FINANCING SOCIAL HOUSING

INVESTING IN URBAN REGENERATION

WORKSHOP REPORT

12th - 13th October 2011
Johannesburg, Gauteng

PRESENTED AND PREPARED BY:

National Association of Social Housing Organisations

and Agence Française de Développement

ABBREVIATIONS and ACRONYMS

AFD	Agence Française de Développement
BID	Business Improvement District
CBA	Cost Benefit Analysis
CID	City Improvement District
CoJ	City of Johannesburg
DFI	Development Finance Institutions
ESP	Extended Social Package
FSC	Financial Sector Charter
IDP	Integrated Development Plan
JDA	Johannesburg Development Agency
JOSHCO	Johannesburg Social Housing Company
LED	Local Economic Development
MHA	Madulammoho Housing Association
NASHO	National Association of Social Housing Organisations
NHFC	National Housing Finance Corporation
RCG	Restructuring Capital Grant
RDP	Restructuring Development Programme
	(Here refers to "free" ownership homes for households with a monthly income of less than R3,500)
SALGA	South African Local Government Association
SH	Social Housing
SHIs	Social Housing Institutions
SHRA	Social Housing Regulatory Authority
SOHCO	Social Housing Company
VAT	Value Added Tax

2011 WORKSHOP REPORT

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1 THE HOW AND WHY OF THE WORKSHOP

On 12th-13th October 2011, NASHO and the AFD jointly held the workshop ***Financing Social Housing: Investing in Urban Regeneration***. The focus of the workshop was two-fold:

- To consider the potential and existing social housing contribution to urban regeneration in South Africa
- To look at the alternatives for the long-term financing of a sustainable social housing sector in South Africa

The intent was to bring together key experts and practitioners from South Africa, France, The Netherlands and Brazil through presentations, panel and small group discussions to open up and debate these issues. The intended result was to identify key issues that required further research and action in these areas over the next few years.

64 people attended the two-day workshop representing a wide spectrum of the stakeholders involved in social housing in South Africa with focused urban regeneration and social housing financing international expertise. The results of the workshop are best summarised in the key issues and possible interventions identified during the two days.

For the purposes of the workshop the concept of social housing was limited to the definition in South African legislation: rental and cooperative housing for households in the income bracket R1,500 – R7,500 in well-located areas of South African cities.

The term "*urban regeneration*" was defined as the revitalisation and redevelopment of rundown and poorly functioning parts of our cities through processes that include densification, upgrading, developing economic and racial inclusivity, linking to greater social and economic opportunities and viable public transport networks and moving towards safe, secure and sustainable cities.

2 SOCIAL HOUSING AND URBAN REGENERATION

2.1 BACKGROUND

Apartheid and other factors have contributed very strong spatial separation on base of race, economics and function within South African cities. This is exacerbated by the general flight from and linked degeneration of many of the inner city areas. A major developmental challenge for the country is the development of better functioning and more inclusive cities. A further aim upon achieving this challenge is to tackle other urban areas that have degenerated.

Presently, the national policy framework for urban regeneration is weak – the mechanisms to strengthen it have been diffused. They rely primarily on municipalities to give them form from a range of different legislative and financing streams and some special programme initiatives. Social housing is a key residential component of a government programme that has the specific intent of helping to restructure our cities. To date, the scale of delivery was too small to register any significant impact either across our cities or in any specific cities. It is also hampered by a fairly "ad hoc" project framework where projects are developed around available pieces of land without much linkage to broader urban regeneration programmes or initiatives. Within this context, it is imperative to identify the critical issues and interventions that can strengthen the linkage of social housing and urban regeneration.

2.2 KEY ISSUES

Increase in Scale of Delivery

Achieving significant impact of social housing in urban regeneration requires resourcing of higher social housing delivery targets. Outcome 8, with its target of 25,000 units over the four-year period, begins to give some focus to scaling of delivery. However much higher delivery levels are required. There were some suggestions that between 100,000 to 150,000 units were needed by 2020 if social housing is to make a real impact. This also requires a reconsideration of the long-term financing mechanisms required to achieve such delivery targets and ensure sustainability.

Precinct Planning

If social housing is to have greater impact on urban regeneration, it must move away from the isolated project approach to one that links it to programmes of urban regeneration. Presently, South Africa does not have a strong and coherent policy and approach to guide urban regeneration programmes. The present approach to social housing projects is ad hoc - linked to available land and buildings in a designated Restructuring Zone. Social housing projects are seldom part of broader regeneration programmes within the cities. The impact of social housing on urban regeneration is likely to increase when there is stronger integration into city programmes for urban regeneration that incorporate other components alongside social housing.

Strengthened Partnerships for Urban Regeneration

The effectiveness of such urban regeneration programmes in other countries is dependent not only on the policy and financing framework, but also strong institutional structuring based on partnerships - strengthening the cooperation between the public and private sector (including for-profit and not-for-profit companies).

The municipality is the key co-ordinator of such programmes and implements "regeneration" in the city.

The relationship between the SHIs and the local authorities was identified as being of central importance. Presently, the relationship is weak or very loose, making the necessary long-term partnership that is necessary difficult to achieve.

It is also important to develop and strengthen the relationship between SHIs and private for-profit sector landlords – both in fashioning a more targeted approach to different markets, and in engaging in joint efforts to strengthen regeneration preferably as part of a bigger stakeholder team.

State Investment As Catalyst

Linked to the more programmatic approach to urban regeneration is the important role it plays in helping to strategically target public investment to leverage a range of other investments that make regeneration sustainable. The precinct programme approach also provides for more streamlined alignment of different forms of government investment to increase impact in the area.

Land Availability

The current lack of reasonably-priced, well-located land is a serious concern for SHIs. Government has a significant opportunity to help in the provision of such land and buildings at prices that help make the social housing opportunities affordable. However, the challenge remains in having a broader "precinct approach" that layers the release of such properties within a broad plan for urban regeneration that realises both economic development as well as social developmental policy and spatial objectives of municipalities.

2.2 KEY ISSUES (continued)

Planning Consent and Offset

The experiences in other countries using planning consent linked to conditions for supporting other social development initiatives is hardly developed in South Africa at present. This instrument is particularly important in areas with high property values where the usual "market imperative" are geared towards catering for high-end economic activities and not necessarily achieving the broader developmental objectives of government.

Cost Benefit Analysis

There is scant research on the cost benefit analysis of government social housing investment and its impact on urban regeneration and restructuring. Much better understanding is required as to how the government and leveraged investment through social housing is impacting the lives of tenants. Significant attention is also needed in assessing medium and long-term cost structures and efficiencies of our cities (e.g. transport, bulk infrastructure costs).

2.3 POSSIBLE INTERVENTIONS

Urban Regeneration

- Strengthening the catalyst role that social housing can play in national and local policy on urban regeneration and linkage with urban regeneration financing streams.
- Strengthen factors for social housing to achieve greater “deep-down” reach at the lower end of the rental market.
- Highlight the leverage effect that social housing has in facilitating private sector investment in inner city regeneration using the Johannesburg inner city as an example.
- Consider the relationship between the structuring of various tenure options in residential urban regeneration initiatives especially the linkage of rental and gap ownership supply.

Precincts and Nodes

- Encourage implementation of a “precinct” approach to urban regeneration with social housing as an important driver and catalyst.
- Engage in the strengthening of urban regeneration policy and its implementation through municipalities assuming a lead role.
- Greater integration of various state financing streams for urban regeneration, including maximising impact through the RCG.
- Stronger partnerships between SHIs and municipalities built around strong urban regeneration planning objectives and programmes.
- Strengthening of broader partnerships within the urban regeneration programmes.
- More co-ordinated lobbying and cooperation is required to ensure real precinct initiatives in which social housing is recognised as important elements and not just interventions (e.g. Cape Town Provincial Government Land Initiative; Germiston Urban Upgrade Programme; Manguang-Brandwag precinct; resuscitation of the Better Buildings Project in Johannesburg).
- Properly supported neighborhood development programmes that link social housing to broader community development initiatives (e.g. the eKhaya project in Hillbrow, Johannesburg).

