



human settlements

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and evaluation**

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Department of Human Settlements

Department of Performance Monitoring and Evaluation

Impact and Implementation Evaluation of the Social Housing Programme

SUMMARY REPORT

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The Evaluation has been guided by a Steering Committee comprising key Social Housing stakeholders including Department of Human Settlements, Social Housing Regulatory Authority, National Association of Social Housing Organisations, South African Cities Network, National Treasury and DPME,

The Steering Committee has met at important stages in the process to provide inputs into the methodology and content of the evaluation. Members of the Steering Committee have also provided commentary on the documented outputs. Steering Committee members reviewed draft documents, and provided verbal inputs into workshop sessions, as well as written inputs to the project team.

The project was peer reviewed by Robert Cohen and Stephen Pomeroy who offered independent review of all evaluation deliverables.

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Version: Final
Date: 22 February 2016

Table of Contents

| | | |
|----------|--|-----------|
| 1 | INTRODUCTION | 1 |
| 1.1 | Background to the Social Housing Intervention | 1 |
| 1.2 | Background to the Evaluation | 1 |
| 2 | METHODOLOGY AND LIMITATIONS | 2 |
| 3 | FINDINGS FROM THE LITERATURE REVIEW | 3 |
| 4 | THEORY OF CHANGE FOR SOCIAL HOUSING | 4 |
| 5 | EVALUATION FINDINGS | 6 |
| 5.1 | Impact Area 1: Spatial, Economic & Social Restructuring | 6 |
| 5.1.1 | Evaluation findings | 6 |
| 5.1.2 | Conclusion | 7 |
| 5.2 | Impact Area 2: Creation of Affordable Rental Accommodation | 8 |
| 5.2.1 | Evaluation Findings | 8 |
| 5.2.2 | Conclusion | 13 |
| 5.3 | Impact Area 3: Value for Money Assessment | 13 |
| 5.3.1 | Evaluation findings | 14 |
| 5.3.2 | Evaluation Conclusion | 16 |
| 5.4 | Implementation Area 1: Restructuring Zones | 16 |
| 5.4.1 | Evaluation Findings | 16 |
| 5.4.2 | Conclusion | 17 |
| 5.5 | Implementation Area 2: SHI Delivery & Financial Viability | 18 |
| 5.5.1 | Evaluation Findings | 18 |
| 5.5.2 | Evaluation Conclusion | 22 |
| 5.6 | Implementation Area 3: Demand Responsiveness | 23 |
| 5.6.1 | Evaluation Findings | 23 |
| 5.6.2 | Evaluation Conclusion | 25 |
| 5.7 | Implementation Area 4: Monitoring and Oversight | 26 |
| 5.7.1 | Evaluation findings | 26 |
| 5.7.2 | Evaluation Conclusion | 27 |
| 6 | CONCLUSIONS AND RECOMMENDATIONS | 27 |
| 6.1 | Overall Conclusions | 27 |
| 6.2 | Recommendations | 28 |

Abbreviations & Acronyms

| | | | |
|--------|---|------|--------------------------------------|
| AfD | Agence Française de Développement | PFMA | Public Finance Management act |
| CBD | Central Business District | PIC | Public Investment Corporation |
| CPI | Consumer Price Inflation | RCG | Reconstruction Capital Grant |
| CRU | Community Residential Unit | RONA | Return on Net Assets |
| DBSA | Development Bank of South Africa | RZ | Restructuring Zones |
| DFI | Development Finance Institution | SARS | South African Revenue Services |
| DIGH | Dutch International Guarantees for Housing Foundation | SH | Social Housing |
| DORA | Division of Revenue Act | SHF | Social Housing Foundation |
| DSCD | Debt Service Cover Ratio | SHI | Social Housing Institution |
| GPF | Gauteng Partnership Fund | SHIP | Social Housing Investment Programme |
| HDA | Housing Development Agency | SHP | Social Housing Policy |
| IDP | Integrated Development Plan | SHRA | Social Housing Regulatory Authority |
| IS | Institutional Subsidy | SPSH | Support Programme for Social Housing |
| ISHP | Interim Social Housing Programme | TUHF | Trust for Urban Housing Finance |
| JHC | Johannesburg Housing Company | UDZ | Urban Development Zones |
| JOSHCO | Johannesburg Housing Company | | |
| KPI | Key Performance Indicators | | |
| KZN | KwaZulu Natal | | |
| ME | Municipal-owned entity | | |
| MoE | Municipal Owned Entity | | |
| MTEF | Medium Term Expenditure Framework | | |
| NASHO | National Association of Social Housing Organisations | | |
| NDHS | National Department of Human Settlements | | |
| NDP | National Development Plan | | |
| NHFC | National Housing Finance Corporation | | |
| NPO | Non-profit Organisation | | |
| NSHTT | National Social Housing Task Team | | |
| NT | National Treasury | | |

1 Introduction

The Department of Planning, Monitoring and Evaluation (DPME) and the National Department of Human Settlements (NDHS) have appointed RebelGroup Advisory Southern Africa (RGSA) to undertake an Impact and Implementation Evaluation of the Social Housing Programme (SHP) in South Africa for the period 2008 to 2014. **This document is the summary Evaluation Report that sets out the findings of the evaluation process.**

1.1 Background to the Social Housing Intervention

The Social Housing Act, 2008 (Act No. 16 of 2008) defines Social Housing as:

“A rental or co-operative housing option for low to medium income households at a level of scale and built form which requires institutionalised management and which is provided by Social Housing institutions or other delivery agents in approved projects in designated Restructuring Zones, with the benefit of public funding.” (The Government of the Republic of South Africa, 2008,1(b))

Social Housing is therefore by definition rental or co-operative accommodation, held by Social Housing Institutions (SHIs) or Private Sector Landlords (PSLs) over a long period of time. It excludes individual ownership by residents.

1.2 Background to the Evaluation

The purpose of the evaluation is to assess the extent to which the Social Housing programme is contributing to urban restructuring (integrating and revitalising neighbourhoods spatially, socially and economically) and providing affordable quality rental accommodation to the target market (and thus generating value for money), and to assess the sustainability of the delivery model. The evaluation is partly an **implementation evaluation** and partly an **impact evaluation**. It responds to the following questions that were set out in the Terms of Reference, and were refined and agreed in the Inception Report with the Steering Committee.

Table 1: Evaluation questions

| Evaluation area | Evaluation questions |
|--|---|
| Impact evaluation areas | <ul style="list-style-type: none">• Spatial, Economic and Social Restructuring: To what extent have the social housing projects that have been implemented contributed to the achievement of spatial, economic and social restructuring policy goals?• Creation of Affordable Rental Accommodation: To what extent has the programme contributed to the provision of rental housing for the targeted low-to medium-income households?• Value for Money: Has the program delivered value for money? |
| Implementation evaluation areas | <ul style="list-style-type: none">• Restructuring Zone Implementation: How have the restructuring zones been identified (by municipalities); which factors / criteria determine the identification of a RZ; and is this in line with the specified criteria?• Social Housing Institution Delivery and Financial Viability: To what extent have SHIs developed capacity to deliver at scale and build a financially viable model?• Responsiveness to Demand: Is the programme able to respond to the complex and growing need for affordable rental in SA and to what extent are the tenants satisfied with the product?• Monitoring and Oversight: How effective has the monitoring and oversight system for the Social Housing Programme been and how can this be strengthened? |

2 Methodology and limitations

A **mixed-method evaluation approach** was used which included the following:

- **Development of a Theory of Change:** The SH programme was not conceptualised according to a predefined Theory of Change (ToC). As a result, the consulting team, in collaboration with the Project Steering Committee, developed a ToC as the normative basis for the evaluation.
- **Literature Review:** A comprehensive national and international Literature Review on SH was undertaken. Over 90 key international and local documents were analysed and synthesised.
- **Statistical Analysis of Administrative Data Sources:** Extensive statistical data sources were analysed in order to provide an empirical baseline of evidence for the evaluation. Datasets developed and used include: RCG Project Database, SHRA Social Housing Institution (SHI) Accreditation Data, SHRA Statistical Datasets, StatsSA Census data and spatial analysis based on the RCG Project Database and StatsSA data.
- **Counterfactuals analysis:** The evaluation used 'Counterfactuals' to social housing which is defined as the situations in which occupants of Social Housing would find themselves if the Social Housing programme did not exist. The counterfactuals analysed include private rental of township houses or subsidised (RDP) houses, rental of backyard rooms and inner city affordable rental
- **Case Study Analysis:** Six project case studies along with their host institutions were developed. The projects and institutions included Emerald Sky (Sohco); Walmer Link (Imizi); Brandwag (Freshco); Fleurhof (Madulamoho); Lakehaven (First Metro Housing Company); and Drommedaris (Communicare). In addition a high-level analysis was undertaken of the nine largest SHIs, in order to add context to the institutional analysis including Imizi, Joshco, Msunduzi, Own Haven, Communicare, First Metro, Sohco, Madulamoho, and Yeast.
- **Key Respondent Interviews:** Face to face interviews were held with 36 key stakeholders in the SH sector. The interviews were structured across the following groupings: National, Provincial and Municipal Government Departments, the Social Housing Regulatory Authority (SHRA), Sector Representative Bodies, Development Finance Institutions and Specialist Financiers, Private Financial Institutions, Private Developers, International Support Agencies, the South African Local Government Association (SALGA) and Social Housing Institutions.
- **Online survey:** An online survey was released to a target respondent list of 126 people, and elicited 60 completed responses, covering the full range of SH stakeholder groupings.
- **Other Evaluation studies:** During the evaluation process, other projects of importance to the SH sector were being undertaken. Accordingly engagements with, and formal sharing of information between these studies enriched the final outcomes of this study. These included National Treasury: Expenditure Performance Review on Social Housing (RGSA (2015), Department of Human Settlements: Community Residential Unit Programme Evaluation (M McCarthy & J Pienaar Consortium (2015, not finalised)) and National Association of Social Housing Organisations (2015): Long-Term Financing (LTF) Study.

