy explicitly began to promote rental as a tenure form. The Institutional subsidy was a departure from the provision of individual ownership, which was the dominant form of tenure being provided at the time (Rust, 2012:28). The author further notes that between 1995 and 2000 activities were focused on building a national commitment to social housing as a delivery approach. Government together with other stakeholders implemented a number of initiatives designed to stimulate the birth of the sector and to create an enabling environment for social housing that would lead to an increase in social housing delivery**.** The initiatives commenced with the establishment of the National Housing Finance Corporation in 1996 to ensure, (among other

goals), the development and appropriate funding of institutions, offering a variety of tenure options, including rental, for residential purposes (Rust, 2012:28). In 1997 the National Housing Finance Corporation established a development unit internally to assist social housing institutions that were trying to establish themselves. This was after stakeholders realised that the creation of housing institutions is a long-term intervention that requires considerable technical assistance. Thus there was the birth of the Social Housing Foundation**,** which was later established as a separate entity to "promote, support and assist the process of establishing a sustainable social housing sector in South Africa." (Rust, 2012:20). In 1998 the Housing Institutions Development Fund was established by the National Housing Finance Corporation as the primary credit financier in the social housing sector. It offered three loan products focused on institutional pre-establishment, capacity building and the development of the housing stock (Rust, 2012:29).

Rust (2012: 29) notes that in the process, various social and cooperative housing initiatives began to emerge in the mid-1990s, promoted predominantly by community-based and non-governmental organisations. The most renowned of these efforts was the "Seven Buildings Project" in inner city Johannesburg, the promoters of which were involved in the social housing policyhousing policy making process. In addition, housing cooperatives started to emerge, predominantly driven by the Cope Housing Association in Johannesburg. Working with the Swedish Cooperative Centre, Afesis- Corplan in East London also promoted a social housing initiative. Nonetheless, the developments were not an immediate success, and the sector struggled with a variety of challenges in the first few years. Delivery numbers were much lower than what had been expected. By 2002 only 24 181 institutional subsidised units were delivered across the country, compared with a total delivery expectation of just over 1,5 million subsidies (Rust, 2012).

Practitioners speculating on the reasons for such low levels of delivery highlighted issues regarding the policy, regulatory and financial framework, the lack of consensus on a

definition of social housing and the extent to which this undermined the potential for a groundswell of activity, and the policy focus on ownership. Emphasised above all of these reasons, however, was sector wide consensus that capacity building and technical support was greatly needed (Rust, 2012:29). In response to the above, between 2000 and 2005, there was a strong focus on capacitation of the social housing sector. In 2000 the Support Programme for Social Housing was established with a grant of R200 million from the European Community to the South Africa government. The overall objective of the Support Programme for Social Housing was to support the establishment of a viable, sustainable social housing sector in South Africa, and to provide the basis for its future expansion. Its target was to contribute towards the establishment of at least 60 sustainable housing organisations and to ensure that 50% of them have achieved financial viability by December 2004 (Rust, 2012: 30).

Despite this initiative social housing institutions struggled to become sustainable. Non-payment among residents was high and institutions found their financial capacity undermined. Also, between 2000 and 2003, extensive work was undertaken in obtaining consensus about a policy and legislative framework to regulate and support the social housing sector. By the end of 2003 there was a better understanding on the part of stakeholders in the sector of the challenges in establishing social housing institutions and developing and managing social housing stock. There was agreement on requirements for the sector to grow and develop and this culminated in the development of a Social Housing Policy for South Africa (2003) (Rust, 2012:30).

In 2004, because of concerns over the fragmentation of the social housing sector, the Department of Human Settlements (known at that time as the National Department of Housing) established a social housing programme coordinating structure – the National Social Housing Task Team. The task team brought together all of the stakeholders in the social housing sector, who together reviewed the Social Housing Policy and developed a

consensus position. Key areas on which the task team focused were the structure of the sector, international cooperation and coordination, and the activities of the key agencies that have a role in social housing. The task team helped to clarify the role of social housing in the overall housing strategy, review and reformulate the Social Housing Policy, develop proposals for the appropriate funding of social housing, and formulate a workable institutional framework to support the growth of social housing in the long term. As a result of the activities of this task team, the Social Housing Policy for South Africa was revised and published in 2005 (Rust, 2012:30).

The progress on the social policy front was at the same time consolidated in Comprehensive Plan for the Development of Sustainable Human Settlements: Breaking New Ground (2004), which explicitly carves out the important role of social housing in the broader housing framework. In this national strategy, social housing programmes are seen as being necessary to regenerate the inner cities in the country, promote the achievement of a non-racial integrated society, and more effectively develop well-located urban land by accommodating higher-density development (Rust, 2012:31).

In 2006 a new funding framework was established for the social housing sector. The Interim Social Housing Programme was established by the National Department of Human Settlements with the Social Housing Foundation as the fund manager. The programme was designed as an interim pilot programme, which would eventually be migrated to the new planned Social Housing Regulatory Authority. The key focus of the Interim Social Housing Programme was to pilot new subsidies for the social housing sector that would be project- rather than institution-focused, and that would ensure more rigorous upfront assessment of social housing delivery projects and management of the funds disbursed once implementation commenced. It was envisaged that the lessons learned would be used to scale up delivery gradually and provide robust tools with which to undertake project viability assessments prior to the allocation of funds and project implementation (Rust, 2012:31).

The Interim Social Housing Programme was very effective in stimulating the social housing sector, particularly in respect of moving the focus of the sector away from establishing Social Housing Institutions and capacitating them, to the delivery of social housing projects (Tissington, 2011:102).

In 2007 the Social Housing Bill was drafted. It was later promulgated as the Social Housing Act (16 of 2008). On the basis of this legislation the Social Housing Regulatory was established in August 2010 as the Interim Social Housing Programme ceased to exist and the Social Housing Foundation was closed down (Rust, 2012). With the defined legislation and regulation, it is expected that social housing sector activity of contributing to mainstream housing delivery will be much improved.

3.4.2 Current status of the social housing sector

Legislative, Institutional and Regulatory environment

Social housing has become an integral part of the South African Government's housing strategy and, as a result, is receiving increasing financial support (Rust, 2012). According to Rust (2012), government's current strategy with respect to social housing is reflected in the following policy and legislative documents which are discussed in detail in the following sections:

- The "Breaking New Ground", 2004 – The Comprehensive Plan for the Development of Sustainable Human Settlements
- The Social Housing Act (16 of 2008)
- Outcome 8

Breaking New Ground: Comprehensive Plan for the Development of Sustainable Human Settlements

Breaking New Ground (BNG) was the key housing policy shift that emphasised the formal recognition by the government of social housing and defined its current role in the housing

sector. As a policy document, Breaking New Ground shifted government's emphasis from the provision of housing to the creation of sustainable human settlements, in a manner that is responsive to the demands of particular segments of society and local situations (Rust, 2012). It recognised that the lack of affordable, well-located land for low cost housing had led to development on the periphery and thus aimed to increase the rate of delivery of well-located housing of acceptable quality through a variety of innovative and demand-driven housing programmes and projects of existing urban areas, achieving limited integration (Tissington, 2011:64). It acknowledged the change in the nature of the housing demand, the increasing average annual population growth, the drop in average household size, significant regional differences, increasing urbanisation, skewed growth of the residential property market, growth in unemployment and a growing housing backlog despite substantial delivery over the previous decade, Thus, the Breaking New Ground aimed to move from a supply-centred model to a model driven by the needs of those on the ground i.e. demand driven approach (Tissington,2011:66) . Despite these aims the Breaking New Ground has been criticised for not fully addressing the key weaknesses with the previous policy direction, as identified in the National Department of Human Settlements research process, or offering clear direction on the difficult political issues of land ownership, the land market and rights around property values (Tissington, 2011:66). Furthermore, notwithstanding the progressive nature of the Breaking New Ground in offering a choice of housing options and a demand-driven approach, its stated intent to offer a greater choice of tenure, location or affordability has not been realised significantly to date (Tissington, 2011). The National Department of Human Settlements and provincial government departments still prioritise fully subsidised, low-density, detached, freehold family accommodation over other delivery modes, tenure systems and accommodation choices (Tissington, 2011:67).