Land: Availability, Packaging and Release

- Municipalities must better understand the use of land and building assets to achieve long-term developmental objectives and build these into partnerships with SHIs.
- Developing better systems for the use of planning permission and land sales to achieve gains that help with the financing of social housing in the areas under development.
- Use specific projects (e.g. NASHO members and the Western Cape Provincial Department of Transport Land Development Initiative) as practical projects to structure and test mechanisms for land availability, packaging and release.

Bulk Infrastructure Provision

- Lobby for SHIs to be exempt from bulk infrastructure developer fees.

Institutional Relationships: Municipalities

- Strengthening the engagement between SHIs and municipalities through specific partnership agreements and extending this through NASHO/SALGA joint projects using developed models of partnerships.
- Build these partnerships with municipalities through specific precinct projects.
- Engagement of the private for-profit sector around joint action on issues of mutual interest (e.g. rates and utility targets, market targeting).

Cost Benefit Analysis Study

- Engage in a sector-wide cost benefit study building on the work done through the Social Housing Foundation to strengthen the argument for long-term financing of social housing as a key catalyst for urban regeneration and integration.

3 LONG-TERM FINANCING OF SOCIAL HOUSING

3.1 BACKGROUND

If social housing is to make a significant contribution to urban regeneration, then it needs a substantial increase in delivery while remaining financially sustainable. To date, the SHRA estimates that there are 40,000 units across the country, most of which have been delivered by 18 partially or fully accredited SHIs. Not all of these are in restructuring zones, and some were financed using only the Institutional Subsidy (with particular emphasis on forms of rent-to-buy housing). It is estimated that there were about 26,000 well-located rental units.

The present financing mechanism is through two linked capital grants from government: the Restructuring Capital Grant and the Institutional Subsidy. These are used to cover approximately 30-40% of the capital costs which allow the SHI to reduce rentals. In some instances, additional subsidies are achieved through the use of public land, and, in a few instances, grants for operational costs from municipalities. However, there is presently no specific operational grants or subjective subsidy for social housing in South Africa.

Although the present financing mechanism has worked in the short-term, there are many questions about its long-term viability and sustainability, especially when delivering at the scale required to have an impact. There are also questions as to whether the existing financial mechanisms are moving delivery to the higher ends of the targeted income range and limiting the potential for “deep down” market reach.

In addition to the subsidy mechanism, there are also critical issues of cost inflation and cost controls that affect the targeting and sustainability of social housing.

3.2 SUMMARY OF KEY ISSUES RELEVANT TO SOUTH AFRICA

Institutional and Sector-Wide Sustainability

There is a need to define the term sustainability within the context of the sector, both in financial and institutional terms. How can the sector be financially sustainable? What makes for a sustainable SHI?

Financing Options and Ways of Reducing Financing Costs

There needs to be alternative approaches to the South African model of primary reliance on a "one-off project-linked capital subsidy." Alternatives could include: subsidised loan finance through government support and guarantees; operational subsidies; housing benefit subsidies; and government led equity investment in SHIs. These need proper modeling, using the parameters for the longer term expansion of the sector.

State Interventions

The role of the state in financing is a controversial one. There is fear from the private banking sector of the state intervening directly into the housing market. However, there is clear acknowledgement that social housing for the target market in better located parts of the cities cannot happen sustainably without considerable government investment. The critical issue is finding the best ways to maximise this investment in achieving the key impact of ensuring long-term sustainability and increased sector self-financing.

Provision of Operational and/or Subject Subsidies

Such subsidies would help affordability. While a national "housing benefit" scheme is unaffordable to the country, other mechanisms are worth exploring, including the refining and greater application of the government's "indigency" provisions for rental housing.

Bulk Infrastructure

The cost of the provision of bulk services and how it is then passed on to the developer (mainly SHIs) impact negatively on the affordability levels in social housing.

Non-Financial Contributions To Reduce Costs

There are a range of non-financial interventions that can be put in place to help reduce risks and encourage the financing of social housing. Particularly significant is developing the values in political and administrative spheres and that rental housing is not "free" housing: tenants must pay their share of subsidised costs.

Fine-Tuning Cost Drivers

There is a need within the sector to better understand what the significant cost drivers are and to then address these by changing the institutional model accordingly. It is counter-productive to attempt to change institutional practices to ameliorate cost drivers if they are not fully understood.

3.3 POSSIBLE INTERVENTIONS

The issues raised during this part of the workshop have highlighted a number of key areas that require additional research, assessment and then linkage to advocacy for change and improvements in policy and implementation. These include the following:

Understanding Cost Benefits of Social Housing

- Social housing provision is not merely about the provision of shelter but also about contributing to the restructuring of South African cities. The financial cost to government of its provision needs assessing against the cost benefit of its provisions across a number of factors including: "life" quality and opportunities to the tenant household; value to the city; leveraging of non-governmental investment in the city.

Capital Financing Options

- The existing social housing financing model has severe limitations both in the quality and the cost-effectiveness of the use of government subsidy. More in-depth research and modelling is required to test the potential effectiveness of other approaches to capital financing.
- More attention is required for the interaction between the primary financing mechanisms for social housing and other secondary financing instruments (e.g. infrastructure financing and Urban Neighbourhood Redevelopment Grant).

Improving the RCG

- Income bands need to change. They cannot be static whilst real costs and inflation rise. The sector needs to lobby on this issue. Increase subsidy amounts linked to inflation.
- Greater attention to multi-year planning and allocation of the subsidy making the planning of such projects more efficient and cost-effective.

Tax Regime

Presently, the VAT charges on construction linked to the RCG require re-consideration as it generally represents a taxation on the RCG, effectively increasing the costs of development and reducing the impact of the government grant contribution.

Increasing Private Sector Investment

- Systems are required to maximise the leverage of private finance by the government investment. This requires changes in the perception of risk management in the social housing sector. It also requires greater diversity in investment options to allow for investment at different stages.
- Overhead costs such as offices and satellite offices need to be carefully considered.
- Need to consider having a range of housing products so that tenants can "right-size" themselves as they need to. This will help to ensure rental collections and reduce arrears.

Operational Subsidies

- Further work is required on understanding the extent and nature of operational subsidy within the sector. Particularly, work is required to review the use of indigency schemes by municipalities to increase affordability of social rental housing to low income households.

3.3 POSSIBLE INTERVENTIONS (continued)

Internal Cost Drivers

- Greater control is required on the input costs on both the development and the longer term management of the stock through properly informed benchmarking .
- Design emphasising durability and low-maintenance features is important to keep costs down and ensure long-term usability and sustainability.

External Cost Drivers

- It is also important to engage with the external cost drivers (e.g. utilities and municipal rates) and attempts to control and, where possible, reduce these costs. Such work should both engage the suppliers (e.g. municipalities and utility companies), but can focus in the longer term on social housing institutions taking on a greater role as their own energy suppliers. Although there are no national policies, municipalities like the City of Johannesburg have used existing instruments to assist with this through their Extended Social Package (ESP) and Registered Social Landlord interventions.
- With the growth in the sector, it is now more possible for SHIs to cooperate to negotiate better building material, construction and service costs (e.g. building insurance). South African SHIs could band together as a cooperative in order to access more competitive building and construction costs.

Cross Subsidy From Other Activities

- Alternative income sources from retail and commercial activities linked to developments in well-located areas could be used to provide other income streams to cross subsidise some of the operational costs of social housing projects.
- SHIs can use green building technologies in their greenfields developments and in retro-fitting existing refurbished units to bring down resource usage and costs (e.g. Madulammoho's heat pumps).