The following limitations to the study are noted:

- Generally, existing available datasets on SH were found to be inconsistent and/or incomplete. As a result, data was compiled into new datasets, corroborated against other data sources, and where necessary tested against original source documentation.
- Due to the small scale of the social housing programme and the basis by which national data is available it was not possible to attribute causal impacts of the social housing programme. The counterfactual analysis and case studies were used where it was possible.
- Individuals interviewed as part of the personal interviews were given the option of confidentiality. Where direct quotes are attributed in the report to an individual they have given permission that this can be done or made the comment in a public forum.

3 Findings from the Literature Review

Census 2011 indicates that an increasingly large proportion of South African households are choosing to rent, rather than own their accommodation. The proportion of all households renting accommodation grew from 19% in 2001 to 25% in 2011, an absolute growth of over 30% in the number of households who rent. In large measure a range of demographic and economic factors are driving rental housing demand, including growing urban migration particularly into metropolitan cities, insufficient delivery of housing on an ownership basis (both in respect of the subsidy and affordable housing markets) and difficulties in accessing mortgage loans due to high levels of indebtedness. Estimates of the extent of demand for affordable rental accommodation based on the number of households in the target income bands living in informal settlements and backyard rental is over 1,5 million households (SHRA, 2014d).

Social Housing comprises one component of South Africa's rental sector, and is one of four programmes being undertaken by Government. The other programmes are the Institutional Housing programme, the Community Residential Units programme and Local Government Rental Housing. In addition there are private sector actors who provide rental accommodation including private sector landlords who provide formal accommodation and household landlords who provide both formal and informal backyard accommodation.

The social housing programme has its roots in housing policy as it was implemented at the start of the democratic government of South Africa (1994). While rental tenure was not the main emphasis of housing policy, it was always recognised as being an important contributor to the housing sector.

Key concerns around subsidised housing delivery for ownership including that it delivered poor quality stock and that the neighbourhoods created did not offer sufficient access to opportunities and amenities (Charlton 2005) has resulted in an increased focus on the rental sector.

In September 2004 the Comprehensive Plan for the Development of Sustainable Human Settlements flagged the need to redirect and enhance various aspects of policy, one of which was an increased focus on the rental market. Rental accommodation was seen as enabling high levels of location flexibility to its occupants and also being an initial step into the urban property market. Social Housing in particular was seen as the way in which government could enable well located rental accommodation to be offered for lower income households.

The key legislative and policy documents that form the basis of current Social Housing Policy in South Africa are:

- The Constitution of South Africa, 1996 [Act No. 108 of 1996] [the Constitution]
- The Housing Act, 1997 [Act No. 107 of 1997 as amended in 2001] [the Housing Act]
- The Residential Landlord and Tenant Act, 1997 [Act No. 3 of 1997]
- The Rental Housing Act [Act No 50 of 1999]
- The Comprehensive Plan 'Breaking New Ground in Housing Delivery', National Department of Housing, 2004 [Comprehensive Housing Plan]
- The Social Housing Policy, 2005
- The Housing Code, 2007
- The Social Housing Act [Act No. 16 of 2008] and
- Outcome 8, Sustainable Human Settlements and an improved quality of household life, 2010

The envisaged future role for Social Housing in national policy is also highlighted in:

- The National Development Plan, 2030 (2012), and
- The Medium Term Strategic Framework (2014 – 2019).

The documents set out a solid framework for the delivery of social housing and there is strong alignment between the key policy documents in terms of the objectives and key principles of the social housing policy

The key stakeholders making up the Social Housing sector include policy makers (national and provincial governments); the sector regulator and government investor (Social Housing Regulatory Authority (SHRA)); delivery and management agents (Social Housing Institutions and private entities); financiers and sector representative entities (for example the National Association of Social Housing Organisations). The role of the key stakeholders is clearly specified.

At its simplest level, the SH funding model incorporates the following funding components working in synergy:

- **Restructuring Capital Grant (RCG):** The RCG is administered by SHRA, and stands at R 125,615 per unit in 2015. This has not been escalated since inception of the programme in 2008. An additional variance is available based on the number of units in the “primary target market” – R 749 per 1% allocation to primary beneficiaries (which may not exceed 70% of total units).
- **Institutional Subsidy (IS):** IS is administered by Provincial housing functions. Currently the IS is valued at R 110,000 per unit, and has been increased periodically in line with Construction Price Inflation along with other national subsidy instruments. Note that the application of the institutional subsidy is not uniform across provinces.
- **Equity from the SHI:** Equity contributions are not compulsory, but are sought in respect of the SH Policy and as required to ensure project viability. Additionally financial institutions often require SHIs to put up some equity.
- **Debt Finance:** The balance of financing in addition to subsidy and equity is provided by debt. Currently the bulk of debt finance is provided by Development Finance Institutions (DFIs) particularly the National Housing Finance Corporation (NHFC) and the Gauteng Partnership Fund (GPF).

4 Theory of Change for Social Housing

The Social Housing Programme was not conceptualised according to a predefined Logic Framework (Logframe). As a result of this, the consulting team, in collaboration with the Project Steering Committee, developed a Logframe for the programme as the normative basis for this evaluation. This Logframe is based on the policy documents for the programme at the time of its inception.

On the basis of the review of the Social Housing Policy (Social Housing Regulatory Authority (SHRA) 2005) the Social Housing programme has two primary objectives:

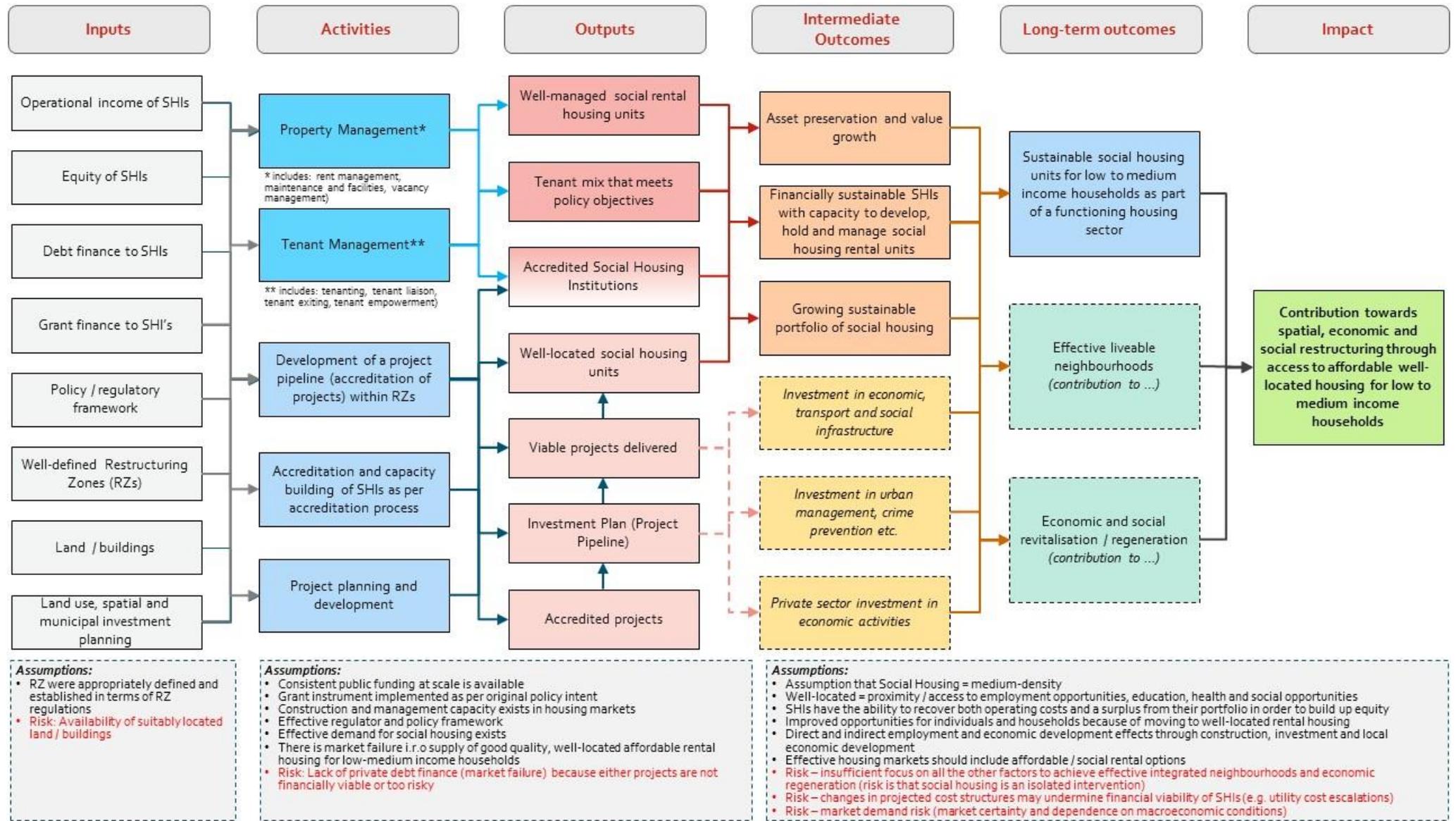
- Firstly, to contribute to the national priority of **restructuring South African society** to address structural, economic, social and spatial dysfunctionalities thereby contributing to Government’s vision of an economically empowered, non- racial, and integrated society living in sustainable human settlements.
- Secondly, to improve and contribute to the overall functioning of the housing sector and in particular the rental sub-component, especially insofar as Social Housing is able to contribute to widening the range of housing options available to the poor.

The contribution of Social Housing to restructuring objectives relates to three dimensions: spatial, economic and social.

- **SPATIAL:** In most South African cities poor (and mostly black) people live in locations far removed from where vibrant economic growth is occurring. To assist in rectifying this situation, social housing will be located in specific, defined localities (mostly urban) which have been identified as areas of opportunity (largely economic) where the poor have limited or inadequate access to accommodation.
- **ECONOMIC:** In addition to its primary impact of contributing to addressing spatial constraints to economic access, Social Housing will contribute to job creation and economic revitalization.
- **SOCIAL:** The extent to which Social Housing brings a level of management to social processes at a local level suggests that it is the most promising of the housing instruments that we have available for achieving social integration.

Given the above the logframe for the Social Housing programme is set out in the figure below.