The Social Housing Act (16 of 2008**)**

The legislative framework for regulation of social housing is contained in the Social Housing Act (16 of 2008).The Social Housing Policy of South Africa was approved in June 2005 and

the Implementation Guidelines published in November 2006. In 2008 the Social Housing Act (16 of 2008) was passed, providing the enabling legislation for the Social. (Tissington, 2011:20). The Act aims to establish and promote a sustainable social housing environment and defines the functions of national, provincial and local governments in respect of social housing, allows for the undertaking of approved projects by other delivery agents with the benefit of public money and gives statutory recognition to Social Housing Institutions (Tissington, 2011). Further, it provides for the establishment of the Social Housing Regulatory Authority and defines its role as the regulator of all Social Housing Institutions that have obtained, or is in the process of obtaining, public funds (Tissington, 2011:20).

Rust (2012:32) notes that the key areas of importance in respect of the Social Housing Act are the establishment of the Social Housing Regulatory Authority's specification and regulation in respect of Social Housing Institutions, the basis on which funding is allocated for social housing and the creation of restructuring zones.

The Social Housing Regulatory Authority (SHRA) and its role

Tissington (2011: 106) notes that the establishment of the Social Housing Regulatory Authority is expected to address the gaps identified in the Social Housing programme. The Social Housing Regulatory Authority was established in August 2010 by the Minister of Human Settlements in terms of the Social Housing Act, No.16 of 2008 (the Social Housing Act). The SHRA as the regulatory authority is required to support social housing, as a component of housing specifically and sustainable integrated human settlements more broadly. The core business of the SHRA is to build the social housing sector and ensure well regulated flow of investment funds into well located projects (SHRA, 2011/2012). Tissington, (2011)'s view is that the principal function of the SHRA is to increase the amount of rental accommodation available to people in low-income groups, particularly in urban areas. It is also intended to facilitate and channel increased funding for social housing projects, help to define new norms and standards in order to stimulate the development of new social

housing projects in urban areas and oversee the accreditation of Social Housing Institutions in terms of legislation and regulations. The main functions of the Regulatory Authority are outlined as follows;

- To promote the development and awareness of social housing;
- To provide advice and support to the National Department of Human Settlements in its development of policy for the social housing sector and facilitate national social housing programmes;
- To advise the Minister on developments in the social housing sector;
- To promote an enabling environment for the growth and development of the social housing sector;
- To provide best practice information and research on the status of the social housing sector;
- To support provincial governments with the approval of project applications by SHIs;
- To assist, where requested, in the process of the designation of restructuring zones;
- To enter into agreements with provincial governments and the National Housing Finance Corporation to ensure the co-ordinated exercise of powers; and
- To perform any other functions or exercising any other power that the Minister may prescribe (Social Housing Regulatory Authority, 2011/2012)

Specification and regulation of Social Housing Institutions:

The Social Housing Act sets out the basis on which a social housing institution can be established and accredited by the SHRA. The functions of a Social Housing Institution are defined as:

- Complying with the accreditation criteria;
- Acquiring, developing and managing approved projects;
- Promoting the creation of high-quality living environments;

- Reinvesting operational surpluses generated as a result of funding provided in terms of the social housing programme, in further approved projects;
- Consulting with municipalities with a view to developing social housing stock;
- Entering into and complying with annual performance agreements with municipalities on approved projects in their areas of jurisdiction;
- Informing residents on consumer rights and obligations in respect of social housing;
- Observing and operating within government policy on social housing; and
- Seeking permission from the SHRA for the sale of any properties in their ownership funded with public funds.

In terms of the Social Housing Act, Social Housing Institutions are required to obtain approval from the SHRA on their:

- corporate governance policy, including their risk management and risk strategy policies with regard to development, operational, financial, property management, human resource, market, institutional and compliance risks; personnel and systems, and internal control and audit models (Rust, 2012:34).

Funding for Social Housing:

The Social Housing Act specifies that funding for the social housing programme is provided annually from national government through two streams:

- A direct allocation of capital funding to the SHRA: This funding is allocated directly from National Treasury to the SHRA, disbursed through the National Department of Human Settlements. The funding is explicitly for capital expenditure through the Restructuring Capital Grant, which the SHRA awards to successful projects
- Funds allocated to the provincial governments in terms of the annual Division of Revenue Act. This funding is to implement the National Subsidy Programme of which social housing (classified as 'institutional housing') is one component. Funds for

social housing awarded by provincial government are provided through the institutional subsidy programme.

Restructuring zones:

Allocation of the restructuring capital grant through the SHRA from National Treasury is focused on spatial restructuring that is to take place in Restructuring zones (RZs). The Social Housing Act defines a "restructuring zone" as a geographic area that has been identified by the municipality, with the concurrence of the provincial government for purposes of social housing (Rust, 2012).

The restructuring zones are intended as instruments (among others) used to pursue the restructuring of South African cities and they are intended to improve integration (economic, racial and social). Restructuring should result in a move away from housing interventions that entrench, enforce or in any way maintain the spatial status quo. It should overcome the social and economic disparities that typify South Africa's urban spaces. It is therefore intimately linked to interventions in the land market: either to protect low-income (or often black) people from displacement or to bring lower income (often black) people into areas of economic and other forms of opportunity from which they would otherwise be excluded (Rust, 2012).

The logic of restructuring is not the same as the logic of urban regeneration and urban renewal but there are some overlaps (Housing Development Agency, 2013). Rust (2012) notes that to this end restructuring zones are intended to align with urban development zones , which are linked to planning processes such as the national spatial development framework, provincial growth and development strategies/provincial spatial development plans, and local authorities' integrated development plans.

Urban development zones are areas in which a tax incentive is applied to encourage inner city renewal across South Africa. Any taxpaying, property-owning individual or entity may claim the tax benefits of the urban development zones incentive if their intervention meets the criteria associated with the policy. The incentive takes the form of a tax allowance covering an accelerated depreciation of investment made in either refurbishment of existing property or the creation of new developments within the inner city, over a period of 5 or 17 years respectively (Rust, 2012).

Outcome 8: Sustainable human settlements and improved quality of life

During 2010 the South African Government agreed on 12 outcomes as a key focus of work between 2010 and 2014 .Outcome 8 focuses on sustainable human settlements and improved quality of household life. All public entities within the housing and social housing sector are required and have aligned their activities to achieve the targets specified in Outcome 8. The performance of the entities is evaluated by the extent to which they achieve these targets (Rust, 2012:35).