Non-Financial Contributions

- There are substantial costs involved in an SHI holding land and waiting for administrative approvals. Streamlining and greater administrative efficiency would help to reduce costs.
- Policy needs to be aligned across and within each sphere of government to help direct energy, reduce red tape and ensure that the budgets are following the policy trajectory.
- Linkage of the allocation of land and additional financing through land-planning offsets in areas with high developmental value.

4 CONCLUSIONS AND THE WAY FORWARD

The interaction between the different participants has provided significant insights into key challenges facing the sector in South Africa. These were given sharper focus from the reflections on the experiences of other countries. It also emphasised the need for a longer-term perspective on the sector and where it should be in the next 15 years.

KEY TO THESE ISSUES WERE:

- Defining more clearly the required delivery targets for the next 15 years and the financial and institutional conditions linked to this.
- Expanding the contribution of social housing as a key driver and contributor to urban integration and regeneration in South Africa. This requires extending the quantum of delivery and the investment in the sector. It also requires a shift to a more city wide and "precinct" approach to social housing development rather than the more restricted ad hoc project approach. This means greater strengthening of the present urban regeneration policies and mechanisms and the place of social housing within these.
- Increasing and maximising the impact of government financing of social housing to build the sector at a faster rate and to achieve key objectives of affordability and the long-term sustainability. This requires a systematic re-assessment of the best forms of government financing and how they can most effectively link with non-governmental financing. It is also important to ensure a better understanding and control of the cost drivers in both the development and management of the social housing stock.

4 CONCLUSIONS AND THE WAY FORWARD

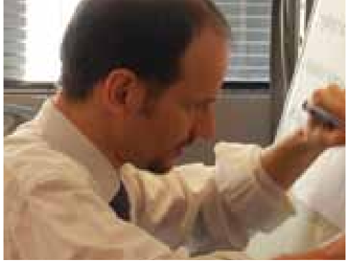
Tackling these requires a whole range of initiatives involving research, lobbying, policy review, development of new mechanisms for implementation, as well as monitoring and evaluation. For these to have the greatest impact , cooperation and co-ordination between the key government and non governmental stakeholders in the sector is required – with each party defining its own programme within the broader objectives of the sector.

NASHO is using the results of this workshop to strengthen its focus and activities around the following key programme and project interventions:

- Long-term financing of social housing in South Africa
- Social housing and urban regeneration through specifically identified delivery projects
- SHI and municipal cooperation:
  - Rate and utility charges and Indigency benefits
  - SH involvement in municipal and CRU housing
- A Technical Support Centre to assist in the development of greater cost efficiencies in social housing delivery and maintenance
- Capacity Development Programmes for SHIs and other stakeholders in running the sector and managing stock
- Increasing the knowledge and understanding of social housing by politicians, administrators and the broader public through the "Faces of Social Housing" expo

1 BACKGROUND

Despite its slow start, the pace of social housing delivery is increasing rapidly in South Africa. It is recognised as more than the provision of shelter, but also as an important mechanism to assist in greater economic and racial integration of South African cities. As such, it has an important role to play in urban regeneration. As the contribution to social housing is increased, it is important to ensure that government and other investments are structured to achieve the greatest impact particularly in terms of economic sustainability. It was in response to these issues that NASHO and AFD jointly organised the Financing Social Housing: Investing in Urban Regeneration workshop on 12th and 13th October 2011 in Johannesburg. The workshop consisted of a series of focused discussions among key South African stakeholders and international experts from France, Brazil and the Netherlands. These discussions were located firmly within the opportunities and constraints of the South African context. The workshop was structured with formal presentations, panel discussions, as well as small group discussions and plenaries.



2 PURPOSES OF WORKSHOP

The primary intent of the workshop was to analyse the state of the social housing sector as it pertained to urban regeneration and long-term financing. The aim was to define possible solutions for further investigation and action. It was also intended that the workshop would help NASHO and others in the SH sector chart a path over the next 12 months to strengthen further research, lobbying and implementation.

The workshop focused on the following critical questions:

- What residential interventions are needed to ensure the functional integration of SA cities and remove apartheid spatiality of segregation?
- What is/can be the contribution of social housing to South Africa's urban regeneration project?
- What are the existing tools and instruments that can be used to increase residential and functional integration of our cities?
- What are the key financial issues that need resolving to move social housing delivery to levels that will impact our cities?
- What is the international experience and how can that be used to illuminate potential options for South Africa's social housing sector?
- What needs to be put in place to achieve these ends?
- Municipal/institutional relationships and frameworks
- Policy at different scales
- Non-financial instruments of intervention
- Finance and finance products

3 THE PROGRAMME

Over the two-day workshop, there were several presentations, plenary sessions and panel discussions as well as working group discussions (see Appendix I for the full programme). Local and international speakers gave their input into the following key thematic sessions:

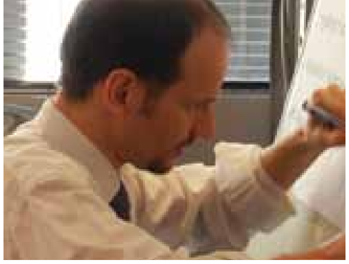
Day 1: Social Housing and Urban Regeneration

- "A Tale Of Two Cities: Johannesburg And Cape Town" – presentations and panel discussion
- Panel response from two international and two South African practitioners
- "Strengthening Social Housing's Contribution To Urban Regeneration And Integration"- small group breakaway sessions
- "Key Themes For Further Work- Social Housing And Urban Regeneration" – plenary session

Day 2: Alternatives for Financing Social Housing in South Africa

- "Perspectives On The Present Financing Framework" – presentation
- "Perspectives From The Coal Face: Challenges Of Existing Frameworks" – presentations
- "Perspectives From South Africa And France" – panel discussion
- "Mechanisms For Long-Term Financing Of Social Housing" – small group break away sessions
- "Key Strands For The Long-Term Financing Vision For Social Housing" – plenary session

The individual presentations from lead speakers and the panels provided valuable information and insights that helped guide and focus the small group sessions. The two days generated a range of issues, options and ideas for ways forward that are summarised and presented in the following sections.



4 DEFINING OUR CONCEPTS

So what is social housing?

The international inputs showed that the term "social housing" does not have universal meaning. In South Africa, social housing refers to rental accommodation for a specific target market. The Brazilian model of social housing does not include formal rental/rent-to-buy or co-operative models but more broadly housing opportunities for low- and moderate-income households. In France, social housing refers to both public housing with well-below market rentals as well as accommodation for employees of specific companies or in certain professions (e.g. train drivers). In addition, French SHIs have long histories: they own and manage over four million units (although there has been no growth over the past number of years).

What is urban regeneration?

There was greater consensus about the meaning of 'urban regeneration'. Stemming from the workshop, the following principles were seen to be essential components of urban regeneration:

- Functional and regulated formal housing market
- Areas of mixed-use, mixed-density and mixed income
- Good public transport links to other parts of the city; even if people cannot live in these areas, transportation options remain affordable and accessible
- Good quality rental accommodation for a range of markets
- Spaces that contribute to the notion of a "24-hour city"
- Accessible public facilities and amenities
- Racial, cultural and socioeconomic diversity

SOCIAL HOUSING IN SOUTH AFRICA

While there were various perceptions of what is social housing the debate at the workshop centred around the South African policy and legislative definition which is:

- A rental or co-operative housing option which requires institutionalised management
- Provided by accredited SHIs or in accredited social housing projects
- Located in designated restructuring zones
- Aimed at the R1,500-R7,500 per month per household income group
- Presently subsidised in part using a Restructuring Capital Grant and institutional subsidies to fund development

1 SUMMARY

It is broadly recognised that South African cities require, and in some instances are undergoing, significant economic and social regeneration to redress past and present spatial and social inequalities. South African cities are also multi-nodal: many of the traditional and historical economic centres are facing degradation and the withdrawal of capital or commercial ventures and residential gentrification. Many of the better-located parts of South African cities continue to exclude formal residential opportunities for low and moderate-income households. This is exacerbating the apartheid separation within our cities that has led to both economic and racial marginalisation.