Figure 1: Social Housing logical framework



5 Evaluation Findings

5.1 Impact Area 1: Spatial, Economic & Social Restructuring

This section answers the first Impact Evaluation question, namely: *To what extent have the social housing projects that have been implemented contributed to the achievement of spatial, economic and social restructuring policy goals?*

5.1.1 Evaluation findings

5.1.1.1 Contribution to spatial restructuring

The basis by which the social housing programme undertakes spatial restructuring is to focus investment in the form of the RCG within designated Restructuring Zones (RZs). RZs are intended to align with Urban Development Zones (UDZs), as well as other spatial planning instruments such as inner city revitalisation strategies, development nodes and corridors. These in turn must be linked to the National Spatial Development Framework (NSDF), Provincial Government Development Strategic (PGDS), Provincial and Municipal Spatial Development Plans (SDPs) and Integrated Development Plans (IDPs).

A spatial analysis of the RCG spending was undertaken by HDA and NASHO (HDA and NASHO, 2013). This study concludes that most of Social Housing projects are developed on an ad-hoc basis related to land availability, without sufficient consideration of possibilities of linkage to urban regeneration or other government-driven programmes. Most of the projects are located in near-city or suburban areas as opposed to inner city areas.

The Table below indicates the location of RCG projects, with reference to specifically defined urban zones. What is evident in the table is that 78% of RCG projects are implemented in suburban areas.

Table 2: Investment Locations of RCG subsidies in Urban Areas (2007 to 2012)

| Spatial type | Total No. Units | RCG Quantum | % of RCG |
|----------------|-----------------|----------------------|-------------|
| CBD | 1,540 | 183,8 million | 15 % |
| Suburban Inner | 3,193 | 344,1 million | 29 % |
| Suburban Outer | 4,840 | 588,4 million | 49 % |
| Grey Zone | 686 | 87,2 million | 7% |
| Township | 0 | 0 | 0% |
| Total | 10 259 | 1,204 billion | 100% |

Source: (Housing Development Agency & National Association of Social Housing Organisations (NASHO) 2013)

While all of the officials interviewed noted that social housing has not impacted significantly on spatial restructuring overall, a number did note that despite this the programme has had a beneficial impact in the areas in which projects were located. Officials in eThekweni, Buffalo City and the City of Cape Town all indicated that the projects implemented did impact positively on social integration and improving beneficiary's lives. There are significant concerns around RZ. Diephout (2011) argues that they have been identified through more of a political process than an urban planning-directed process, resulting in a high number of dispersed and large RZs with limited consideration regarding the implications of this for the efficacy of the social housing investments across, and within these RZs.

On the basis of the above it is concluded that SH has made a minor contribution to spatial restructuring through infill development that contributes to the integration of previously separated areas, higher density built form and the densification of urban areas. However, the relatively limited scale of SH development, and hence its potential impact is too limited to attribute direct causality for spatial restructuring.

5.1.1.2 Economic restructuring

The basis by which the social housing programme enables economic restructuring is through enhancing job creation via the construction of complete (as opposed to incremental) homes, by the creation of

employment opportunities in the management and maintenance of stock and in revitalising and regenerating important economic areas that are lagging or underperforming.

The evaluation found little evidence of SH developments preceding private investments. In some projects such as Brickfields, Pennyville, Fleurhof and Joshco's City Deep development SH was a bridgehead residential development in an otherwise non-residential area or on a large, vacant land parcel. However, the scale of SH investment in most areas is not large nor concentrated enough to relate directly to concomitant economic investment or activity.

The economic impact of SH and all other housing investments is not clearly articulated in South African discourse and its potential impact may be over-stated. The SH programme has injected over R5-billion into the economy and thereby is likely to have had a direct impact on temporary employment creation, and downstream economic multiplier effects in the areas in which it is invested. However there is no data on the extent or impact of this.

It is further noted that SH has limited job creation potential, with the only permanent jobs being tenant management and maintenance activities.

Certain stakeholders, specifically in degenerated inner city areas, consider SH to be a public investment leader and contributor to area stability. This includes Madulamoho's Hillbrow developments, JHC's Brickfields development and a cluster of SH developments in Buffalo City and Nelson Mandela Bay).

Given the above it is concluded that SH projects are contributors to economic investment and consequent economic restructuring in the areas in which they are developed, and therefore have an indirect role in encouraging investments by other actors. There is not sufficient evidence to link the development of SH at limited scale directly to catalysing concomitant economic investments.

5.1.1.3 Social restructuring

The basis by which SH is intended to contribute to social restructuring is through a mix of race and income levels in the beneficiary profile. The location of Social Housing projects in targeted areas of opportunity will also contribute to achieving a racial and income mix at a neighbourhood level.

The evaluation found that the programme is contributing to a limited extent to social cohesion, income and racial integration. Socio-demographic conditions in eight estates surveyed indicate a mix of race groups, predominantly female headed households, and a predominance of two and three member households:

- Black Africans make up 67% of residents, followed by Coloureds at 25%, Whites at 2% and Asian at <1%. However, this varies significantly per area depending on surrounding demographics.
- Predominantly residents are females at 65% on average, and range from 60% to 80%. This is thought to be due to the fact that social housing offers a safe environment for female headed households.
- 43% of households in the eight estates are two member households, followed by 26% of three member households. Single people and four member households are at 16% each.
- 94% of residents are South African while only 6% are classified as other.

42% (28 respondents) of the online survey believe that SH has been a very significant causal factor in racial integration in neighbourhoods. Examples of this include Pennyville and Fleurhof as a bridge between lower-income, African areas of Soweto and the middle to upper income Riverlea and Florida suburbs. However, exactly the same proportion believes it has been a limited or insignificant contributor.

On the basis of the above it is concluded that to a limited extent, SH contributes to income, racial and gender integration within the localised areas in which it is developed. It does seem to offer a particularly favourable form of accommodation for female single headed households due to its higher levels of security.

5.1.2 Conclusion

The evaluation conclusion is that, the social housing policy (SHP) has contributed a limited and dispersed portfolio of social housing units, accessed primarily by low to medium income households in its target market, that in turn makes limited and constrained local-level contributions to spatial, economic and social restructuring. This SH portfolio's limited and constrained spatial, economic and social restructuring impact is below its contribution potential. Key reasons for this limited impact are that:

- The SHP has not been part of a coordinated restructuring framework due to inconsistent public restructuring definitions, policies, plans and funding frameworks, and a lack of inter-governmental coordination of endeavours.
- The designation of the RZ has not been undertaken within a sufficient planning framework resulting in too many RZ that are too large to focus investment.

5.2 Impact Area 2: Creation of Affordable Rental Accommodation

This section answers the second Impact Evaluation question, namely: *To what extent has the programme contributed to the provision of rental housing for the targeted low- to medium-income households?*

In order for the SHP to have impact, a growing, sustainable SH sector is required that operates at some level of **scale**. SHIs need to develop and effectively manage a growing portfolio of viable projects. **Viable projects** are the result of **good management** by SHIs, as well as good regulation of institutions and approval of projects by the SHRA. Accordingly four aspects must be achieved:

- A growing, sustainable portfolio of SH units;
- SHIs with capacity to develop, hold and manage units;
- The targeting of low to medium income households; and
- A functioning housing sector within which SH operates.

These four aspects are the basis by which the evaluation is undertaken.

5.2.1 Evaluation Findings

5.2.1.1 A growing, sustainable portfolio of SH units

Prior to 2008, the total portfolio of subsidised SH units under management is estimated to include around 23,000 units held by accredited SHIs (RGSA, 2013). Since that date, the figures below show the number of approved SH projects across the nine provinces, as well as the annual rates of project approval in the sector.

Table 3: Approved SH Projects and Units Per Annum, Per Province (2007/08 to 2014/15)

| Province | 2007/08 | | 2008/09 | | 2009/10 | | 2010/11 | | 2011/12 | | 2012/13 | | 2013/14 | | 2014/15 | | Total | |
|------------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|-----------------|------------|-----------------|--------------|
| | No. of projects | Units | No. of projects | Units | No. of projects | Units |
| Eastern Cape | | | 1 | 480 | 4 | 990 | 1 | 347 | 3 | 202 | 2 | 750 | 1 | 400 | 3 | 823 | 15 | 3992 |
| Free State | | | | | | | 1 | 402 | 1 | 495 | | | | | | | 2 | 897 |
| Gauteng Province | | | 2 | 963 | 1 | 81 | 3 | 301 | 4 | 1105 | 2 | 1062 | 5 | 1303 | 3 | | 20 | 4815 |
| KwaZulu-Natal | 3 | 993 | | | 5 | 751 | | | 4 | 1713 | 4 | 1802 | | | 1 | 8 | 17 | 5267 |
| Mpumalanga | | | | | | | | | 1 | 104 | | | | | | | 1 | 104 |
| North West | | | | | | | | | | | | | 1 | 576 | | | 1 | 576 |
| Western Cape | 1 | 705 | 1 | 450 | 1 | 219 | | | 3 | 390 | 4 | 1507 | | | 2 | | 12 | 3271 |
| Total | 4 | 1698 | 4 | 1893 | 11 | 2041 | 5 | 1050 | 16 | 4009 | 12 | 5121 | 7 | 2279 | 9 | 831 | 68 | 18922 |