Outcome 8 comprises four outputs:

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

The social housing sector falls under Output 1 of Outcome 8. In terms of this output government aims to provide 80 000 units well located and affordably priced rental accommodation units by 2014 (Rust, 2012: 35).

3.5 Overview of challenges in the social housing sector

The key driver currently in the social housing sector is Outcome 8 and the targets that have been set thereunder. Funding allocations and the activities of the Social Housing Regulatory

Authority, national, provincial and local government are focused on the achievement of these targets within the 2014 timeframe (Rust, 2012). Given the policy framework as set out above, the current status of the sector, its achievements, challenges and future intervention will be discussed in the following section with a lot of reference to the SHRA 2011/2012 Annual report as all sector activities are regulated by the institution. However, before the discussion of the status, the discussion focuses on social housing in general, its importance and its contribution towards the livelihoods of those it is intended for.

Benefits of social rented housing tenure

Looking at social housing, its built form and the possible benefits this housing can have for residents, researchers and housing practitioners have conducted studies on the role of social housing for mainstream housing as well as benefits to its residents. In South Africa, social housing is seen as a government housing programme that is used to redress the old apartheid spatial inequalities by providing low to moderate income households with good quality and affordable housing opportunities in well located parts of South African cities (Housing Development Agency, 2013:3). Thus social housing is not viewed only as providing shelter, it is responding to spatial restructuring and needs of citizens. McCarthy (2010) notes that another important aspect of social housing is its location, which responds to the objective of the Social Housing Programme of ensuring greater economic and racial integration of urban areas. Furthermore, social housing, due to mostly being rental has been observed to be the best tenure that provides its residents flexibility and access to better jobs.

A cost-benefit-analysis conducted for the Social Housing Foundation (2009) noted that there was a growing understanding that policies which improve housing market flexibility also improve the mobility of households and therefore the flexibility of labour markets. The findings from the survey indicated that social rental housing residents generally have access to better jobs because of their location. The data supported the hypothesis that location (proximity to employment) and larger potential pools of employment are relevant. In addition,

reduced travelling time and costs are strongly correlated with better employment outcomes for these households (Social housing Foundation, 2009).

The study also looked at social cohesion. It found out that there was very limited literature in respect of social cohesion and its relationship to housing. Furthermore many of the issues that could be included within the category of social cohesion relate to other concerns such as crime and the broader social and economic integration. However, the findings were that people in apartments form of living, such as in social rented blocks are more likely to socialize with neighbours, spend nights out and go to cultural events (absence of distance appears to be important); but these reduce other social interactions such as church going and visiting relatives (Social Housing Foundation, 2009).

Social Housing Policy of South Africa (2005:4) acknowledges the role of social housing in urban restructuring in that: “Social housing has shown that it is able to significantly contribute to urban regeneration and to urban efficiency. It can meet objectives of good location, integration, and viability.” The sector can facilitate local economic development through supporting local economies. It makes a financial contribution to local authorities by way of regular payments for rates and services (Social Housing Policy of South Africa, 2005). The policy thus notes social housing can promote the effective and efficient management of rental and/or collective forms of accommodation (with emphasis on long term management and maintenance). This will contribute to social integration, social stabilisation and crime reduction. Therefore social housing is envisioned not only to contribute to the housing supply objectives noted above, but also to the government’s macro objectives of promoting citizenship, democracy and good governance (Social Housing Policy of South Africa, 2005).

3.6 Current status of the social housing sector: SHRA achievements and challenges

The introduction of formal regulation into a sector that was largely unregulated at this level has resulted in a distinct change in behaviour of delivery agents (SHRA, 2011/2012: 8).

SHRA notes that there has been a great deal of information required from social housing institutions and that as partners they have found this to be a heavy workload on social housing institutions. All parties agree that this reporting makes information more accessible and allows SHRA to make informed decisions regarding accreditation, investment and corrective action (SHRA, 2011/2012). This has resulted in a unique information repository that was never formally hosted centrally before and places SHRA in a unique position to play the role of sentinel of the sector. The SHRA has developed the following investment programmes to implement the responsibilities of the social housing investment programme:

The Capital Investment Programme has been created to manage and administer capital investments on behalf of SHRA, through the Restructuring Capital Grant. The Restructuring Capital Grant contributes towards spatial, social and economic restructuring of South African cities. It is a significant contribution to the capital cost of a social housing Project, contributing to the delivery of viable, feasible, and sustainable social housing projects that provide affordable rental housing to the poor. This grant does not operate in isolation; it operates in conjunction with the Provincial Institutional Subsidy, and debt funding to finance the capital costs of a social housing project. There are instances where delivery agents are able to contribute their own equity, or may secure donor funds.

The Institutional Investment Programme has been specifically created to provide financial assistance to social housing institutions for gearing up capacity to (unless we are referring to project accreditation, which is a process that was envisaged by the housing policy but was not carried over into the Act), funding for project feasibility studies to bring a project to a stage where an application for grant funding is likely to be successful, and to provide funds for specific intervention in the event that, after completion of the implementation stage, either the social housing institution or its projects are in distress.

Building on the initial work of the Interim social housing programme ,SHRA's Investment Programme is now in its third iteration and to date has yielded approximately 10 000 units at a grant cost of R1,2 billion. (SHRA 2011/2012: 8). Achievements of the programme are outlined as follows;

SHIP1: reports 5 projects approved in 2010/2011 financial year under the restructuring capital grant, located in 3 provinces currently at 80% construction progress and expected to yield 1050 units at a cost of R141 million

SHIP2A: reports 5 projects approved in 2011/2012 financial year under the restructuring capital grant, located in 3 provinces currently under construction, expected to yield 1707 units at a cost of R225 million

SHIP2B: reports 12 projects approved in 2011/2012 financial year under the restructuring capital grant, located in 4 provinces currently under planning stage, expected to yield 1487 units at a cost of R193.6 million

SHRA reports that the investment target of 1 712 units was surpassed when 4 127 units were approved from a total of 13 entities including private sector delivery agents on the SHIP 2A and 2B investment programmes.

Furthermore a pipeline of projects has been established which will yield approximately 95 000 units in a period of 6 years. These projects have been prioritized in terms of readiness. Some of these projects will require project feasibility grants to achieve readiness status. The investments unit also engaged with loan funders to devise a programme that can create more flexible and responsive funding models and the establishment of other grant types (SHRA, 2011/2012).

On the accreditation progress, SHRA notes that on the applications for 2011/12 accreditation received, 1 SHI received full accreditation, 17 SHI's received conditional accreditation and 8 were declined. Due to progress in the year with meeting compliance conditions, 6 more SHI's received full accreditation. SHRA publishes the list register of accredited institutions on its website: (see Annexure D). SHRA has also undertaken an exhaustive exercise to analyse the policy and legislative environment and several discussion papers have been developed to recommend changes to National Department of Human Settlements.