Within these challenges, social housing is a key government policy mechanism to address greater residential integration of our cities. To achieve a contribution to urban regeneration, SH requires a financial base that permits growth to scale and long-term financial sustainability. While this must involve direct government investment, there is also a critical challenge to ensure that the investment is structured and managed to ensure the long-term sustainability of the sector.

2 PRESENTATIONS AND PANEL DISCUSSION

The presentations in "A Tale Of Two Cities: Johannesburg And Cape Town" highlighted very different approaches to urban regeneration and the role of social housing. In Johannesburg, social housing has made a significant contribution to the regeneration of the inner parts of the city. Meanwhile, it has made almost no contribution in Cape Town.

2.1 PRESENTATIONS: CAPE TOWN AND JOHANNESBURG

Cape Town was described as a “divided city”, especially within the inner city where there is little or no rentals below R4,000/month mark and where the various partnerships have been battling to achieve economic residential integration. As a result, mid-level professionals and lower-income earners who work in the inner city of Cape Town have to commute, which can take up to two hours a day. Somewhere in the region of 400 000 people commute into this space daily. The presentation quoted the 2011 State of South African Cities Report: “Cape Town’s geography currently fosters an economically and socially unproductive pattern of inverse densification, where the majority of the population live in the most unproductive and disconnected land in the city”.

Although there are PPPs, and Cape Town has identified through its Tall Building Policy, that there is a willingness to think about inner city affordable rental much more needs to be done to achieve its goals of higher densities, a 24-hour city, activating spaces, utilising government owned land and providing housing into the affordable market.

A significant reason for this lack of housing for low and moderate-income households is the buoyant property market that makes such housing unrealisable within the market without subsidy intervention.

Johannesburg is the corollary to Cape Town. In Johannesburg, the flight of capital has meant that the inner city and its immediately surrounding suburbs are home to low-income earners (mainly in the informal housing sector). The attempts to regenerate these inner city areas has relied on the important formalising of the rental sector for low to moderate-income households driven by social housing and for-profit landlords. With increasing formalisation and stabilisation, the intent is to encourage higher income households mainly in ownership but in some rental stock. The effect is demonstrated by the substantial reduction in the number of hijacked and abandoned buildings and the rising property prices in the inner city of Johannesburg. A consequence of the latter is that it is becoming more difficult to achieve affordable rentals for lower income households.

In the Johannesburg inner city, very low-income households and marginalised individuals often remain dependent on informal and slumlord rentals in dilapidated and hijacked buildings.

Despite the successes of recent inner city regeneration projects, there is a need to make it part of a more holistic approach addressing the rising property prices and the whole of Johannesburg.

The current market and public sector interventions are not able to go low enough to compete within this market. The current capital subsidy for low cost rental goes part of the way towards solving the problem; however, what really needs to be analysed are ways of subsidizing operating and utility costs.

The CCDs calls for the tripling of Cape Town’s population in the next ten years in order to bring about economically productive densification.

2.2 OTHER VOICES: PERSPECTIVES FROM BRAZIL, FRANCE AND SOUTH AFRICA: PANEL DISCUSSION

David Albrecht (Independent Consultant) provided a case study from Brazil that emphasised the Certificates of Additional Potential of Construction (CEPAC) used in large-scale urban development/redevelopment projects in determined areas. Within these rights, the development of land for commercial gain are linked to developers making contributions to public development programmes. There are many potential advantages of using such a system (e.g. public infrastructure is financed by private investors not tax payers; the state is able to capture significant share of land for the public good, there are no expropriation costs and little risk to municipalities). However, there are some risks and limits to using this approach: it really only works for big projects; increases in land value and improvement can lead to gentrification and social exclusion; and public investments are limited to the project area with very few social spillovers.

Ivo Imparato (Sector Leader, Sustainable Development Network, World Bank) argued that there is much to be learnt between the various contexts and countries. Social housing is still incipient in Brazil: whilst units remain in public ownership, the rental relationship is not enforced. So when people do not pay rent, they are not evicted. Therefore, this should really be considered social housing. There is also a National Leasing Programme where the government is paying the private sector to produce public stock, but there are huge issues with the programme: the tenure relationship is unclear; leases are not really enforced; no evictions; non-payment (thus maintenance and sustainability are a problem). In this model, the private sector is taking no risk.

Outside of the housing sector, the state has stepped in to re-direct public resources to lowest segment of the populations through conditional cash transfers. These transfers ensure a minimum income to households, but tenants have to meet conditions that would keep their children in school and contribute to wide-ranging informal settlement upgrading.

When considering urban regeneration, it is important to understand cities as a continuum and informal settlements as a queue and a first port of call for the poor. Unless the informal settlement challenge is tackled, urban regeneration will simply leave behind a large proportion of the urban poor. Brazil introduced Special Social Interest Zones to recognise and preserve the value of things associated with informal settlements (i.e. location, investment, social network). The Special Zones have more flexible standards and more flexibility in the upgrading process as to what happens first. They also assume that all people in the area are poor so worry less about issues of eligibility. Such an approach to urban regeneration also unleashes private sector investment as households begin to invest in their own homes (especially in the incremental provision of top structures).

> **"Top-structure is the wrong way to put the problem and is the thing that people can take care of."**
>
> **- Ivo Imparato**

2.2 OTHER VOICES: PERSPECTIVES FROM BRAZIL, FRANCE AND SOUTH AFRICA: PANEL DISCUSSION

Elize Stroebel (CEO, JHC) used the eKhaya programme to demonstrate the idea of community driven approach to precinct development whereby a SHI project becomes the driver of urban upgrade initiatives. eKhaya is a neighbourhood programme driven by private sector landlords and the local community and not by a formal City Improvement District. It came out of the Johannesburg Housing Company's realisation that they were focusing on buildings and projects rather than programmes. As a result, they were creating islands of excellence within an unsafe urban milieu. Once tenants stepped outside of the social housing project, they were not safe; there were insufficient social amenities, there were drugs and prostitution in the surrounding parks. JHC had to look at how to create safe neighbourhoods around their buildings.

In 2004, the eKhaya project started but had minimal funds. They identified the Peterson Precinct and appointed an organiser. JHC would walk from building to building, talking to managers and campaign for everyone to get to know their neighbours. The principle is that is you know who is right next to you in your block of flats. Through this relationship, neighbours began to invest in neighbours. There was a great deal of resistance and suspicion to begin with, which broke down and generated substantial landlord and tenant community involvement.

The major funding came initially from the SHIs and some for-profit landlords. But the operational costs of the initiative are now funded from a levy on units of participating landlords. Buy-in of different owners has increased as they saw the progress in creating more secure and habitable neighbourhoods. Through safety and cleaning, as well as broader community activities in the area, the City has also taken a greater interest and has financed the upgrading and securing of lanes that were both rubbish dumping and areas of crime. The city has also financed upgrades to provide better access to public spaces.

The success of the project lies in the fact that it is voluntary, participatory (community ownership) and responsive. However, it does require large investments of time, committed leaders, and the transfer of those skills to make the programme sustainable.

Marie Defay (Director of Urban Renewal, Pau Municipality) thought that the Cape Town partnership model was very interesting. Currently, France has 400 precincts with on-going urban regeneration projects. In order to do so, it had to build strong local partnerships and depended very much on the context as to who was part those partnerships. The state financed most of these partnerships; through experience it became clear that contracts were needed in order to define roles and obligations. Since these were put in place, delivery has improved.

SHIs now build in areas where there was no social housing: they try and avoid concentrations of social housing mix, such rental with affordable ownership and higher end rentals. There are limits to the current social housing approach as they have failed to integrate the private sector into social housing (which remains in the hands of the traditional stakeholders). There has also been a failure to integrate social actors and, thus, urban regeneration projects can lack social cohesion.