Source: RGSA SH Projects Database

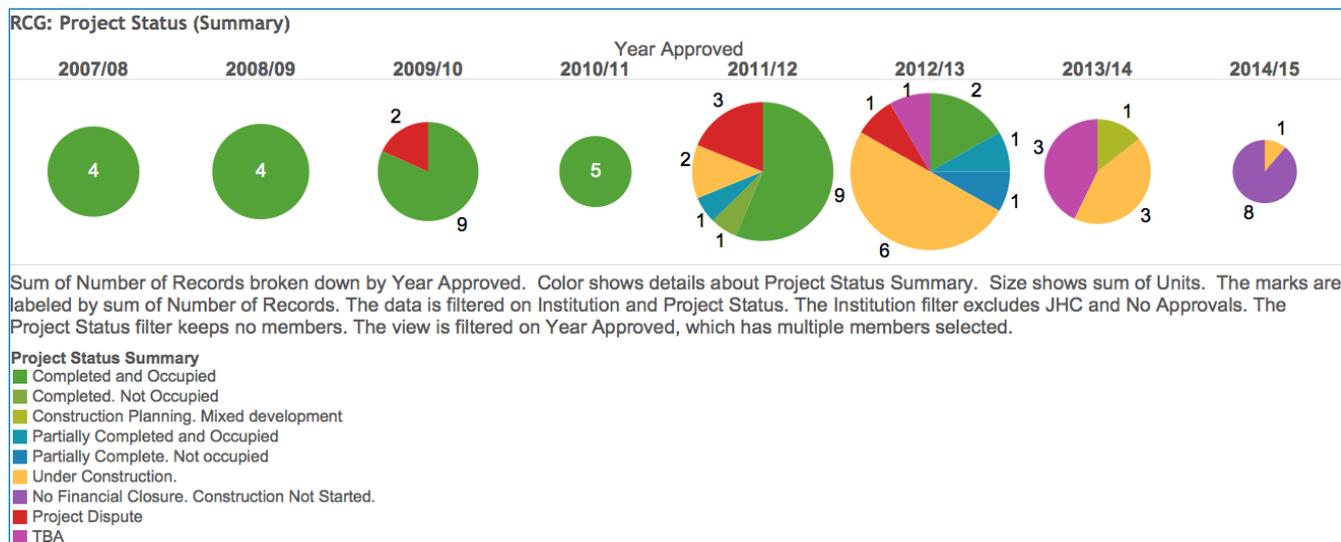
As shown in the table since 2007/08, 18,922 units of subsidised SH have been approved by SHRA in 68 separate RCG projects across ten municipalities in seven provinces. Overall, SH project approvals increased between 2007/08 and 2012/2013 (in which the maximum number of twelve projects comprising 5,121 units was approved). Growth has slowed significantly over the last three years, and the sustainability of the entire portfolio is currently under threat due to financial calibration of subsidy instruments and beneficiary target income groups in the sector (All officials and SHI interviewed indicated this).

5.2.1.2 SHI Capacity: SHIs with capacity to develop, hold and manage social housing units.

Number of SHIs

Of the 61 SHIs under regulation in 2015, only nineteen have projects completed and/or approved for RCG funding. To date, only eleven SHIs have completed projects, and ten institutions manage occupied RCG-funded stock. The figure below shows project completion status by year since 2007/08. This shows that projects up to and including the 2010/11 year are complete and occupied, while those in the years from 2011/12 are still in various states of completion. These long time lags from project approval to project completion are of concern, given the implications of time delays on project costs.

Figure 2: Project Completion Status by Year (2007/08 to 2014/15)



Source: RGSA SH Projects Database

Capacity of SHIs

Perceptions of survey respondents to the capacity of SHIs indicates that SHIs are perceived to be relatively well capacitated to fulfil their tasks, and are considered much better performers than the policy and regulatory authorities. Interviewees from SHIs supported these findings during the face to face interviews, with one important proviso - it is important that South Africa's SH sector is not seen as a standard set of similar institutions. Rather, SHIs have different founding ethos, have developed differently and with very diverse outcomes in respect of projects and units under management. Interviewees raised a number of performance considerations still hampering the growth of SHIS in South Africa. These include:

- **SHI Capacity:** There has been progress in improving management skills and governance within SHIs. However, project, financial and company management skills continues to be a challenge.
- **Limited Stock Portfolios:** It is widely acknowledged that SHIs with portfolios of less than around 2,000 units will face difficulties in generating efficiencies and economies of scale in their management arrangements. Currently, very few SHIs in South Africa have over 1,000 units.
- **SHI Financial and Tenant management capacity Limitations:** While SHIs in South Africa have substantially improved their collections performance since being regulated in 2007/08, a number of institutions still have relatively high levels of default that impact on their sustainability.
- **Limited Institutional Capacitation:** Since SHRA's establishment, limited institutional capacitation funding and/or programmes have been implemented. This has hampered the ability of some SHIs to obtain assistance to identify and overcome capacity limitations.

Different views exist in the SH sector regarding the future capacity of SHIs to deliver adequate SH in South Africa. There is currently a limited cohort of eight SHIs with capacity to plan, implement and manage new SH. These are, Sohco, Johannesburg Social Housing Company, First Metro Housing Company, Madulamoho Housing Association, Msunduzi, IMIZI, Yeast City Housing, Own Haven Housing Association. The NDHS and SHRA have no formal strategy for growing the SHI sector. There are different views regarding whether the sector should comprise a few, large SHIs, many small SHIs or a combination.

Delivery of SH in the future

There are indications that even those SHIs with capacity to deliver are starting to move away from social housing. 82% of SHIs indicate that they are actively seeking alternative, non-subsidised residential project options due to negative conditions in the SH sector. This is supported by NASHO, who have recently completed a Long Term Financing project intended to assist SHIs to seek more financially stable residential asset classes to build their portfolios (Interview: Malcolm McCarthy). Further, certain interviewees indicated that their SHIs have developed new strategic plans that exclude or limit exposure to SH projects in the future (Interviews: Communicare; Sohco, Madulamoho). Given the scale of the SH sector, this redirection of development and management capacity has, and will continue to negatively affect medium term SH project approvals and the SH project pipeline.

There is no acknowledged, defensible SH project pipeline at any Metro or municipality, Province nor at a national level. Interviewees cited the following major reasons for this: high levels of misalignment and lack of coordination between the stakeholders; the failure of the SHRA to develop agreements with key role players and the Provincial Steering Committees not operating effectively. (According to DHS only 2 provincial steering committees are operating effectively). The attitude of the SHRA is also cited as being problematic in that it did not have an approach that encouraged and fostered partnerships (Various interviews).

Financial Sustainability of SHIs

While the RCG and IS grants are considered to be effective instruments for stimulating the production of SH (76% of online survey recipients rated the RCG as either very effective or effective in stimulating the production of SH, in comparison to 63% in respect of IS), the current calibration of these instruments and other finance criteria affecting SHI viability are seriously impacting on SHI sustainability and the production of SH in the future. Most, but specifically the large SHIs with the best delivery track record are not able to develop financially viable RCG-funded social housing projects under the current RCG subsidy and financing parameters (Interviews: All SHIs).

Under current financing criteria, the average RCG-funded SH project is a net financial burden to the average SHI in the sector. Current income eligibility parameters (Primary Target Market – R 3,500 household income and below and Secondary Target Market R 3,501 to R 7,500 household income band) and RCG quantum seriously constrains SHIs' ability to develop and operate SH at a positive net operating income.

In response to real constraints on project technical, financial and institutional viability, SHIs are often forced to take business decisions that are not in the best interests of Social Housing beneficiaries. Rental income constraints due to primary and secondary income group ceilings force SHIs to price more units as close to the top of both income bands as necessary to sustain internal financial requirements (such as sufficient cover to service debt). The outcome is that, as rentals increase, units are progressively less affordable to the targeted income groups.

Key problems in respect of funding instruments are as follows:

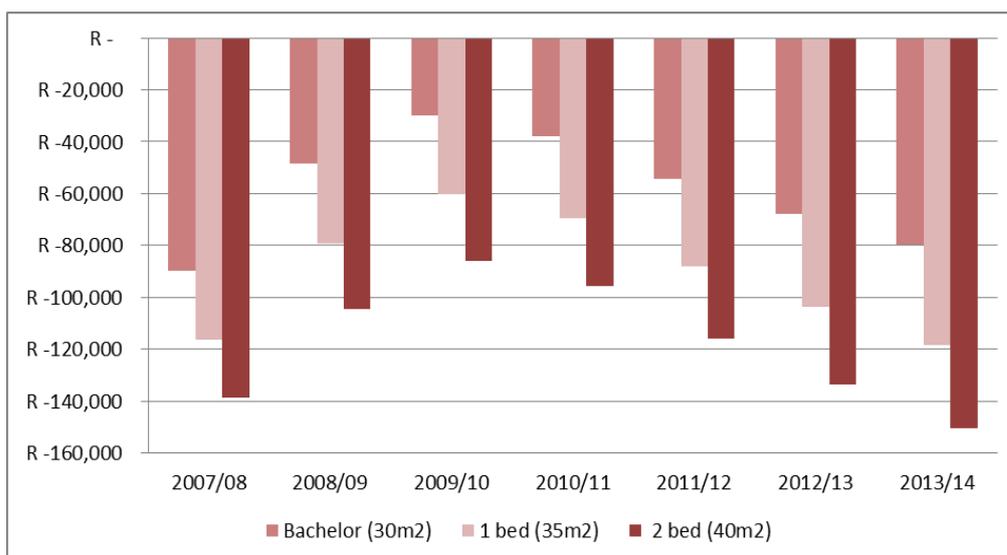
- The RCG Subsidy quantum has been progressively eroded by inflationary cost increases in new accommodation construction. The table and figure below indicate the effects of inflation on the RCG, in comparison to the increase in building costs, over the ISHP and SHIP period. What is evident is the gradual erosion of the RCG as a result of its non-indexation – especially since 2011. At current subsidy levels it is not possible to construct SH units, due to the increase in construction costs over the last eight years. This is negatively impacting on the viability of SH projects, SHIs and the overall operation of the SH sector.