Social Housing Regulatory Authority (2011/2012) notes that, notwithstanding the achievements above, one of the challenges facing the sector is that property management needs to be more robust. In addition to the growth of social housing institutions and quality of rental stock, weak property management has led in some instances to building hijacking attempts and rental boycotts. Other concerns and challenges are on the delivery approach of the social housing projects. There is a concern about the capacity of social housing institutions to deliver the projects and management of them later. The issue of initial funding for projects development is a concern on smaller social housing institutions. More often, social housing institutions with limited capacity, equity and bridging finance commission social housing projects on a turnkey basis, where the land provision and development are undertaken by a private sector developer who hands over the completed project to the social housing institution, who then takes ownership of the project and undertakes the property management. From a funding perspective, developers will need to source project funding to cover the development of the project, until completion where they sell it to the social housing institution, which then pays the cost with the received restructuring capital grant and the institutional subsidy (Rust, 2012:43).

Rust (2012:43) further outlines key challenges in respect of the delivery of social housing projects as:

- High development costs

- Lack of availability of well-located land at affordable prices.
- High-bulk infrastructure contributions.
- An unforgiving tax regime: VAT is charged on construction linked to the Reconstruction Capital Grant, which increases the costs of development and reduces the impact of the government grant contribution. Some SHIs operate through two legal entities to address this issue.
- Escalating construction costs and fixed development standards.
- Increasing municipal and utility charges, which increase cost of the development and also undermine the ability of tenants to pay rentals.
- Limited capacity in the social housing sector. This remains a problem, even in the new environment. Since the establishment of the SHRA, only three SHIs have been fully accredited.
- Regulatory environment – obtaining planning approvals from local authorities.
- Social housing institutions need to draw the funding from a range of sources including the SHRA, provincial governments and other funders. All have their own qualifying and reporting requirements. This is very onerous on the social housing institution and it is very difficult to line up all the funding.
- Revenue potential –social housing institutions still need to learn how to structure projects to meet a fixed income profile.
- Payments of rentals by tenants. Both the economy and escalating costs undermine the tenant's ability to make rental payments. In addition, the expectation by the primary target group of a 'free house' created by the housing subsidy programme can undermine some tenants' willingness to make payments. Poor policing and the ability to enforce evictions of non-paying tenants can also be a problem in some areas

3.7 Chapter conclusion

The chapter discussed in brief backgrounds and development of social housing sector in Europe and South Africa. It also provided an outline of the role social housing plays in the provision of housing for the low-income groups. It further discussed the challenges that the sector is facing in an effort to provide accommodation for the poor. In Europe, the major challenges highlighted are funding issues (reduction/withdrawal of government subsidies) and the changes in the social housing tenancy. The current concern in Europe is the concentration of low-income groups in social housing in Europe. To address this, Hills, (2007) proposes that social housing should look towards attaining mixed-income neighbourhoods. Hills, (2007:17) advises that this can be achieved through several ways such as examining the way allocations and access policies work to try to reduce the extent to which they are sometimes an engine of polarisation, even within the social housing stock. In South Africa, the major social housing challenge is also insufficient funding for the social housing institutions. Other challenges highlighted are difficulty in achieving scale due to the limitations of the existing funding system, lack of proper governance and management capacity. Indeed the South African Social Housing Policy has made efforts to establish programmes that are aimed at addressing the challenges; however, there are still gaps in the policy that require further interventions. The existence and operation of the new social housing regulatory authority is also anticipated to close more gaps in the funding regulation and capacity building of social housing institutions. Hills (2007:28) writes that "how far policy moves will depend on priorities and, in some cases, on available resources. But if social housing is to fulfil its potential, new approaches are needed."

In conclusion of this chapter, it is noted that social housing has the potential to provide tools for affordable rental housing that contributes to sustainable human settlements for all: particularly for those groups of people that seek housing tenure that provides flexibility and mobility. It is therefore fundamental that regulations and policies are continually assessed and amended in an effort to adapt to better strategies of addressing challenges in the sector.

CHAPTER 4- PRESENTATION AND ANALYSIS OF STUDY FINDINGS

4.1 Chapter introduction and objective

This chapter presents data gathered from the empirical phase of the study, through structured interviews with key stakeholders and personnel in the affordable rental housing sector. The chapter also provides interpretation and analysis of the findings. The objective of this chapter is therefore to present views and observations of the participants concerning the research questions. The researcher acknowledges that similar research on the topic has been conducted, and therefore envisages that results presented in this report will add to existing research and enhance the concerns raised for further recommendations and interventions. Melzer and Moothilal, (2008) have conducted a study of supply and demand for rental housing in South Africa. Through the study the researchers have outlined challenges of delivery of affordable rental housing in particularly inner cities. In March 2010, McCarthy (2010) wrote a research report on the public sector rental housing programme implementation. In the report, the practitioner discussed the challenges of the public sector rental housing programme, particularly social housing.

The following section is the presentation of the interview responses. The respondents are presented with their respective organisations in most of the discussions; however a list of names of interviews and their respective organisations is provided in (Annexure C)

4.2 Presentation of results

4.2.1 Organisational role in the Affordable Rental housing

The Johannesburg Housing Company (JHC) explained its role as the provision of quality affordable accommodation. Its business model is to provide mainly residential rental accommodation within the Johannesburg inner city, with a small portion of commercial

property that will serve as provision of facilities to the residential developments. JHC is an independent social housing institution, but not a profit making entity. All surpluses made are reinvested into the organisation for growth. JHC has been in business for 16 years, and it currently owns 30 buildings that have delivered 3600 operational units. Further projects were reported to be underway, that will contribute additional 700 units in the inner city. Since operating in the sector, JHC is reported to have contributed 240 units per year. Mr. Carel De Wit a respondent from JHC commented that, “JHC has contributed significantly to affordable accommodation and will continue to do that in the future. Even though due to cash-flow problems, we haven’t delivered units at the planned rate, we are however on track according to our five year plans and targets.”

The Johannesburg Social Housing Company (JOSHCO) noted its role as the developer and manager of affordable mixed density housing for the City of Johannesburg. The business model of JOSHCO is to develop City of Johannesburg owned buildings in the inner city performing both developer and property management roles. JOSHCO is a municipal rental housing entity of the City of Johannesburg, and a non-profit making organisation. JOSHCO was established in 2004, and therefore has about 8 years in operations in the social housing sector. Since its establishment, it was reported to have delivered 7500 units of affordable housing, through 22 projects, with further buildings in the inner city being in the refurbishment and conversion process. JOSHCO viewed its contribution towards affordable accommodation as significant and remarkable given the short period it has been in the industry. The respondent commented that, up to 2011, JHC had spent R 492 million on affordable housing conversions in the inner city.

The Affordable Housing Company (AFHCO) defined its role in the sector as an investor, developer and manager of affordable accommodation. The business model of AFHCO is the development and management of both residential and commercial property. AFHCO’s mission is to enhance community development and city-regeneration through city

improvement districts. City improvement districts are referred to in South Africa as “a geographic area within which property owners and or tenants agree to pay for certain services supplementary to those supplied by the local authority and which will enhance the physical and social environment of the area.” (Peyroux, 2008:1) AFHCO Holdings Pty (Ltd) is a private company in the business of affordable rental accommodation. It is 50% owned by Old-Mutual Life Assurance Company. AFHCO works in partnerships and joint ventures with other investors and financial institutions in some of the developments. AFHCO Holdings has 15 years in the property industry. AFHCO has a portfolio of 62 buildings in the inner city, 3800 affordable rental units and 300 000 square metres of commercial property in Johannesburg inner city. A further 1000 rental units were reported to be underway in the inner city. The respondent remarked that AFHCO’s contribution in the affordable rental housing sector is very significant as the leading investor and developer in the inner city affordable accommodation.