The question of what is the role for SHIs in inner city regeneration is a difficult one. In France four million people live in SHIs - many in suburban areas - that creates outside/marginalised communities. The poorest of the poor do not live in social housing; lowest income earners are in private rental accommodation often living in unsanitary conditions with very high rentals in city centres, where it is more difficult to see the problems.

When renewing the inner city, the councils try and work with SHIs to try and avoid gentrification. In Pau, the city centre is about 25% vacant and has a number of social difficulties and problems, so they need a comprehensive integrated programme to address the wide-ranging issues. They created a system whereby developers could buy and refurbish units and develop the urban environment at the same time.

2.2 OTHER VOICES: PERSPECTIVES FROM BRAZIL, FRANCE AND SOUTH AFRICA: PANEL DISCUSSION

Ahmedi Vawda (Responsible for Outcome 8, Monitoring Unit in the Presidency) said that there has been a re-orienting of housing policy and the re-writing of a human settlement narrative with the advent of Outcome 8. The 2004 review noted that after 15 years, there were two enduring features of the then housing approach. The previous spatial structure remained and informal settlements grew, which should be seen as another way of queuing. On the positive side, the number of people who had previously owned housing was tiny and the number had increased significantly.

If apartheid was a problem and informal settlements were also considered a problem, then there is a need to look at the outcomes and ask the question: what do we want? If looking at Outcome 8 through the theories of change, it is necessary to consider how you postulate the problem and then how to respond. This has important outputs:

- Can we drive our human settlement development and our informal settlement subsidy differently?
- Is the land issue critical?
- What are the ways we finance housing going forward?
- Is social housing a key instrument that is able to change our cities?

The NPC is asking what the drivers of the space economy are. Is social housing a driver? Then maybe we are looking at path-dependencies; perhaps social housing will be able to change some the paths that have limited choices in the past?

Outcome 8 offers new drivers:

- Restructuring zones and restructuring grants are very powerful and need to be assessed to see if they redistribute values on a more equitable basis
- Social housing is not driven by national but driven by the SHIs and thus success lies in the SHIs
- Upside of path dependency – Soweto allowed the property market to grow through a series of non-housing related investments

The fiscal flows from Treasury have changed and now go to SHRA and cities directly. Performances of provinces are programme-designed. There is fragmented planning in our cities, but it is important to follow the pockets of excellence. Lastly, if we move from housing to the human settlement framework, then we need to think about how we change, monitor and evaluate it.

> **"The cost of a social housing subsidy is three times as high as the RDP subsidy, but three families move through it and is able to address spatial restructuring."**
>
> **- Eugene Perumal**

3 KEY ISSUES FROM GROUP DISCUSSIONS AND COMMENTS

"Strengthening Social Housing's Contribution To Urban Regeneration And Integration"

Small Group Breakaway Sessions

- There is strong recognition of alignment between the spatial nature of urban regeneration and the spatial imperative of social housing. Social housing is potentially a significant driver of residential opportunity with urban projects. However, at the present time, the scale of delivery has little impact on such regeneration.
- Social housing delivery is seldom part of a broader, more strategically planned urban regeneration programme. Most often it is an ad hoc project built around suitably priced and available pieces of land and buildings. It is not linked to broader development and financial streams in the area.
- The City of Cape Town example demonstrates that, while urban regeneration is possible without housing interventions and programmes, this is not necessary desirable as it leaves these areas untransformed in terms of increasing lower and moderate income households' residential access to better located parts of the city.
- SHIs can be a catalyst to bring the municipalities on board. The Urban Settlement Grant could be used for integration, not just infrastructure.
- There needs to be strong development agreements between the municipalities and the SHIs. Currently, SHIs take on too much risk with little effective co-operation from municipalities.
- There is the need to develop a collective understanding of social housing. Within municipalities. RDP is clearly understood, but at the political and official level there remains a misunderstanding of the positive outputs and special focus of social housing.
- Data management is extremely important. There is a lot to be learnt from SHIs who have detailed knowledge of their tenants and can help direct social packages.
- Land issues, release, availability and location are extremely important. The sector needs to know how land is to be released and see a policy whereby state land is released to SHIs quickly and efficiently. There is also a need to look at long-term leases.
- Bulk infrastructure needs to be provided by municipalities to support SHIs and urban regeneration.
- There is a need to define products and target markets. Social housing is a very specific product, catering to specific targets; therefore, we need to have the same product irrespective of private or public money.
- There is the need for a proper cost-benefit analysis on social housing and urban regeneration. We need to look at the externalities of social housing (both positive and negative) and optimise the positives.

The financing of social housing must constitute a foray in urban regeneration.

4 SUMMARY OF KEY ISSUES RELEVANT TO SOUTH AFRICA

Precinct Planning

If social housing is to have greater impact on urban regeneration it must move away from the isolated project approach to one that links it to programmes of urban regeneration. This relocation of the point of intervention is made more difficult because South Africa does not have a strong and coherent policy and approach to guide urban regeneration programmes. Based on international experience, such a framework requires stronger emphasis on precinct planning and programme implementation involving a number of different projects.

There are also a range of advantages that may accrue using such an approach, such as larger urban regeneration impacts, as well as the maximisation of property prices over the longer term. From the municipalities' perspective, precinct plans and precinct-wide interventions may help to achieve greater mixed-use and mixed-density goals that are needed to rejuvenate degrading environments. SHIs need to be part of the larger teams that work on the precinct plans. The financing of social housing requires closer linkage with other resources available for urban regeneration.

State Investment as Catalyst

Linked to the more programmatic approach to urban regeneration is the part this plays in helping to target public investment in such a way that it can leverage a range of other investments that make the regeneration sustainable. The precinct programme approach also provides for a more streamlined alignment of different forms of government investment to increase impact in the area.

Strengthened Partnerships for Urban Regeneration

The effectiveness of such programmes in other countries is dependent not only on the policy and financing framework but also strong institutional structuring based on partnerships where roles and responsibilities and resource flows are clearly defined. Such partnerships require structured co-operation between the public and private sector, including in the latter the for-profit and not-for-profit sections. The municipality, as the driver of such programmes, has a pivotal part to play in ensuring that the overall risk is properly structured and managed between the parties, as well as making sure that regeneration is implemented in terms of the overall programmes of the city.

Throughout the workshop, the relationship between the SHIs and the local authorities was identified as being of central importance. SHIs require municipal support for a range of inputs that can help to make products cheaper, better located and accessible to public utilities. Reciprocally, the SHIs are able to help the municipalities with the achievement of the outputs set out in Outcome 8, as well as with issues of urban regeneration and rejuvenation.

It is also important to develop and strengthen the relationship with the SHIs and private for-profit landlords in both fashioning a more targeted approach to different markets, as well as in joint action to strengthen regeneration preferably as part of a bigger stakeholder team.

4 SUMMARY OF KEY ISSUES RELEVANT TO SOUTH AFRICA

Land Availability

The current lack of reasonably-priced well-located land is a serious concern for SHIs. While many of the existing projects have had access to low-priced areas municipal and provincial government and there is now less of this available in better-located areas. Also, municipalities are often reluctant to provide access for social housing; they prefer to maximise their immediate returns in selling of land to the highest bidder irrespective of the development benefit of some forms of usage. This pressure from lack of suitably located and priced land and buildings is negatively impacting on capital costs (with it levels of rental and compromising locational advantages). In some areas (like Hillbrow in Johannesburg), the municipality has access to numerous properties for re-development. However, the challenge remains in having a broader precinct approach that layers the release of such properties within a broad plan for urban regeneration that realises the economic development alongside social developmental policy and spatial objectives.

Planning Consent And Offsets

The experiences in other countries using planning consent linked to conditions for supporting other social development initiatives are hardly developed in South Africa. This instrument is particularly important in areas with high property values where the usual market imperatives are geared towards catering for high-end economic activities and not necessarily achieving the broader developmental objectives of government.