Table 4: Total subsidy vs Average unit costs, 2007/8 - 2013/14

| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|----------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Total Subsidy | R 114,513 | R 184,489 | R 202,683 | R 202,683 | R 202,683 | R 206,998 | R 214,977 |
| Avg Unit Cost | | | | | | | |
| Bachelor (30m2) | R 204,121 | R 233,106 | R 232,640 | R 240,550 | R 256,907 | R 274,633 | R 294,682 |
| 1 bed (35m2) | R 230,872 | R 263,656 | R 263,129 | R 272,075 | R 290,576 | R 310,626 | R 333,302 |

| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 2 bed (40m2) | R 253,215 | R 289,171 | R 288,593 | R 298,405 | R 318,696 | R 340,686 | R 365,556 |
| Shortfall | | | | | | | |
| Bachelor (30m2) | R-89,608 | R-48,617 | R-29,957 | R-37,867 | R-54,224 | R-67,635 | R-79,705 |
| 1 bed (35m2) | R-116,359 | R-79,167 | R-60,446 | R-69,392 | R-87,893 | R-103,628 | R-118,325 |
| 2 bed (40m2) | R-138,702 | R-104,682 | R-85,910 | R-95,722 | R-116,013 | R-133,688 | R-150,579 |

Figure 3: Shortfall between total public funding and typical unit cost



Source: *Impact and Implementation Evaluation of the Social Housing Programme: Findings, Conclusions & Recommendations*

- Financial conditions in SH sector require SHIs to seek alternative, additional sources of capital to ensure project viability. The survey respondents overwhelmingly indicate (91% agree or agree fully) that the erosion of financial sustainability due to inflationary erosion of RCG quantum, income eligibility bands and rent re-benchmarking leads to reduced equity, requirements for greater gearing and contributions in kind, including further subsidies, donations or land, in order to develop sustainable projects. This includes additional IS allocations, subsidised or free land and shareholders' equity.
- Contrary to SH policy intent, most SHIs have very limited equity bases on which to leverage portfolio growth and that financially destabilises them. Anecdotal evidence indicates that long-term provisions for maintenance set aside in early stages of SH development have been used to support operating deficits and capitalise projects (Interview: Arie Diephout). Supporting this, 66% of online survey respondents disagree fully or slightly that SHIs are able to develop strong equity bases on which to leverage portfolio growth.
- With respect to debt finance to date, the NHFC, and to a lesser degree the GPF and an offshore agency (DIGH) have been the major financiers of SH. Currently these debt instruments are not considered very effective instruments for stimulating SH development. Only 42% of online survey recipients considered NHFC debt financing to be an effective tool for stimulating the production of SH, in comparison to 49% for DIGH and 59% in relation to GPF.

On the basis of the evidence indicated above it is concluded that there is a limited and constrained SHI sector. The lack of an agreed SHI growth strategy, limited and ad-hoc institutional capacitation programmes and reducing financial sustainability of SHIs due to marginal project viability and net operating deficits on subsidised SH units threatens sustainability of SHIs and is causing SHIs to actively pursue alternative project opportunities.

5.2.1.3 Targeting of low to medium income households (income categories)

In general, SH provides affordable, well-located rental housing in South Africa: 70% of online survey respondents agree or strongly agree with this statement. While in most markets SH competes favourably with private rental providers on price, the product specifications and quality are significantly differentiated, and in general are deemed to offer larger and better-specified units than shared rented houses, backyard accommodation and even inner-city flats, that tend to be smaller and allow greater levels of overcrowding than SHs. Therefore, whereas counterfactuals compete on rentals, SHs generally provide higher quality, larger units with access to full services.

Effective demand still exists for SH in South Africa. 95% of online survey respondents agree or strongly agree that there is effective demand for SH in South Africa. However, at current income thresholds, it is increasingly difficult for households within the SH income bands to afford rent and services costs. 86% of online survey respondents from SHs fully agree or agree that annual increases in rates and services accounts are significantly above inflation, and are an added cost burden on the affordability of tenants.

While the Social Housing policy clearly provides for annual adjustments to qualifying income bands of households eligible for social housing (in relation to CPI), this has not been done for eight years, since prior to the commencement of the ISHP programme in 2008. Therefore, while SH does generally meet target income categories and meets a supply shortage in the market, this is progressively harder to achieve due to non-benchmarking of eligible income levels and rentals against inflation.

On the basis of the above evidence, while in general SHs have retained a focus on households within the regulated primary and secondary target income groups, it is becoming increasingly difficult for SHs to charge rentals affordable to households within these regulated income bands. In addition, it is also becoming increasingly difficult for households with incomes within the designated income bands to be able to afford rent and additional service charges required by SHs, due to the increase in the general cost of living.

5.2.1.4 Contribution to a functioning housing sector

The motivation for SH to intervene in an area of housing market failure by providing good quality, well-located rental accommodation that is affordable to low and middle-income households remains strong. The proportion of South Africans renting accommodation rose to 25% in the 2011 Census. Demand from low to middle income households in South Africa continues to grow in major metropolitan centres (NASHO, 2015).

There is strong support in the SH sector that market failure still exists in this market, and that SH intervention is still justified. 90% of online survey respondents strongly agree or agree that there is market failure with respect to the supply of good quality, well-located, affordable accommodation in South Africa, and 97% agree or strongly agree that South Africa's housing market provides insufficient affordable rental accommodation.

South Africa has never had a unified, agreed rental housing policy. This continues to affect the development, targeting and management of supports and subsidies to different sub-markets, which destabilises the sector.

In general, SH operates in differentiated housing sub-markets to other private operators that generally do not directly compete for customers. 93% of online survey respondents agree or strongly agree that SH does not negatively impact on the operation of the private sector rental market.

A stagnating supply of affordable and subsidised, owned accommodation in South Africa places added pressure on SH due to 'cross-raiding' and conflicted housing requirements of occupants. The lack of subsidised and affordable housing delivery (RGSA, 2015) implies greater demand for subsidised rental accommodation from households that would prefer to own. Evidence indicates that this creates risks from tenants who agitate for SH to be transferred to them. This has been an important issue in certain high profile disputes in SH projects such as the Sohco boycotts in eThekweni (Interview: Heather Maxwell (Sohco); Ismail Khatib (FMHC)).

Government's overall housing policy and subsidy support framework is not coherent, and creates overlapping markets and inadvertently sets up unfavourable competition between instruments. These have, and will continue to create significant risks in housing delivery, specifically within IRDP and Megaprojects, combining multiple subsidy types in a defined area. The key difficulties revolve around the Social Housing and Community Residential Unit (CRU) programmes.

The SH sector faces direct, unfair competition from the CRU programme implemented by Municipalities (Interview: M McCarthy, J Pienaar (authors of forthcoming CRU Programme evaluation for the NDHS)).

The SHP recognizes the importance of supporting the growth of private sector rental provision of SH. This would be through the investment of grants in accredited projects, developed and managed by the private sector, rather than by accredited institutions. The intent of encouraging private companies to deliver subsidised SH through accredited projects rather than SHIs has not been successful. Of 16,451 units approved and not in dispute, 271 units are under control of private providers or non-SHI entities¹.

On the basis of the above evidence it is concluded that there continues to be market failure which indicates the need for a social housing programme that will provide affordable rental accommodation for low to middle income households. This is exacerbated by the lack of affordable housing for ownership. There are a number of critical issues which indicated that the social housing programme is not operating in a functioning market including the lack of a rental housing policy and subsidy support framework being not coherent, creating overlapping markets and setting up unfavourable competition between instruments particularly SH and CRU. Despite being the intent of the policy the private sector is not able to participate effectively in the market.

5.2.2 Conclusion

The evaluation concludes that while SH was never intended to be a mass housing delivery programme (DHS, 2009), **it has made a small contribution to the supply of low-moderate rent housing options.** The potential to continue to add to supply in the targeted income bands has been severely constrained, especially since 2012.

The SH sector grew at a steady pace over the first five budget years of the ISHP and SHIP programmes and delivered stock that predominantly met its primary and secondary target markets. However, there has been a significant downturn in delivery over the last three years of the programme and financial constraints have increasingly polarised affordability at the ceilings of the primary and secondary income thresholds, and have started to break through the current upper income threshold. This is primarily due to the lack of indexing of the income bands since the inception of the programme.

Delivery is expected to continue to decline until it stagnates by 2016/17 unless urgent actions are taken. The key reasons for this are a limited cohort of eight SHIs with capacity to plan, implement and manage new SH and no formal strategy for growing the SH sector. In addition there are indications that even those SHIs with capacity are starting to move away from SH.

While it is increasingly difficult for SHIs to charge affordable rentals to the targeted households it is also becoming increasingly difficult for households with incomes within the designated income bands to be able to afford the rentals and servicing charges.

There continues to be market failure which indicates the need for a social housing programme. There are a number of critical issues which undermine the effective functioning of the social housing sector including the lack of a rental housing policy and an incoherent subsidy support framework.

5.3 Impact Area 3: Value for Money Assessment

The section specifically answers the third Impact Evaluation question, namely: *Has the program delivered value for money?*

Value for Money is indicated as the observable or measurable effects that occur as a result of the implementation of the social housing programme. Therefore, from a public viewpoint, **Value for Money** relates to the **Outcomes** achieved based on the direct public sector **Inputs**, most importantly *Grant finance* (RCG and Is), the costs of the *Policy and regulatory framework* (sector leadership, governance, regulation) and other indirect inputs such as municipal contributions (*Land & buildings* and infrastructure).

¹ This statistic could not be corroborated by SHRA, but is calculated to include Norvena Consortium (271 units) and Thubelisha (705 units, but no longer in operation)

The measurable extent to which these inputs create **Activities**, specifically *Accreditation and capacity building of SHIs, Development of a project pipeline* and SHIs with successful *property management and tenant management* is then compared with the **Outputs** and **Outcomes**. Specifically, how many *Well managed social rental housing units* are produced, the extent to which *the Tenant mix meets policy objectives*, the number of *Accredited SHIs*, and ultimately how *well located SH units* are produced, and whether these activities create an *Investment plan or project pipeline*.

This is the focus of the evaluation, specifically in reference to the SH counterfactuals identified for comparison.

5.3.1 Evaluation findings

5.3.1.1 Financial Costs of the SH programme

Funds invested in RCG-approved social housing projects constitute at least R 4,57-Bn across the period of the ISHP and SHIP programme², including RCG and IS, debt, equity and other shareholders capital. This is made up of the following:

- Public Subsidy (National RCG and Provincial IS) comprises R1,92-Bn of RCG subsidies at the national level (42% of total SH finance and funding) and R1,11-Bn of provincially-sourced IS subsidies (24%).
- R1,12-Bn of Debt finance (25% of total SH funding and finance) flowed into SH in total, predominantly from the NHFC, GPF and DIGH. Therefore, a majority of the debt finance required is from publicly established and supported entities (NHFC as a national Human Settlements State Corporate³, GPF as a provincially established and supported State Corporate).
- R0,34-Bn of Equity and Shareholders Contributions (7% of total SH funding and finance⁴) and R0,084-Bn (2% of total funding and finance) donor funding.

The SH programme is the only subsidy programme to raise significant amounts of debt as a prerequisite for project implementation⁵.

The total quantum of direct municipal contributions to SH is not known at present. This mainly includes land contributions to projects at below cost, and bulk and link service installation. Recently, however, municipalities have been required to provide more financial or in-kind contributions to make SH projects financially viable.