The National Housing Finance Corporation described its role in affordable rental housing sector as that of mobilising finance for housing as a way of stabilising/ normalising the housing market. The targeted areas for stabilising the housing market were the townships. The aim was to encourage financial institutions to lend in the townships as they were initially redlined due to rental and mortgage boycotts. “Our business model is to provide funding in a form of loans for both rental and ownership housing; directly to end-users and to social housing projects that are aimed at inner city developments.’’ (Vuyisani Moss, 11 January 2013). He further informed me that the NHFC is a government entity under the Human Settlements Department. However, it is an independent (financially) and a sustainable entity because it raises funds through other markets and from loan re-payments (Vuyisani, Moss, 11 January 2013).

The National Association of Social Housing Organisations (NASHO) explained its role in affordable rental accommodation as that of advocacy, capacity building and support for

Social Housing Institutions (SHIs) who are mainstream deliverers of affordable rental accommodation. NASHO was established in 2002 as a membership body for social housing institutions. It currently has 17 social housing institutions membership nationally, who own and manage 24000 rental units (NASHO, 2010/2011).

4.2.2 Status of affordable rental housing development in the Johannesburg inner city

There is no one definition for affordable housing in the sector. It is hard to define it without linking it to household income levels or brackets. Even in that manner, it is still categorised differently. JHC preferred to define it as value for money housing for households with income ranging from R3500 to R12000 per month. AFHCO defined it as “housing that represents the gap in the market between the subsidised and the middle income groups” whilst Vuyisani Moss from NHFC, explained that there is no exact definition for affordable housing, different forums use differing income brackets. However his view was that it is housing for household income groups ranging from R3500 to R7500. JOSHCO explained that according to them affordable housing cannot be defined by one income bracket. JOSHCO’s mission is to provide accommodation for various income groups that cannot afford accommodation in the mainstream property market.

In discussing the status of affordable rental housing in the inner city, JHC’s viewpoint was that there is demand for well managed affordable accommodation, and a need for investors to help in increasing the supply of this accommodation. Mr. Carel De Wit a respondent from JHC commented that, “the industry needs more investors not developers who are just interested in capital gains, small developers suffer from difficulty in accessing funding”. AFHCO and JOSHCO concurred that there is demand for affordable rental housing in the inner city, which is not met by the current supply rate. JOSHCO explained that urbanisation and the migration rate are factors that contribute to the demand for affordable rental accommodation. NHFC was of the view that urbanisation, the migration rate and upward mobility all contribute to the demand exceeding supply. Furthermore NHFC noted that

demand will always surpass the supply due to dependence on one financial system, being the subsidy system. The viewpoint is that in the absence of the National Credit Bill, that compels banks to lend to low-income groups, the affordable rental market delivery will continue to suffer. He continued to note that on the other side, city regeneration will also affect affordability of housing for the low-income people eventually, therefore government should continually subsidise affordable rental housing.

4.2.3 Models of housing delivered and income group serviced

In response to the questions in this section, JHC responded that their portfolio of properties varies; they provide rooms with shared facilities, bachelor units and 2 bedrooms units in high rise and townhouses. Further to that, JHC indicated that their target market depends on the area, but they aim at providing housing at very low rentals as possible, currently the range is for household-income from R 3500 to R12000. The response from AFHCO was that they also provide different types of accommodation; bachelor, 2 bedrooms and 3 bedrooms units. AFHCO‘s rental ranges from R1600 to R3500 and their target household income group ranges from R3500 to R10000 per month. JOSHCO‘s response was that they provide accommodation of different forms, communal, single shared rooms, bachelor and family units for rentals as low as R650.00 to R3000 per month. The target household income group level is R1500 to R7500.

4.2.4 Constraints faced by both private and public organisations in delivering affordable rental housing in the Johannesburg inner city

Commenting on this section, JHC noted that there are many challenges in the affordable housing sector associated with the sector itself and general challenges of running a business. The most important challenges viewed as impeding the delivery of rental units at a rate that will meet the demand are difficulty in obtaining funding, the slow administration of the City of Johannesburg on bad buildings, high costs of utilities in the inner city, hijacking of buildings and non-enforcement of by-laws by the City of Johannesburg. The Bad Building

Programme was established, in 1999, and ended in 2007, replaced by the Inner City Property Scheme. The BBP aimed to identify buildings that were in a bad state of repair and particularly those where the amount of arrears in rates and service charges exceeded the value of the building. In this latter case, the Council would take over (through rehabilitation or demolition) the building and hand it to the investor willing to buy a derelict building, and then the Council scraps the arrears (Housing Development Agency, 2013;17)

On the issue of funding, JHC elaborated that the problem is the poor administrative processes of governmental offices on applying and obtaining subsidies. When applying for project grants, SHIs have to ensure that the project applied for is supported by the provincial and local governments and is located in the restructuring zone. This is achievable through submissions of layers of paperwork by SHIs who report the process as tedious and sometimes exacerbated by poor administration of government officials such as misplacing of documentation and repetitive submissions. These long processes affect the cash flow of the organisation and therefore means housing projects cannot progress at a good rate.

NHFC's response to the question was that the major challenges facing the affordable rental market is the non-payment of rents. NHFC's respondent added that, SHIs could be running in a sustainable manner if rent collections were high, and commented that the private rental organisations are doing well due to high rent collection rates. Further to that, he noted that private organisations have in place strict rules and measures concerning rent defaulters, whereas in SHIs the rules are there however, there is lack of implementation when defaulting occurs.

NASHO remarked that the most important constraints faced by the SHIs are access to funding and lack of capacity. The capacity issue is both on the government and SHIs side. Government authorities suffer from inadequate knowledge of allocation of state properties, whereas some of SHIs are not knowledgeable on the building and construction processes.

The respondent from NASHO commented that initially capacity development within SHIs was a task of the Social Housing Foundation (SHF), which was totally funded by government, and since the dissolving of the SHF, no one has assumed that role. NASHO has taken on some of the programme activities however the programme cannot run to the maximum capacity due to insufficient funds as government is not assisting currently.

AFHCO indicated the major challenge as the high costs of utilities in the inner city. These charges are discouraging investors in the inner city as they influence operating costs and profitability of the units. According to the City of Johannesburg rates and taxes tariffs policy, residential rates are lower than commercial, business and mixed use rates. It is however believed that due to the fact that most of the affordable housing conversions were from business use to residential use, the City of Johannesburg is failing to adjust the rates of these buildings accordingly, as a result affordable rental housing organisations are being incorrectly billed. The City of Johannesburg acknowledges this in notifying that "changes have been made to the City's rates policy, which means that residential property owners can benefit from paying lower rates. Amendments to the rates policy of the City allows sectional title units used only for residential purposes but zoned as general, special, undetermined or property used for multiple purposes to apply to be rated in terms of the residential tariff with full residential benefits. Property owners who are being billed at a business property rate tariff can now apply to the City's rates and taxes department to be charged at residential rates (City of Johannesburg, 2012).