Cost-Benefit Analysis

There is only scant research on the cost-benefit of government social housing investment and its impact on urban regeneration and restructuring. The articulation of cost is often comparative between costs to capital cost to government per unit for different forms of unit e.g. RDP compared to social housing. A much better understanding is required as to how the government and leveraged investment through social housing is impacting the lives of tenants, as well as in the medium and longer term cost structures and efficiencies of our cities (e.g. transport, bulk infrastructure costs). There is a definite need to conduct such research to better understand the relative impact of social housing on urban regeneration.

5 POSSIBLE INTERVENTIONS

5.1 URBAN REGENERATION INTERVENTIONS

- In the strengthening of the national urban regeneration framework more attention is required to position social housing as a catalyst. This requires a sharper understanding of the linkage with other elements and the multiple financing streams.
- Social housing needs to be able to reach the very low-income market in order to compete with or close down slumlords and re-develop inner cities.
- Johannesburg Development Agency's study of public investment in the inner city demonstrates that public sector investment is able to catalyse a very high ratio of private sector investment into the same area.
- There is a need to consider the relationship between urban regeneration and tenure. More attention is required to the linking of social housing, private for-profit rentals and ownership options are structured alongside each other in regeneration programmes.

5.2 PRECINCTS AND NODES

- The present social housing approach is most often based on ad hoc projects on available land without project or programme linkages to broader urban regeneration or integration initiatives. In such circumstances, the impact of social housing is more limited. There is a need to secure buy-in for a new vision for social housing that goes beyond a project approach to a larger precinct vision.
- The starting point is to recognise the importance and value of the precinct approach and identify who needs to champion it. In many instances, the most appropriate champion is the municipality. Once there is a commitment, then there is a need to move to the next level of detail and secure the participation of all stakeholders. This can be solidified by creating a centralised pool of funding and by creating a shared vision of development supported by a budget.
- Social housing projects need to consider their relationship to the larger urban environment in which they are situated. SHIs may need to relate the municipal plans, such as RSDFs and IDPS, especially the Housing Chapters that have been included in IDPs. This condition can be integrated into the re working of the Restructuring Zone policy.
- It also important to consider what is within a SHI's capability to implement and what is not. France's experiences indicate that other partners should take on some elements of precincts and their development. This emphasises the importance of building effective partnerships towards realizing urban regeneration objectives.
- Strengthen properly supported neighbourhood development programmes that link different landlords and their tenants and other local organisations (e.g. the eKhaya approach). This approach is more voluntary and participatory; although it can be quite slow, it is able to gain buy-in from both landlords, tenants and, eventually, the city. CIDs can be useful, but can also function as "anti-crime and grime" initiatives that established richer property owners and don't work to achieve the residential integration objectives.
- There are specific opportunities to develop a more precinct type approach in a number of South African cities. Such opportunities already exist in Cape Town (the Provincial Government's Urban Regeneration Strategy); in Johannesburg (extension of eKhaya and dealing with turnaround of the former Better Buildings Programme); in Germiston (the inner city upgrade); in Mangaung (the neighbourhood focus in Brandwag). More co-ordinated lobbying and co-operation is required to ensure that these become real precinct initiatives in which social housing is an important element but not the only intervention.

5.3 LAND: AVAILABILITY, PACKAGING AND RELEASE

- Municipalities should stop seeking the premise of highest market price and start to assess use of their assets in achieving government developmental objectives. Relevant is what social housing can achieve in provision of well-located and affordable rental stock and improving the integration of our cities. The City of Cape Town Partnership used the principle of the city contributing its own land for re-development – forming a basis for a range of partnerships, which resulted in greater regeneration.
- It is possibly worth South Africa giving consideration to the Brazilian developed Certificates of Additional Building Rights (CEPAC) that are auctioned off to private developers for land re-development. These can also be used to increase funding for municipalities. It also has "The Law of the City," which restricts land speculation and forces development premised on the idea of land as a social/public good.
- Despite the City of Cape Town's Tall Buildings Policy, which signals some commitment to urban regeneration and social housing, we still need access to state-owned land and clarity on what the city is willing to commit in terms of its own buildings in the inner city. The NASHO members in the Western Cape are presently working on ways in which the Provincial Department of Transportation can make available identified properties for social housing as part of their regeneration strategy.

5.4 BULK INFRASTRUCTURE PROVISION

- The City of Cape Town's Tall Building Policy seems like a possible way of subsidising bulk infrastructure.
- The Brazilian experience has shown that deals can be struck with the private sector whereby the state provides the land and the private sector is then willing to put in the capital for bulk infrastructure.
- Further experience from other contexts is that people are able to build and improve their top-structures but not put in infrastructure
- The sector should lobby for SHIs to be exempt from bulk infrastructure developer fees.

5.5 INSTITUTIONAL RELATIONSHIPS: MUNICIPALITIES

- Strengthen the basis of engagement between SHIs and municipalities through specific partnership agreements; extend this through NASHO/SALGA joint work using developed models of partnerships.
- Build these partnerships with municipalities through specific precinct projects (as defined in the previous section).
- Engage the private for-profit sector around joint action on issues of mutual interest (e.g. rates and utility targets, target marketing).

5.6 COST-BENEFIT ANALYSIS STUDY

A sector-wide cost-benefit analysis needs to be undertaken to investigate the impact of social housing on:

The property sector

- Has it contributed to filtering/gentrification?
- Has it pushed up/down property prices?

Urban regeneration

- Has social housing been able to leverage other investments into the same areas?
- What has it done for the urban environment?

Urban integration

- Has social housing been able to help change the demographics of certain areas?

Market demand

- Is social housing meeting the needs of the target market?

Social impact

- What does social housing mean for those who utilise the product?

1 BACKGROUND

If social housing is to make a significant contribution to the urban regeneration, then it needs substantial increase in delivery while remaining financially sustainable. To date, the SHRA estimates that there are 40,000 units across the country, most of which have been delivered by 18 partially or fully-accredited SHIs. Of these, 17 are members of NASHO.

The present financing mechanism is through two linked capital grants from government: the Restructuring Capital Grant and the Institutional Subsidy. These are used to cover approximately 30-40% of the capital costs that allow the SHI to reduce rentals. Additional subsidies are achieved through the use of public land and, in a few instances, grants for operational costs from municipalities. However, there is currently no specific operational grant for social housing in South Africa.

Although the present mechanism has worked in the short-term, there are many questions about its long-term viability and sustainability, especially when delivering at the scale required to have an impact. There are also questions as to whether the existing financial mechanisms are moving delivery to the higher ends of the targeted income range and limiting the potential for deep down market reach.

In addition to the subsidy mechanism, there are also critical issues of cost inflation and cost controls that affect the targeting and sustainability of social housing.

What level of delivery of social housing is required?

Outcome 8 set a target of 25,000 social housing untis by 2014. There is no official plan on the levels of delivery required in the medium term until 2020. For the purposes of the workshop it was assumed that they target would be the delivery of 100,000 new social housing opportunities by 2020.

2 KEY ISSUES FROM THE SPEAKERS AND PANELS

Eugene Perumal (Corporate Services Manager, SHRA) states that in the SHRA's 2011-12 budget, the social housing spend will make up only 1% of the Human Settlements budget. However, by 2013-14, this proportion is set to more than double. He emphasised the need to look for smarter ways to fund development and accommodate more projects. He further outlined the development of innovative funding modalities, including multi-year funding, provincial disbursement (first) and a guarantee of turnkey developments.

He presented figures that showed that between 2006/07 and 2011/12 there were calls for proposals to develop 96,807 units in 199 projects. Yet, only 8,155 units in 27 projects were funded.

Heather Maxwell (CEO, SOHCO) outlined the range of impacts of the RCG and then summarised many of the financial challenges facing SHIs. These challenges included the static value of the subsidy, a fixed income profile, escalating construction costs and fixed development standards. In particular, she noted the difficulties around operational finance. She underlined the need to develop more nuanced financial social housing development packages in future that could include mixed income, cross-subsidisation and, ultimately, shared equity.