Considering the average proportion of the total SH budget allocated to SHRA's operating costs, in addition to other administrative costs of the programme at national, provincial and municipal level, value for money has been questioned by a number of respondents. The SH EPR indicates that at provincial level administrative costs for the entire social rental programme (which is broader than just SH) was some 25% of capital expenditure in 2012/13. This is especially so in the light of the poor rating of SHRA's and the NDHS performance in guiding and regulating the SH sector.

While regulatory and administrative costs are relatively high per unit of SH produced and regulated, these costs are partially offset against a relative lack of control of standards and finances, higher levels of financial loss, lower levels of quality assurance, and rectification requirements in other Human Settlements programmes such as the CRU and RDP programmes.

²This includes projects under investigation.

³Note however that the NHFC funded most of the SH projects via facilities obtained from non-South African governmental sources, notably the European Union (and AFD).

⁴While independent SHIs contribute minimal equity to SH Projects, in recent years certain MEs (and specifically Joshco) has relied on substantial inputs from its shareholder (City of Johannesburg) to package viable projects.

⁵The FLISP subsidy requires a household to raise a bond, but this services a higher income group on average than SH (estimated R10,000 and above household income).

Whilst it is alleged that fraudulent activity has occurred in SHRA and certain projects are under investigation, a relatively robust regulatory system has ensured general adherence to legislative, policy and regulatory provisions. It is believed that SH therefore offers relatively less opportunity for misuse of funds than other state subsidised housing programmes such as CRU and RDP. Notwithstanding regulatory difficulties and reporting inadequacies at SHRA, the approvals, utilisation of and status of all 68 projects approved for RCG funding between 2008/09 and 2014/15 are known (Interview: Malcolm McCarthy and Jacus Pienaar).

5.3.1.2 Financial revenues of the program

SH is more fiscally sustainable than RDP housing (SHF, 2010). Contrary to most other subsidy housing programmes SH relies on a virtuous cycle of financial flows back to the state during its life cycle. Tenants' rentals contribute to payment of rates and services to municipalities, as well as maintenance of subsidised stock.

SH is the only public housing programme that requires confirmation of medium to long-term financial viability and sustainability prior to approval for subsidisation. It is therefore the only subsidised programme that offers net financial benefits and contributions at national, provincial and local level, over the medium to long term. Whereas other subsidised programmes become net burdens on state resources, SH should over its lifespan contribute rates and services revenues to municipalities.

In addition from the current investment in SHIs and assuming the SHI is able to build an equity base in the long term the state should get stock produced with relatively less subsidisation.

Tenant rental payments and management of default are core to the underlying financial stability of SHIs, through providing sufficient income to cover internal costs and payments to financiers and external service providers, most notably municipalities. It is noted however that current financial sustainability concerns place this 'virtuous cycle' in jeopardy.

All RCG projects are geared. An average of 25% of total capital is external finance. To date, no RCG project has defaulted on debt repayments to NHFC, GPF or DIGH (Interviews: David Waugh (NHFC), Shiraaz Lorgat (GFP)).

5.3.1.3 Scope and impact of the programme

SH is a niche human settlements subsidy programme that cannot compete with mass housing subsidy programmes such as RDP, UISP and Rural Housing. However, while limited in volume it is wide in scope, providing well managed affordable accommodation that meets accommodation needs of multiple households across its life cycle, and contributes to a virtuous economic cycle unlike any other subsidised programme targeted at low to middle income households.

The majority of the SH units developed and under development, which will accommodate around 60,000 people and are projected to house up to 60,000 households (180,000 people) over a deemed twenty year life span⁶ would not have been constructed and available to the target group without the SH Programme. SH has limited substitution impact (unfair competition) on general market operation.

SH does not reach the poorest households in society, which still rely on fully subsidised accommodation from the state (SHF, 2010). Social Housing is targeted at a specific income segment, where residents are able to pay some level of rental in line with their housing choice. Social Housing requires residents with sufficient income to pay for lifecycle costs, while RDP incurs a much higher indirect lifecycle cost and in so doing is able to target much lower. However, SH targets the so-called 'gap housing' market that experiences general supply constraints.

The SHP was always envisaged as a focused contributor of well-located, affordable rental accommodation. SH has and will continue to deliver a limited number of units (estimated < 5% of national housing delivery over period⁷). However this is offset by other benefits.

⁶This is based on a 'rule of thumb' estimate that average occupancy of a household in SH is between six to seven years, and the average life of a SH unit is deemed to be twenty years. Note that this varies significantly between areas (Interview, Malcolm McCarthy). Occupancy in some communities is more long-term (Western Cape, interview, Renier Erasmus), and in other areas such as the City of Johannesburg inner city generally more temporary (Interview, Rory Gallocher). The twenty year lifespan of social housing stock is also under-stated: with good maintenance, newly constructed SH stock could last for at least 50 years (Interviews: Malcolm McCarthy, Jacus Pienaar, Arie Diephout).

⁷The NDHS figures indicate that 154 129 houses and sites were delivered during the 2014/15 Financial Year. Taking the maximum SH rate of approval for SH of 5 343 units, (2012/13) this equates to 3,5% of national delivery.

5.3.2 Evaluation Conclusion

The evaluation concludes that the SH programme has delivered value for money in relation to the conversion of public funds into viable rental stock in the medium to long term. Notably, it is the only state subsidy programme to gear public money with significant private investment.

While there are reservations regarding the efficacy of certain aspects of the SHP (specifically, the regulatory costs versus regulatory benefits accrued through the SHRA to date), the potential of the sector to deliver substantially greater value for money is noted. Further, it is suggested that the relatively high levels of directed purpose, transparency, control and regulation, and delivery of accommodation in relation to public money invested, exceeds most other public subsidy programmes.

The creation of a portfolio of affordable rental units that does not directly or adversely compete with other (non-subsidised) rental sub-markets in most areas, is financially sustainable in the medium to long term, and benefits more than a single beneficiary household in the lifetime of a single subsidy contributed, is unique amongst all state subsidy programmes. Finally, the role SH and SHIs play in contributing better quality to many beneficiaries' lives creates inter-generational benefits that break the cycle of deprivation amongst occupants. This in turn creates a 'virtuous housing cycle' where tenants pay rent, housing stock and environments are maintained and SHIs contribute on-going revenue streams to municipalities through rates and service charges.

5.4 Implementation Area 1: Restructuring Zones

The section specifically answers the first Implementation Evaluation question, namely: *How have the restructuring zones been identified (by municipalities); which factors / criteria determine the identification of a RZ; and is this in line with the specified criteria?*

Well Defined Restructuring Zones are a necessary input to the SHP. As indicated in the TOC a key assumption of the social housing programme is that "RZs were appropriately defined and established in term of RZ regulations".

The TOC indicates that the desired **impact** from the SH programme is a "Contribution towards spatial, economic and social restructuring through access to affordable well-located housing for low to medium income households". Well-defined restructuring zones therefore determine whether SH projects are "well located", and also therefore influences whether SH "Contributes to spatial, economic and social restructuring".

The evaluation reviews the basis by which RZs have been implemented, the location of RZs, the extent to which they are aligned with restructuring areas and investment planning.

5.4.1 Evaluation Findings

5.4.1.1 Policy and regulatory framework

Interview respondents raised concerns that the current policy and regulatory framework and RZ designation process is not sufficiently clear. The first tranche of RZs were designated as Provisional Restructuring Zones, but were never reviewed or re-designated as permanent RZs. A set of SH Guidelines that included details on RZ designation was approved by MinMec, however, these have never been applied. These guidelines, for instance, required each Municipality to appoint an RZ manager, which has not happened in any Municipality. Review requirements have also never been implemented (Interview: Arie Diephout).

5.4.1.2 Location of Restructuring Zones

Regulations related to the process of planning and identifying RZs require consideration of areas in need of restructuring. However, the evaluation found little evidence that RZs have been systematically and rigorously planned. Rather, the designation of these areas has been treated more as a necessity to secure the rights to RCG funding than as a detailed planning of areas in need of restructuring investments. Therefore, the once-off designation of RZs becomes a requirement to approve RCG-funded projects, rather than an on-going spatial planning tool used to ensure optimal restructuring benefit from SH.

SH investments are spread across ten municipalities in seven provinces. This widespread declaration of RZs, as well as the large size of most RZs dilutes the restructuring impact of SH investments, and the intents of the RZ regulatory framework. 55% of online survey respondents fully agree (23%) or agree (32%) that SH investments should be focused in, or concentrated on fewer areas with greater volumes of SH units per area. Less than half as many fully disagreed (11%) or disagreed (15%) with this statement.

Spatial analysis indicates that RZs are generally large zones covering a wide area of most cities, however sizes and locations do vary significantly in different cities. RZs do not provide clear, geographic boundaries for SH investments that contribute to restructuring outcomes. While 55% of respondents fully or partly agreed that RZs are the best mechanism for focusing SH investment where it will have maximum impact, only 37% of online survey respondents agreed fully (7%) or partly (30%) that designated RZs have provided clear geographic boundaries to focus SH investment in areas in need of spatial, economic and social restructuring. 46% either disagreed partly (31%) or fully (15%).

The most extreme example of this is the City of Johannesburg where the RZ is very large, encompassing a major part of the designated metropolitan area.

5.4.1.3 Alignment with other Urban Restructuring Areas

Most RZs include areas of restructuring focus in terms of spatial planning instruments (nodes, corridors), but rather offer broad 'catch-all' boundaries rather than focused areas for targeted restructuring (Interview: Jacus Pienaar).

RZs are generally large enough to include many other planning instruments and restructuring focus areas, but these are not overtly coordinated and prioritised in relation to other planning instruments to identify the areas for SH investment that will yield maximum restructuring impact.

There has been no formal review process of RZs and their effectiveness, nor re-assignment, change of boundary or removal of RZs by any known Municipality, provincial or national body since the commencement of the SHP in 2008 (HDA and NASHO, 2013).

5.4.1.4 Investment Planning

The process of defining, implementing, managing and monitoring and reviewing RZs policy has been a very ad-hoc process, primarily aimed at meeting the requirement for an RZ in order to be eligible for SHRA and IS funding of SH projects. No evidence exists of a clear property market analytical approach being linked to RZ proclamation and implementation. In addition there is evidence of political pressure influencing the decision making process. The case of Msunduzi is instructive here. A comprehensive process was undertaken using a planning methodology to define an RZ that best focused SH investments in the city. However, prior to Gazetting, this area was widened significantly due to political pressure to not exclude peripheral township areas.