JOSCHO noted that their main challenges are; that they refurbish badly damaged buildings which require considerable funds and time to complete. The second challenge is that the buildings are at times occupied by illegal tenants when they acquire them for refurbishment. There are also legal procedures of evicting illegal residents of the hijacked buildings. So these initial processes hinder the progress of conversion or renovations of buildings to residential units. Linked to that is the cost implications of maintaining these old buildings as

at times the building's services have to be upgraded for residential use. The biggest challenge noted is the rental defaulting and non-payment of rentals. JOSHCO noted that their target market defaults on rentals due to various reasons, mostly loss of employment, death of a breadwinner and due to negative perception that these are government buildings, so they do not have to pay.

4.2.5 Means used/ to be used by organisations to address the constraints identified

In response to this, JHC noted that they have implemented innovative ways of sourcing funding, to ensure sustainable cash-flow. With regards to high utility rates experienced in the inner city, JHC responded that, they are working with the Council towards this issue. They have contracted independent companies for their buildings to deal with taking readings in order to meet the Council halfway. Furthermore, they conduct tenant education on the proper and economical usage of electricity and water, because these costs affect tenants' affordability on housing. JHC noted that also being an accredited social housing institution assists in accessing other funding from donors in addition to government subsidies.

Responding to this, Vuyisani Moss remarked that concerning rent defaults, tenants need to be educated on their responsibilities, that they have a responsibility to pay regardless of whether a building is government owned. Furthermore, there are situations where tenants will cite non-maintenance of buildings as their reason not to pay in those situations, tenants committees must be utilised where landlords/ building managers of SHIs will meet regularly and update the committee on the maintenance problems and progress of the buildings, in that way tenants feel part of the building management and they will pay rentals. He further remarked that, above all, tight legislation and legal processes to deal with defaulting tenants need to be implemented in this sector.

JOSHCO indicated that to deal with the challenges, they conduct tenants' satisfaction surveys annually, through independent consultants. These surveys assist management in

finding out what areas need to be attended to. In some of the surveys, it was found that in buildings where tenants were satisfied with maintenance and conditions of their buildings, response to emergency and maintenance complaints, the percentage of rental payments was higher. The surveys indicated that tenants perceive the visibility and interaction of the building manager with tenants as an important aspect that indicated the management is concerned with their well-being. In response to how they have positioned themselves with regards to the challenges they face, JOSHCO commented that one of the factors that make JOSHCO unique is that they work across all types of housing products and typologies, so they are able to cross- subsidise. Furthermore, JOSHCO commented that they continuously invest in innovative ways to provide affordable housing.

4.2.6 Options the above pose for future affordable rental housing in Johannesburg inner city and recommended interventions

The respondent from JHC commented that the continued increase in utility costs particularly electricity costs poses a serious issue in terms of affordability of housing for the target market and this could affect affordable rental housing sustainability. He argued that these issues should be looked at as it is currently a burden to low income people. In response to questions on how other stakeholders could intervene, JHC's respondent commented that government should intervene by providing more secure subsidies for affordable rental housing, and that the City of Johannesburg should accelerate the transfer of bad buildings to private investors for development into affordable rental housing. Furthermore, the City of Johannesburg should work on enforcing bylaws and legislation. His conclusion was that affordable rental housing is a good investment and that JHC is looking for other further opportunities in the market; what is needed is encouragement of more investors not developers who are interested in making quick capital gains.

NHFC'S remarks on this were that for the affordable rental housing to address the challenges and be sustainable in future, legislative instruments should be strict;

infrastructure costs should be addressed as they affect affordability of the rental market. The respondent's view was that the private rental market is working well in the inner city and that the social housing institutions should start implementing similar processes utilised by the private organisations. He noted that the issue with social housing stock is weak security, which discourages investors, exacerbated by non-support from legislative laws that do not support landlords, referring to the Rental Housing Tribunal. The view is that in cases of non-paying tenants the Tribunals do not have power to evict, they can only issue orders to pay, which does not favour the Landlord's position.

NASHO remarked that, there is a need to have more research on social housing issues, debates and workshops where practitioners and experts debate these issues. The argument is that many interventions are possible. Firstly, there must be a healthy working relationship between local government authorities and SHIs for the success of changes. There is also a need to educate citizens that social rental housing is not free and that tenants must pay their rental. Furthermore, the respondent commented that due to current reliance on the once- off project linked capital subsidy, social housing's delivery could not reach a scale that it can have an impact on urban regeneration as well as an impact on bigger housing supply. The financing problem and other costs of services passed to SHIs affect social housing affordability.

AFHCO stated that initiatives such as the urban development zone incentive tax provided by the City of Johannesburg and Treasury to attract private sector investment into the city play a good role in encouraging private investors in the inner city; however, there should be action to decrease utility rates. Further comments were that the affordable housing market is a viable market that can attract more investors than currently are in the inner city.

In response to interventions needed, JOSHCO commented that SHIs and investors have to work hand in hand with the City of Johannesburg not against the Council. They need to

advise the Council where they observe problems not criticise. There are a lot of buildings that have been identified under the bad buildings programme that if investors are in partnership with the city, can be converted to affordable rental accommodation. JOSHCO further remarked that the Council is really committed to city regeneration and provision of affordable housing; they just need to work on administrative and legislative aspects.

Research findings are summarised in the table below:

Table 4.1 Summary of study findings

Summary of questions	JHC	NHFC	NASHO	AFHCO	JOSCHO
Role in affordable rental housing	Provision of quality, value for money affordable accommodation	Development finance institution to fund development of affordable housing	An association for SHIs for support and capacity building	An investor, developer and manager of affordable housing.	A municipal rental housing entity of the City of Johannesburg.
Nature of projects	Conversions, refurbishments & Greenfields	N/A	N/A	Investment in both residential and commercial	Greenfields & refurbishment of City owned buildings.
Projects portfolio	Owns 30 buildings, 3600 rental units	N/A	N/A	62 buildings, 6200 rental units and commercial space	22 projects, 7200 units
No of years in business, delivery of housing per year	16 years in the sector, averagely 240 units/ year	Established in 1996, 17 years in the sector	11 years in the sector	15 years in the sector	8 years in the sector, 3400 units delivered within 3 years in business
Definition of affordable housing	Value for money housing. Income ranging from R3,500 - R12,000	Accomodation for people who earn between R3500 - R7500		Housing for gap market between subsidised and non-subsidised	Accomodation that addresses needs of the poor
Target Market	Income range of R3,500 up to R12000	Income range R1500-R7500. Retail lending has been adjusted from R1500 to R15000	Low-middle income households	Income range of R3500 up to R10 000	Income range of R1500 up to R7500
Typology of units	Rooms with shared facilities, bachelor, 2 bedrooms in high rise and townhouses	N/A	N/A	Bachelor units , family units and high income units	Communal, shared rooms, single rooms, and family units