She argued that the sector needs to open up to different players and partnerships, introduce a risk and reward system, work towards a lower risk profile, explore other types of financing and encourage refinancing at strategic times (often five – 10 years).

In terms of cost, she highlighted the negative impact that the cost of municipal and utility charges were having on affordability.

She concluded, however, that the single biggest risk factor is the common expectation in the primary target group of a "free house", a notion strongly reinforced by RDP housing.

Renier Erasmus (CEO, MHA) listed the prime financial challenges facing the company: rising property costs; subsidies not increasing with inflation; the high cost of finance itself; and the fact that MHA has reached maximum exposure with the Gauteng Partnership Fund (GPF). He stated that all of these factors contributed to unaffordable rent levels for the primary target market. Reflecting on other presentations and the general discussion, he emphasised that the primary cost drivers included construction, project operations, head office overheads and utilities. He concluded the sector needs a more in-depth understanding of the cost drivers so that SHIs can look at their institutional model and determine what can be changed.

He argued that the sector must look for new financing models for social housing. This should include an investigation of the feasibility of the GPF model, increasing loan payment terms to 30 years, and investigating the possibility of equity from the state. He said that a debate around rental (operational) subsidies must be opened.

2 KEY ISSUES FROM THE SPEAKERS AND PANELS

Francois Viruly (Associate Professor, Department of Construction Economics and Management, University of Cape Town) argued that "we get the urban environment that we finance." He noted that, compared with some other emerging countries, South Africa has an extremely low level of market structured portfolio investment in residential stock. However, he asserted that there is an emerging class of people in South Africa to whom high-density rental housing is highly conducive and many of them belong to pension funds. It is highly appropriate that pension funds are used to assist the financing of this form of rental.

He emphasised that the goal should not just be to increase funding, but also to ensure that SHIs fine-tune and get as many of the grants as possible. A high level of entrepreneurship was critical. He also noted that opportunities to grow the sector lie well beyond the issue of finance. Getting the best value for money necessitates realignment. Also, it is the responsibility of the state to align all of the grants, tariffs and rates (to promote affordable rental).

Samson Moraba (CEO, NHFC) noted that NHFC funding for social housing has to be coupled with other mechanisms. He posed the question as to how we can develop a model that is sustainable from an institutional point of view, noting that very few SHIs have developed more than 2,000 units. A public agency to guarantee loans (like the Netherlands model) would promote sustainability. It is acceptable to take sub-prime lending and put it straight into sector; perhaps we need such an agency to guarantee SH loans.

Jean-Pierre Schaefer (Economist, Social Housing Finance Department, France) outlined the social housing financing system in France based on long-term, below-market rate interest loans funded with private savings, with a 40-year repayment period. These loans are complemented by grants from central and local government. While there is no operating grant for social developers ,VAT is more than 70% lower than the private sector - there is a 25-year exemption from land tax. Tenants also receive a housing allowance the amount of which depends on income, rent level and family size. The state provides both controls and guarantees.

Paul Delmas (Independent Consultant) provided an overview of the financial environment for French SHIs. The SHIs benefit from economies-of-scale, managing very large portfolios that generate cash for new development. Loan financing does not create constraints (as pay back periods are so long) and SHIs also benefit from a secure financial environment and favourable tax regime. He suggested that higher overheads in South Africa might be due to the smaller portfolios. However, South African SHIs also generally provide more services. He identified some factors that may help boost sustainability: reserving units for employer organisations, renting out or selling commercial spaces; renting out garages and parking lots; and promoting mixed income occupancy.

3 KEY ISSUES FROM GROUP DISCUSSIONS AND COMMENTS

"Mechanisms For Long-Term Financing Of Social Housing"

Small Group Breakaway Sessions

3.1 CAPITAL FINANCE

- Greater flexibility in the use of RCG funds particularly for "communal" type units
- Greater flexibility in terms of capital loans and period of loan repayments and increased loan pool for social housing
- Use of alternative sources of funding: pension and provident funds
- Promoting greater participation by banks and financial institutions
- Development of a "guarantee fund" that will reduce cost of lending for SHIs
- Need for long–term consistency (i.e. currently no guarantee that project will be funded the following year)
- Funding precincts rather than projects
- Market perception of social housing as a product that is in its infancy and, therefore, given a high-risk profile without giving regard to the achievements and high levels of efficient risk management within the sector
- Possibility of SHIs focusing only on management rather than development using turn-key development approaches
- Less mature SHIs focusing on brownfields; more mature focusing on greenfields

3.2 OPERATIONAL FINANCE

- Need for operational efficiency
- Developing a partnership with residents – admin procedures must be clear to tenants including the structuring of rentals and allocation of costs
- Critical to focus on efficient day-to-day maintenance and long-term maintenance. Initial design of projects must focus on these
- Caution to manage number of staff and staff unit ratios within the structuring of 'in-house', outsourced service programme to avoid overloading budget with HR costs
- Municipal rates, Water and electricity costs are significant upward drivers of costs and negatively effecting affordability within the sector. These are costs over which the SHIs and tenants have very little control except on the margins in terms of energy efficiency measures
- Rental targets/default rates and vacancies – vacancy 2%/rental should be set at 95% (efficiency beginning to show)
- Taxation –
    - Section 21 issue of recovery of VAT
    - Taxation of grants needs to stop as it represents taxation by government of the recipients of grant finance

3.3 DEEP DOWN MARKET REACH

There is a strong developmental pressure to ensure that the social housing stock is used by more households in the bottom end of the targeted range i.e. monthly household income of R3,500 or less. This push to extend the "deep-down" reach of social housing is a key issue for many stakeholders in the sector but the present financing instruments and cost drivers mitigate against this. The following were considered as key issues that needed addressing to assist with deep down market reach.

4 SUMMARY OF KEY ISSUES RELEVANT TO SOUTH AFRICA

Institutional And Sector-Wide Sustainability

There is a need to define the term sustainability within the context of the sector. It could mean “city scale” sustainability, or “institutional” and “sector-wide” sustainability. There was no clear conclusion as to what would make an institution (or a sector), sustainable in terms of the number of units required for economy-of-scale. Some felt that the number of units should be 1,000-2,000. The French experience indicated that 5,000 units led to sustainability and the ability to cross-subsidize new developments.

Financing Options And Ways Of Bringing Down Financing Costs

South African loans are paid back over a 20-year period, whilst the French pay over a 30-40 year period. The latter scenario translates to lower monthly repayments. Longer repayment periods would be even more effective if they could be coupled with lower interest rates. There needs to be alternative approaches to the South African model of primary reliance on a one-off project-linked capital subsidy. These could include subsidised loan finance through government support and guarantees, operational subsidies, housing benefit subsidies, and government-led equity investment in SHIs.

State Interventions

The role of the state in financing is a controversial one: there is a fear from the private banking sector of the state intervening directly into the financial sector. However, suggestions were made around what the state could do to help access, facilitate and provide financing into the sector. There a was also a clear acknowledgement that social housing for the target market in better located parts of the cities cannot happen sustainably without considerable government investment. The critical issue is finding the best ways to maximise this investment in achieving the key impact of ensuring long-term sustainability and increased sector self-financing. A vitally important point was the need for some type of government guarantee for social housing development loans. This which would help promote a perception of the sector as a less of a risk and perhaps seen as a potentially attractive investment.

Provision Of Operational And Or Subject Subsidies

Such subsidies would help affordability. While a national “housing benefit” scheme was not attainable, other mechanisms were worth exploring, including the refining and greater application of the government’s indigency provisions for rental housing.

Bulk Infrastructure

The cost of the provision of bulk services and how it is then passed on to the developer (mainly SHIs) impacts negatively on the affordability levels in social housing.

Non-Financial Contributions To Bringing Down Costs

Ensuring the sustainability of social housing can and does depend on finding new ways of financing the sector. However, there are a range of non-financial interventions that can be put in place to help reduce risks and encourage financing of social housing. Particularly significant is developing the values that rental housing is not “free” housing – although social housing is subsidised, tenants must pay their share of costs.