Very limited documentation was available, and/or obtainable for analysis relating to the approaches adopted to researching, defining and implementing RZs. In many municipalities interviewed, no historical documentation was traceable referring to how RZs were researched, designed and implemented.

Despite the above it is important to note that SH has the most rigour built into its approach to identifying location of projects when compared with other housing programmes, due to the requirement that SH projects are located within RZs. While the RZs may not be well considered through a full planning process, they do still **create a level of spatial analysis relating to project location that does not occur for other counterfactuals, specifically RDP housing.**

5.4.2 Conclusion

The evaluation finds that there is a lack of "Well defined RZs" in South Africa to guide the location of, and further investment in RZ areas. Firstly, the legislative and regulatory provisions, as well as guidelines for RZ planning, identification, promulgation and review are not thorough, and this framework has not been systematically implemented. In a majority of cases RZs have not been carefully and *appropriately defined and established, nor* monitored and reviewed since designation.

RZs generally do not fully take guidance from, nor support other levels of planning at city level, and are not subject to review in line with spatial planning reviews. Political processes also often drive RZ designation, rather than sound spatial and economic planning considerations based around a technical restructuring agenda. RZs therefore operate more as a general administrative check rather than

instrument to guide SH investments. Little property economics knowledge and expertise is applied to the planning and designation of RZs at municipal and provincial level, and there is little evidence of RZs being used as any more than a 'check box' for SH project approvals by SHRA. Further, SHRA does not currently have in-house property economics capacity to adequately advise the Minister on RZ designations.

Generally, too many cities have RZs designated for SH investments, and designated RZs are large and do not provide sufficient focus to meet a clear SH restructuring agenda. Further, there is also no evidence of any on-going review of RZ effectiveness in any areas, even though many were promulgated as Provisional RZs, and that the policy required periodic reviews of RZ effectiveness to be undertaken.

However while the RZs may not be well considered through a full planning process, they do still create a level of spatial analysis relating to project location that does not occur for other counterfactuals, specifically RDP housing.

The lack of thorough planning, implementation, targeting and review has had a negative impact on the ability of the SHP to achieve its intended restructuring impact. It is concluded that the approach to RZs should be subject to substantial review in order improve its effectiveness in meeting its intended restructuring focus.

5.5 Implementation Area 2: SHI Delivery & Financial Viability

The section specifically answers the second Implementation Evaluation question, namely: *To what extent have SHIs developed capacity to deliver at scale and build a financially viable model?*

In order to address this question the evaluation considered the extent to which delivery at scale is occurring, SHRA regulation, project feasibility, institutional capacitation, intergovernmental relations and SHI operations.

5.5.1 Evaluation Findings

5.5.1.1 Delivery

The rate of growth of the SH portfolio has not met the unrealistic targets set for the sector. A target of 22,500 new SH units was set for the SH programme over the first three years of the ISHP (5 632 were delivered between 2008/09 and 2010/11) and 50,000 units over five years (10 691 were delivered between 2008/09 to 2012/13). However, these targets were considered unrealistic regarding the assessment of SHI capacity at the time, and an understanding of sector scale-up parameters.

Different views exist in the SH sector regarding the future capacity of SHIs to deliver adequate SH in South Africa. There are currently 61 accredited SHIs 8 Unconditionally, 41 Conditionally and 12 Pre-Accredited, of which 17 have had projects approved, and 11 have subsidised stock under management. Therefore, there is currently a limited cohort of eight SHIs with capacity to plan, implement and manage new SH.

The NDHS and SHRA have no formal strategy for growing the SHI sector. There are different views regarding whether the sector should comprise a few, large SHIs, many small SHIs or a combination. The face to face interviews reinforced that the NDHS and SHRA do not have a clear vision and strategy around the growth and development of the sector, and that this is having a negative impact on how the SH sector will develop over time.

There are indications that even those SHIs with capacity to deliver are starting to move away from social housing. 82% of SHIs indicate that they are actively seeking alternative, non-subsidised residential project options due to negative conditions in the SH sector. Of the respondents from SHIs, 63% fully agreed and 19% partly agreed that their SHI is actively pursuing alternative projects and market opportunities such as unsubsidized, affordable rental housing in order to grow their portfolio over the next two years. This is supported by NASHO, who have recently completed a Long Term Financing project intended to assist SHIs to seek more financially stable residential asset classes to build their portfolios (Interview: Malcolm McCarthy).

There is no acknowledged, defensible SH project pipeline at any Metro or municipality, Province nor at a national level. Interviewees cited the following major reasons for this: high levels of misalignment and lack of coordination between the stakeholders; the failure of the SHRA to develop agreements with key role players; and the Provincial Steering Committees not operating effectively. (According to DHS only 2 provincial steering committees are operating effectively).

The attitude of the SHRA is also cited as being problematic in that it did not have an approach that encouraged and fostered partnerships (Various interviews).

5.5.1.2 SHRA Regulation

Evaluation question: Have the requirements and rigour of the SHRA SHI accreditation been adequate to address SHI viability?

SHRA has performed its regulatory role in the SH sector since its establishment in 2008. In this regard all SHIs must be registered with, and report regularly to the SHRA on their performance. This comprises the submission and approval of quarterly progress reports and full annual reports.

SHIs are also required to obtain approval from the SHRA on their corporate governance, 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.

Over the last five years, a total of 94 different Institutions have applied for accreditation by SHRA. Of these, 61 institutions currently have some level of accreditation. The majority of institutions are currently conditionally accredited, while only eight SHIs are unconditionally accredited. The number of institutions rejected or failing accreditation are generally reducing. However, analysis of accreditation trends indicates that only one has been Unconditionally Accredited for the five-year period (JHC, who does not implement RCG-funded projects). Since the establishment of the SHRA no unregulated SHI is able to access RCG funding.

While an increasing number of SHIs have fallen under SHRA's regulation, there are certain concerning trends in respect of this regulatory process:

- Inconsistency of accreditation among the top twelve SHIs under regulation. The analysis indicates that, amongst the top twelve SHIs, only two (JHC and Madulamoho) have not had a change in accreditation status over the last year. This inconsistency affects SHIs' ability to plan and develop subsidised projects. While it is possible such Accreditation Status changes are warranted, this inconsistency was mentioned by some interviewees as a reason why a medium-term accreditation period for larger, more stable SHIs should be considered by SHRA.
- Though there is consensus that SHRA's regulatory requirements in relation to the assessment and accreditation of SHIs are generally comprehensive, there is concerns that they are too onerous for SHIs and at times not well justified. This is contributing to a high regulatory burden on (specifically smaller) SHIs.
- Numerous interviewees indicated that SHRA's SHI accreditation process is not considered as robust as it was at the commencement of regulation. There is a view that a number of institutions believe their accreditation status is not based on solid analysis, and that this status can affect their ability to develop and obtain subsidy funding and debt financing for projects. Further, there are allegations that in cases SHIs have received accreditations that they should not have, entitling them to access financial resources that should not have been available to them at their current institutional status.

In general, the legislative and policy framework for SH is considered by sector stakeholders to be relatively robust. 58% of online survey respondents agree fully or slightly that there is an effective legislative, policy and regulatory framework for SH. 67% believe that the SH legislative framework is good or excellent (20% poor or extremely poor), 64% that the SH policy is good or excellent (15% poor or extremely poor) and 62% that the code is good or excellent (34% poor or extremely poor).

However online respondents rated SHRA's overall performance between 2008 and 2014 the worst of all public sector and state entity role players in SH. 77% of respondents considered SHRA's performance to be very poor or poor (14% good). SHRA's poor and worsening performance is a specific threat to sector stability and growth. 55% of online survey respondents rated the instability in SHRA leadership as the first (35%) or second (20%) most important issue affecting the effective and efficient operation of the SH sector at present.

The intent of jointly locating the regulatory and investment functions within SHRA were to create a clear synergy between development and regulation of good SHIs, and a pro-active approach to developing a pipeline of SH projects for investment. While there are clear problems with the capacity of the SHRA to adequately perform this investment function, the desired intent of this co-location should not be overlooked. More recently, in 2015, concerns have been raised regarding SHRA's current capacity to be custodian of, and implement the investment function through adjudication, approval and management of the RCG budget.

While regulatory compliance and accreditation carried significant weight amongst SH stakeholders in the first five years of regulation, this has been negatively affected over the last three years of SHRA's operation. Interviews with DFIs and private financiers indicated that much confidence was placed on SHRA's accreditation process, to the extent that it reduced their assessment requirements.

Recently, accreditation and project assessment is seen to be an inconsistent process, in many cases not undertaken with sufficient rigour by people with hands-on experience of SH operation nor property feasibility modelling and development (Interviews: Dave Waugh, Shiraaz Lorgat, Renier Erasmus). During the last two years this process has worsened, and is considered by many to be a risk to the stability of the SH sector. One Private Financier indicated this was a major reason for no longer considering financing SH projects in the sector.

On the basis of the above evidence it is concluded that SHRA's regulatory processes have yielded beneficial outcomes in respect of the improving the quality of SHIs accessing subsidies, through quality controlling the quality of SHI leadership, management and operation (and especially in the first five years of SHRA's existence). However, this process is too onerous and at times does not focus on necessary viability considerations. More recently, serious questions have been raised around the accuracy and effectiveness of SHRA's accreditation and regulatory procedures, and the risk this poses to sector stability.

5.5.1.3 Project Feasibility

Evaluation question: Are SHIs in the RCG subsidised projects building up reserves (maintenance and equity) as required and according to the results of the project viability assessment? What are the reasons in case of deviations?

Financial pressures in structuring financially and technically viable projects are creating long-term institutional constraints for SHIs. Evidence from interviews and modelling undertaken on the pilot projects indicate that, where SHIs are able to structure and implement RCG projects, increasingly these may be affecting their long-term sustainability.

The ability to develop a solid equity base on which to build a growing portfolio of stock is increasingly constrained. All available equity is applied to operating costs, or used to finance new projects due to subsidy and gearing limitations.