Demand vs Supply	There is demand for affordable, well managed accommodation	Demand of affordable rental housing in the city will always be high.		There is great demand for quality affordable rental housing in the inner city.	There is great demand for affordable rental housing in the inner city
Contribution towards affordable housing delivery	JHC has contributed significantly in affordable accomodation.			Have invested R3 bilionbillion to date in the sector.	Approximately R60 million was spent by 2006
Constraints	Difficulty in accessing funding, slow release of stock for development, rental defaults	Inefficient property management , rental defaults	SHIs lack of capacity to manage, lack of technical knowledge in construction	High rates of utilities	Rental defaults, illegal occupants, overcrowding, high costs of utilities
Management strategies	Creative in funding models	Tenant education regarding rent payments and management of housing		Innovative funding models, innovative property management	Change in rent collection methods, tightight access control system
Impacts of constraints on delivery	Housing becomes non-affordable to the target market due to high charges of services		Financing and capacity constraints impact on the potential of SHIs to increase scale	Constraints discourage investors, only those that are willing to take high risks.	Constraints impact on the number of units to be delivered yearly
Is affordable rental housing a good investment	Yes	Yes	Yes	Yes	Yes
Type of projects that are most viable	Refurbishments are economical			Refurbishments and conversions	Greenfields with proper construction management are easier to develop
Required Interventions by government	More secure subsidies, acceleration of release of housing stock	Legislative instruments should be accommodative of the sector		Utility rates costs should be dealt with	Administrative and legislation issues should be dealt with
Future of affordable rental housing	There are opportunities for the future	There is a good future for affordable rental housing	There is a future for affordable rental housing. SHIs should be more	There is great demand for quality affordable rental housing in the	There is a good future for affordable rental housing in inner city

			capacitated	inner city.	

4.3 Analysis of study findings: comparative analysis between private and social housing organisations

4.3.1 Organisational role in the Affordable Rental Housing

All of the respondents indicated that they have sufficient experience in the affordable rental housing, with years in the industry ranging from 8 up to 16 years. The three affordable housing providers serve both developers and property management roles with the exception of AFHCO a private organisation that has a different model that combines residential and commercial property in their developments. In the most recent AFHCO'S buildings conversions, the bottom floors are occupied with retail and business leasing. An example of this model can be observed in the conversion of 120 End Street, where the ground floors have been converted to 8000m2 of shopping centre. This model's advantage is that it brings some of the day-to-day essential needs of tenants close to their areas of residence. All respondents viewed their role as significant in the delivery of affordable rental housing with the positive response that they could have contributed more than is being done currently in the absence of the highlighted constraints discussed in the following sections. The number of buildings and units in their respective portfolios backs their contribution. In general, organisations are optimistic about their roles and contribution in the delivery of affordable rental housing in the inner city.

4.3.2 Status of affordable rental housing development in the Johannesburg inner city

The first part of the question requested respondents to provide their definition of affordable housing. The aim was to establish whether role players have a similar understanding and

opinion of what should be categorised as affordable housing. The finding is that all respondents noted differing monthly household income ranges, however, they all seem to agree on the lower household income level of R3500 per month whereas the upper level differed, from R7500 up to R12000 per month. The interpretation is that, with the private institutions, the upper level is higher than the social housing limit of R7500. One reason that private organisations would provide for higher income brackets is due to the need for profit realisation and as well as a strategy for cross-subsidisation in order to accommodate lower income brackets. The great demand for affordable rental accommodation is communicated by all respondents. Both private and social housing organisations have indicated their vacancy rate to be at the lowest.

4.3.3 Constraints faced by both private and public organisations in delivering affordable rental housing in the Johannesburg inner city and strategies implemented

In providing an analysis of the factors found to challenge the delivery of affordable rental housing, the challenges are outlined and discussed in an order of their frequency as follows;

Financial and funding constraints

Almost all of the respondents said that financial constraints in any form were the most important limiting factor. For social housing institutions the challenges are, shortcomings with institutional subsidies, including the amount of the subsidy, prolonged processes required to obtain the subsidy and significant delays in receiving funds once subsidies have been approved. However the shortcomings of the institutional subsidy and subsidy amounts are hoped to be addressed by the restructuring capital grant from Social Housing Regulatory Authority. The grant quantum is determined on a project by project basis and depends on the affordability mix of units (Rust, 2012). The process of applying for subsidies is alleged by SHIs to be exceptionally bureaucratic with several layers of review and multiple submissions of documentation required. In addition, once subsidies have been approved there are often significant delays before funds are actually disbursed. It is also hoped that with the

operation of the Social Housing Regulatory Authority the process of subsidy administration will be made more efficient.

For private rental organisations, financial constraints do not seem to be a major constraint as compared to the SHIs. One can argue that, private organisations have opportunities to attract financing through investors due to the attractiveness of the profits in the market. It can also be assumed that some investors could have a perception that investing or being in partnerships with government agents involves a lot of regulations and processes that need to be followed, and these processes are viewed negatively as impeding delivery of units at the maximum rate. Therefore for SHIs to attract financial assistance from investors, perceptions of inefficiency with regard to applying for subsidies will also need to be altered.
AFHCO indicated that the affordable rental market in the inner city is attracting investors and banks that in the past were sceptical to invest in the city. AFHCO forms joint ventures and partnerships with banks and other institution in some of their developments. This can be viewed as one of their strategies to mitigate financial risks in the affordable rental market. The Joint ventures are strategic ways of risk sharing in projects, both from financial and technical sides. Joint ventures bring together a collection of skills and experience in the rental housing market.

Rental defaulting by tenants

JOSHCO, backed by NHFC indicated the rental defaulting as the other key factor that affects the affordable rental accommodation. Another factor is the illegal occupants that cause overcrowding and increase on costs of utilities for the buildings. The lengthy process of the evictions and its inefficiency is another common concern between the social housing institutions and the private rental organisations. The widely held perception is that the legal institutions and processes simply do not work. There is very little faith that they could be made to work given the lack of capacity within (and competing claims on) the justice system. The prevailing view by investors in the rental market is that existing and proposed

regulations relating to evictions, specifically those that require a high court ruling for an eviction and that seek to criminalize evictions undertaken without a court order, should be amended in light of this (Melzer and Moothilal, 2008). Further to that, costs of following prescribed processes are exceptionally high. This is particularly the case where occupants of an entire building need to be evicted either because the building has been hijacked or because a new owner wishes to refurbish. In the case of single units, while each case differs, it is reported to typically take between six months and one year to evict a tenant through the courts. During that time landlords receive no rent and usually have to continue paying for services used by the tenant such as electricity and water. As a result some landlords often opt to switch off electricity if payment has not been received by due date of the month or lock tenants out. Rental defaulting and low collection of rental revenue affect negatively on operational costs and have an effect on organisations cash flows and sustainability. This situation thus has an impact on the rate of delivery of units an organisation can potentially deliver in a financial year.

Private companies employ certain measures to counteract the consequences of rental defaulting. One of the procedures that seem to be in- place to mitigate the risks of defaulting is the strict tenant selection process. Payment of rental deposit amounts (at times twice the monthly rental amount) requested by private companies can be questioned in terms of affordability of low income people, however it can be argued that tenants of private rental housing seem to not default easily since they fear forfeiting such amounts.

High costs of rates in the inner city

Poor quality and high cost of key services delivered by local government, particularly in inner city Johannesburg, was highlighted by both private and social housing organisations. Problems are long delays in responding to reported problems and outstanding or frequent billing errors. In the areas of refuse removal and basic cleanliness JHC commented that they often have to augment services provided by the city directly, hiring cleaners to maintain

alleyways and streets around their properties. Poor by-law enforcement was also highlighted as a problem. The unpredictable costs of utilities make it difficult for the management to budget and manage their expenditure.