Fine-Tuning Cost Drivers

There is a need within the sector to better understand what the significant cost drivers are and to then address these by changing the institutional model accordingly. It is counter-productive to attempt to change institutional practices to ameliorate cost drivers if they are not fully understood.

5 POSSIBLE INTERVENTIONS

The issues raised during this part of the workshop have highlighted a number of key areas that require additional research, assessment and susequent linkage to advocacy for changes and improvements in policy and implementation. These include the following:

5.1 UNDERSTANDING COST BENEFITS OF SOCIAL HOUSING

Social housing provision is not merely about the provision of shelter but also about contributing to restructuring South African cities and opening better development opportunities for low- and moderate-income citizens. The financial cost to government needs assessing against the cost-benefit of its provisions across a number of factors.

There is presently very little research on the cost-benefit impact relative to investment in the sector. The work already done by the Social Housing Foundation requires extension, particularly around the cost-benefit of:

- Broader city sustainability costs (e.g. transport, bulk infrastructure)
- Life development opportunities for tenant households
- Efficacy of use of government finances in both the quality of the built environment and reduction in government responsibility for long-term management as well as leveraging of private investment

5.2 CAPITAL FINANCING OPTIONS

The existing model has severe limitations both in the quantum and the cost effectiveness of the use of government subsidy. More in-depth research and modelling is required to test the potential effectiveness of other approaches to capital development including:

- Lower interest and longer period loan finance backed with government guarantees
- Direct government equity investment in social housing institutions that are delivering and effectively managing risk
- Engaging pro-actively with other potential large scale investors (e.g. pension and provident funds)

More attention is required to the interaction between the primary financing mechanisms for social housing and other secondary financing instruments (e.g. infrastructure financing and Urban Neighbourhood Redevelopment Grant).

5.3 IMPROVING THE RCG

Income bands need to change. They cannot be static whilst real costs and inflation rise. The sector needs to lobby on this issue. Increase subsidy amounts linked to inflation.

Pay greater attention to multi-year planning and allocation of the subsidy, making the planning of such projects more efficient and cost effective.

5.4 TAX REGIME

Presently, the VAT charges on construction linked to the RCG require re-consideration as it generally represents a taxation on the grant, effectively increasing the costs of development and reducing the impact of the government grant contribution.

"We need to understand what our cost drivers are, look at our institutional model and see what we can change. We can't talk about change in we don't know what it means."

5.5 INCREASING PRIVATE SECTOR INVESTMENT

Systems are required to maximise the leverage of private finance by the government investment. This requires changes in the perception of risk management within the social housing sector.

It also requires greater diversity in investment options. Not all lenders will want to engage with all SHIs or at all phases or stages. Some may be more interested in start-up and development investments and funding rather than the operational phase; appetites need to be tested. There is a need to engage with the financial sector: find out what they are thinking and what that may mean for the social housing sector.

5.6 OPERATIONAL SUBSIDIES

Further work is required on understanding the extent and nature of operational subsidy within the sector. Particularly work is required to review the use of indigency schemes by municipalities to also increase affordability of social rental housing to low-income households. The lessons from the City of Johannesburg need closer assessment and possible dissemination.

5.7 INTERNAL COST DRIVERS

Greater control is required on input costs when it comes to the development and the longer-term management of the stock. This requires more effective benchmarking of key internal cost drivers, and the integration of these in the conditions for accreditation and the continued monitoring and evaluation.

Design emphasising durability and low-maintenance features is important to keep costs down and ensure long-term usability and sustainability. This will help ensure that an initial high investment will pay off in the longer term.

5.8 EXTERNAL COST DRIVERS

It is also important to engage with external cost drivers including municipal rates and utilities to attempt to control and, where possible, reduce these costs. Such work should engage the suppliers (mainly municipalities and utility companies), but should also focus on SHIs taking on a greater role as their own energy suppliers.

Negotiations with municipalities need to take place on a case-by-case, project-by-project basis, as there are currently no city-wide or country-wide policies around how these issues should be dealt with. The City of Johannesburg has looked at an Extended Social Package (ESP) as a way of dealing with this issue. The ESP social package is an individual index per person of between R675 - R3,861 per person and enables landlords to cut into the wedge of charges and bring down the overall rent.

The City of Johannesburg also has the Registered Social Landlord programme which has a two-tiered approach that at Level 1 allows landlords to get lower tariffs and at Level 2 to access buildings from the municipality for low income rental.

When looking at operational subsidies, a very nuanced and fine-grained approach is needed; it cannot just be taken from income bands, the social housing sector needs to understand the circumstances of individuals and households in order to provide the right basket of goods/package.

With the growth in the sector it is now more possible for SHIs to co-operate to negotiate better building materials, as well as construction and service costs (e.g. building insurance). South African SHIs could work together as a co-operative in order to get better building and construction costs.

5.9 CROSS SUBSIDY FROM OTHER ACTIVITIES

Alternative income sources from retail and commercial activities linked to developments in well-located areas could be used to provide other income streams to cross subsidise some of the operational costs of the social housing.

SHIs can use green building technologies in their greenfields developments and in retrofitting existing units and refurbished buildings to bring down resource usage and costs (e.g. Madulammoho's heat pumps).

5.10 NON-FINANCIAL CONTRIBUTIONS

There are substantial costs involved in an SHI holding land and waiting for administrative approvals. Streamlining and greater administrative efficiency would help to reduce costs.

Policy needs to be aligned across and within each sphere of government to help direct energy, reduce red tape and ensure that the budgets are following the policy trajectory.

Linkage of the allocation of land and additional financing through "land planning" offsets in areas with high developmental value.

4 CONCLUSIONS AND THE WAY FORWARD

The interaction between the different participants has provided significant insights into key challenges facing the sector in South Africa. These were given sharper focus from the reflections on the experiences of other countries. It also emphasised the need for a longer-term perspective on the sector and where it should be in the next 15 yearss.

KEY TO THESE ISSUES WERE:

- Defining more clearly the required delivery targets for the next 15 years and the financial and institutional conditions linked to this. This provides the framework in which to review and revise the various potential financing mechanisms.
- Expanding the contribution of social housing as a key driver and contributor to urban integration and regeneration in South Africa. This requires extending the quantum of delivery and the investment in the sector. It also requires a shift to a more city wide and "precinct" approach to social housing development rather than the more restricted ad hoc project approach. This means greater strengthening of the present urban regeneration policies and mechanisms and the place of social housing within these. It also requires a more nuanced alignment between urban regeneration and Restructuring Zones.
- Increasing and maximising the impact of government financing of social housing to build the sector at a faster rate and to achieve key objectives of affordability and the long-term sustainability. This requires a systematic re-assessment of the best forms of government financing and how they can most effectively link with non-governmental financing. It is also important to ensure a better understanding and control of the cost drivers in both the development and management of the social housing stock.

4 CONCLUSIONS AND THE WAY FORWARD

Tackling these requires a whole range of initiatives involving research, lobbying, policy review, development of new mechanisms for implementation, as well as monitoring and evaluation. For these to have the greatest impact , cooperation and co-ordination between the key government and non governmental stakeholders in the sector is required – with each party defining its own programme within the broader objectives of the sector.

NASHO is using the results of this workshop to strengthen its focus and activities around the following key programme and project interventions:

- Long-term financing of social housing in South Africa
- Social housing and urban regeneration through specifically identified delivery projects
- SHI and municipal cooperation:
    - Rate and utility charges and Indigency benefits
    - SH involvement in municipal and CRU housing
- A Technical Support Centre to assist in the development of greater cost efficiencies in social housing delivery and maintenance
- Capacity Development Programmes for SHIs and other stakeholders in running the sector and managing stock
- Increasing the knowledge and understanding of social housing by politicians, administrators and the broader public through the "Faces of Social Housing" expo

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