Delays by the Council in releasing stock for development

The challenge of delays by the City of Johannesburg in releasing stock for development has been communicated by both JHC and JOSHCO. The decline of the Better Buildings Programme which was viewed as a catalyst in releasing of stock in the inner city has a negative impact. The City of Johannesburg (2012) notes that the Better Buildings Programme only achieved moderate success due to factors such as lengthy expropriation process, screening of participants and the requirements to provide transitional housing to building occupants that have to be evicted. As a way forward, the Better Buildings Programme is being replaced by a new programme, the Inner City Property Scheme, which is anticipated to address the Better Buildings Programme shortcomings.

Lack of knowledge and capacity in the non-social housing Industry

Capacity building of SHIs has been highlighted in various policy documents as a key issue for the sector (Social Housing Foundation, 2008). The vision is that the SHRA, through the regulation processes will assist in the capacitation of SHIs mainly on the property management skills. Another view is that, aside from building the capacity of SHIs directly the sector may well benefit from outsourcing key functions to private sector players. Examples of this have already emerged. Communicare, a social housing institution based in Cape Town makes use of the services of Trafalgar, a private property management company. However for many SHIs financial constraints inhibit their use of outsourced providers. The new subsidy structure may, however, facilitate the use outsourced services. The SHRA institutional investment grant has a specific intervention grant that may be used for this purpose. The aim of the specific intervention grant is to help accredited SHIs that

have completed and operational projects, but in distress as a result of either operational or financial weaknesses (Rust, 2012:12).

4.3.4 Options the above constraints pose for future affordable rental housing in Johannesburg inner city and recommended interventions

An important view from the respondents is that affordable rental housing in the inner city is a viable and good investment whose demand is expected to continue to grow in the future. Respondents are of the opinion that with effective interventions by all stakeholders, the constraints can be addressed. None of the respondents, both private and social sector providers reported any anticipation of diminished demand for their units. Private organisations have not experienced any resistance to market pricing of their units as a result of the supply of subsidized units. It is thus clear that the affordable rental market is in demand and that social housing institutions have to really increase their scale of delivery.

4.5 Chapter conclusion

The chapter offered a presentation of the findings of the study. The chapter indicated how role-players perceive the challenges and the effects of those challenges in the delivery of affordable rental housing. To a certain degree, respondents indicated similar concerns and problems, as much as there are other respondents who indicated minimal challenges. In general, the view is that there is great demand for affordable rental housing that is not met by the current rate of supply due to constraints highlighted. The study conclusions and recommendations are drawn in the following chapter.

CHAPTER 5- CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions of the study

Based on the findings and literature reviewed in this study, one can conclude that affordable rental housing is an important component of the housing market in Johannesburg that is in great demand. Various literatures have debated the provision of affordable rental housing in comparison to housing ownership. Debates have indicated that while housing policy for the low-income households in South Africa has in the past tended to favour homeownership, the demand for rental housing especially in urban areas has otherwise indicated the importance of focusing on rental housing delivery. Demand for affordable rental housing in the inner city of Johannesburg has been communicated by both private rental organisations and social housing institutions in this report.

Studies have been conducted on the rental market in the past with the objective to analyse demand and supply of rental market; however it has proved to be difficult to access reliable data on these due to the fragmentation of the rental market. Tissington (2011:38) notes that data on the demand and supply for rental housing in South Africa is limited and says little about affordability levels. Findings show that there is demand for well allocated affordable accommodation and that the provision of this accommodation is faced with challenges. The objectives of this study were to determine what models of affordable rental housing are delivered in the Johannesburg inner city, the income groups the models serve and the challenges facing the delivery of this accommodation.

The study showed that both private rental organisations and social housing institutions in the inner city provide similar forms of rental accommodation for the affordable market. Types of accommodation rentals provided are; shared rooms, 1 bedroom unit and 2 bedrooms units. It was observed that both private organisations and social housing institutions serve the same income bracket being the households earning income from R3500 to R7500 per month; however the private rental organisations also provide for the higher end income groups. Another interesting finding was that there are no significant differences in rentals amount per month charged by private rental organisations and social housing institutions. The findings therefore suggest that social housing institutions and private rental companies in the affordable rental housing are susceptible to the same market challenges, however the variance is in the strategies each organisation utilise to address the challenges.

On analysing the constraints highlighted by the organisations, it is concluded that the most problematic factor communicated by both private rental organisations and social housing institutions, is the slow release of buildings for conversion and upgrading into units by the City of Johannesburg. The Better Buildings Programme is seen to have been inefficient in this regard. The slow release of stock is considered to be the largest hindrance in this study because it directly impacts on the number of units to be delivered in the affordable rental housing market. To SHIs and private rental companies, this affects income revenue and potential loss of gains. The second factor is the high costs of utilities charged by the City of Johannesburg in the inner city and the reported errors in billings. This affects the organisations' operational costs and their sustainability. The third most communicated challenge from both sides is the monthly rentals defaulting. The conclusion is that, rental defaulting is a challenge for all rental accommodation organisations. There are indeed other factors that can cause tenants to default, such as loss of employment and death of a breadwinner in a household. In this regard, the duty lies within the organisational procedures on how to deal with such cases.

The study further observed that difficulty in accessing finance for SHIs is not a major constraint anymore due to the recent establishment of the Social Housing Regulatory Authority, which has improved legislative and financial framework of the sector. However SHIs need to adapt to the processes and requirements of applying for the funds. These processes are perceived by SHIs as tedious and bureaucratic. A study conducted by the SHF reported that access to debt funding for the purposes of delivery of rental housing in the inner city has improved over the past decade, with institutions such as the NHFC providing debt funding to social housing institutions. Furthermore, there is a need to find attractive ways of encouraging investors that will bring in equity in the funding pool of social housing institutions. The ideal situation for financial sustainability of SHIs is to have balance between equity and debt.

On the issue of capacitation of SHIs, the study found out that there is uncertainty in responsibility between social housing support organisation (National Association of Social Housing Organisations) and regulatory body (Social Housing Regulatory Authority) regarding the capacity building programme. It is anticipated that SHRA, will address the issue of capacitation.

Having discussed the above, the study concludes that demand for affordable rental housing is expected to grow despite challenges facing delivery of this accommodation. The benefits that rental accommodation provide for people living and working in urban areas discussed in literature review, favour the growth of this accommodation .

5.2 Recommendations for the affordable rental market

In order to increase the supply of affordable rental accommodation, all stakeholders and role players in the housing sector should find ways of dealing with necessary approval processes and procedures in a faster and less tedious manner. The following are recommendations for consideration in further study as well as informing regulations and policies:

- The NDoHS should instil sound and relevant public administration and management principles as well as professionalism in the management in all governmental offices serving the housing sector.
- The NDoHS should investigate ways to minimise bureaucracy and increase efficiency in the administration of housing subsidies funding.
- The Social Housing Regulatory Authority and the National Association of Social Housing Organisations should work together in addressing capacity problems of social housing institutions.
- There should be continuous research on the means to improve operations and sustainability of social housing institutions.

Further research expanding the study in other cities and municipalities is recommended. A broader study on comparison of these organisations will provide important information to influence decisions on regulations and policies.

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