In addition concerns exist in the SH sector regarding the erosion of long-term maintenance provisions for SH, and the impact of poor maintenance on the longevity of subsidised SH stock. Currently, few SHIs make necessary provision for maintenance, and quality of stock continues to deteriorate. Maintenance studies undertaken for NASHO (2008) indicate very poor states of maintenance and potential reduction of life of SH assets if this situation is not rectified. This is partly due to erosion of equity base due to poor project feasibility considerations and partly due to inadequate financial management practices.

The key factors contributing to the above are:

- With a stagnant RCG and income bands it is becoming increasingly difficult for SHIs to meet regulated construction norms and standards (and desired accommodation standards) in the physical design of social housing units due to financial limitations on subsidies. Project margins are increasingly squeezed, which implies that where SHIs play a developer role, internal efficiencies are further constrained. In fact, the PER analysis (National Treasury, 2015) indicates that in relation to private sector criteria, a number of case study projects reviewed were financially unviable at point of development.

The Long-Term Finance study (NASHO, 2015) shows that between 2008 and 2015 the average SH project swung from a net surplus of around R300 per unit per month to a net deficit of around R300 per unit per month. This was supported by modelling done for the PER. When modelling sustainability of projects, the combination of building cost inflation and a static RCG subsidy place real constraints on how SHIs are able to financially structure projects. Constraints on ability to generate sufficient net operating income imply constraints on ability to service debt, and this in turn caps the ability to extend project gearing (via raising greater proportions of debt).

- Currently, many SHIs develop project feasibilities and set rentals within projects in order to meet certain stipulated policy requirements (income thresholds) and/or to meet specifically set indicator hurdles in the SHRA approval process (such as Debt Service Cover ratios). This is affecting institutions' ability to set rentals based on rational criteria, such as the location of projects, quality and size of units, and geographic economic and income discrepancies.

The inability of many SHIs to be able to meet these fundamental project feasibility ratios has resulted in a decline in appetite to submit applications for RCG financing from the large SHIs in SHIP4 and SHIP5, with strong indications that SHIP6 will have very low numbers of viable project applications.

On the basis of the above evidence it is concluded that currently, most SHIs undertaking RCG-funded projects are facing very limited to negative net operating incomes from these projects. Project feasibility is mainly jeopardised due to subsidy and income band parameters. Low project margins limit SHIs' ability to develop solid equity bases, and limited provisions are made for long-term maintenance. This undermines one pathway of change in the programme logic. If the current conditions persist it is unlikely that SHIs will build enough reserves to contribute to the development of social housing going forward.

5.5.1.4 Institutional Capacitation

Evaluation question: What measures are put in place to support SHIs in the sector and how effective are these?

Responses from survey and interviews indicate that SHIs are relatively well capacitated to package projects, manage projects and build portfolios of well managed stock. However It is important that South Africa's SH sector is not seen as a standard set of similar institutions. Rather, SHIs have different founding ethos, have developed differently and with very diverse outcomes in respect of projects and units under management. Further, SHIs at different stages of their life cycles are necessarily different, and may over time require different types of supports and inputs.

The exception to this is Municipally-owned SHIs which interviewees say are generally in a poor state, with some going as far as to indicate that the poor operational performance of many MEs tarnishes the image of other, better-operating SHIs.

Until June 2015, SHRA and the NDHS have not had a clear policy on institutional support, albeit that it is provided for in the SH Policy.

The evaluation found that SH role players in national, provincial and local government departments have very limited first-hand knowledge and expertise about social housing and in cases even access to credible information regarding the programme. Many officials are new to their roles, and limited support is available from NDHS or SHRA to improve this situation (Interview: eThekweni Metro, KZN Human Settlements Department). Depleted municipal and provincial capacity results in poor institutional and financial alignment between different tiers of government, the SHRA and SHIs.

On the basis of the above evidence it is concluded that institutional capacitation and support has been extremely limited from the SH sector since the advent of SHRA. Ad-hoc institutional capacitation has been undertaken at a limited scale, without formal budget line items nor policy or programme guidelines. Capacitation is also weak within government agencies. New staff are not adequately inducted about the programme and its implementation mechanics.

5.5.1.5 Inter-Government Relationships

Evaluation question: What is the relation with the municipality/local authorities and have annual performance agreements been implemented?

It is required that performance agreements for SH are signed between municipalities and Provinces and SHRA, as well as between SHRA and the NDHS. The only current agreement on record is that between the NDHS and SHRA.

Though a number of agreements have been developed, at times signed between provinces, municipalities and SHRA, these were found to be out of date, or impractical to implement.

On the basis of the above evidence it is concluded that poor interrelationships and formal agreements between the three tiers of government, SHRA and SHIs limit the effectiveness of, and ability to develop a strong SHIP for SH at a municipal, provincial or national level.

5.5.1.6 SHI Operational Performance

Evaluation question: What are the average vacancy, rent arrear levels and bad debt write offs over the past 12 months and what is the related loss of income?

The six project case studies, as well as the overview of seven key SHIs and perusal of SHRA reports indicate that the SH sector includes entities of different sizes, background histories and ethos, with very different management approaches, governance, operational and financial performance. Therefore, specifically with key parameters such as arrears and vacancies, 'averages' tend to hide the 'very bad' by diluting it with the 'very good'.

Average vacancy levels amongst SHIs are very low (for example the nine largest SHIs reflect vacancy rates between 0,3 to 2,4%), with vacated units being filled very quickly from pre-populated waiting lists. Vacancy rates are in line with private rental companies. Arrears in the SH sector are low in comparison to what they were prior to SHRA regulation, and are now generally in line with private operators (for example the nine largest SHIs reflect arrears of 5%).

Notwithstanding the above, it is noted that SHIs are diverse and have different experiences. While on average vacancy arrears and bad debt write-offs are relatively good across the sector, anomalies do exist within specific SHIs.

5.5.2 Evaluation Conclusion

The evaluation concludes that while the policy and regulatory framework for SH is generally sound and has generally been an important stabilising factor in the growth and development of the SH sector, its implementation is currently significantly flawed and is not calibrated to prevailing operating and market conditions. This situation is primarily a result of the combined ineffectiveness of the NDHS and SHRA to interpret, adjust and implement required changes for successful regulation and investment in SH.

The difficulties with interpretation and implementation of policy and regulation impacts on the current structure of, approach to and status of financial inputs available to SHIs and now constitutes the single greatest risk to SHIs' ability to continue to develop viable SH projects and to operate their businesses sustainably. Critically, the quantum of the RCG subsidy and the inflationary benchmarking of income bands are the most important parameters.

This in turn has progressively impeded the ability of most SHIs to successfully plan and develop sufficient new SH projects over the last four years. Reduced SH project feasibility in turn directly impacts SHIs' ability to develop sound operational and equity bases and ability to effectively manage existing SH portfolios. These combined effects are impacting negatively on the financial viability of many SHIs, result in reduced take-up of grant finance, a progressively shrinking delivery of SH and a rapidly diminishing future SH project pipeline. Taken together, these conclusions characterise a SH sector in crisis.

The SH regulatory environment has been a positive factor in the sustained growth of the sector over the last eight years. However, it has resulted in an administrative burden on SHI's and there has been a progressive breakdown in the quality of the regulatory function over the last three years. Accordingly the regulatory function is now becoming a disincentive to sector growth. There is a need to consider greater rigour, but reduced administrative burdens in SHI regulation.

SHIs themselves are growing and diversifying, and it is necessary to review SHIs on their individual merits. In general terms, regulation and growth of the sector has improved operational performance of SHIs, but key challenges still exist. Most importantly, continued pressure to limit defaults, and adequate provisions for long-term maintenance are important considerations. Changes in the growth trajectories and structures of SHIs now calls for a differentiation of the nature of support best suited to SHIs in different stages of growth and development.

5.6 Implementation Area 3: Demand Responsiveness

The section specifically answers the third Implementation Evaluation question, namely: Responsiveness to Demand: Is the programme able to respond to the complex and growing need for affordable rental in SA and to what extent are the tenants satisfied with the product?

The ToC indicates that all **Inputs** and **Activities** of the SH programme are geared towards ensuring the management of stock that meets the target market on a sustainable basis, and creates the opportunity for portfolio growth. The evaluation reviews income group targeting, change in rental levels, tenant turnover rates, differential unit pricing and rental increases and affordability.

5.6.1 Evaluation Findings

5.6.1.1 Income Group Targeting

Evaluation question: How effective has the programme been in reaching its targeted population? What was the income mix just after the project was implemented and what is the income mix at this point in time?

Under the current policy low to medium income households refers to a monthly household income of between R1,500 and R7,500, with the Primary market cut-off at R3,500. SHIs have generally managed to retain focus on households falling within the primary and secondary market bands, but this is under threat. Normal operating cost increases (salaries and other overheads) continue to rise at inflationary levels. In addition, certain rental accommodation costs have escalated at above inflation, notably rates and service charges, and specifically electricity that has been subject to price increases well above inflation over the last five years. This increases both overall accommodation costs to tenants, and operating costs of SHIs. Lower income groups are increasingly not able to afford SH rentals and related service costs (say households earning below R3,500 per month), and SHIs are forced to escalate rentals above current thresholds to ensure institutional viability.

While formal incomes have increased in line with inflation, SH thresholds have not, implying that SHIs are required to cater for relatively poorer targeted income groups each year. Average formal incomes have increased substantially over the last eight years. A formally employed household earning R3,500 in 2007/08 on average now earns significantly more, and average salaries of elementary occupations often exceeds the R3,500 household income threshold (NASHO, 2015). This makes it progressively more challenging for SHIs to find eligible households that are able to afford rental and service charges in SH. Re-benchmarking parameters and ceilings on rental increases allowed in the policy exacerbate this if applied by SHIs.

In order to retain operational liquidity, many SHIs are forced to re-calibrate incomes just under income cut-offs which concentrates beneficiaries at the ceiling of the primary and secondary thresholds, rather than providing a range of rentals between thresholds (Interviews: Renier Erasmus).

On the basis of the above evidence it is concluded that SHIs have been generally effective in reaching target household income categories in the primary and secondary market. However, non-indexation of income bands as stipulated by policy and pressures on tenant affordability and operating cost increases have made this progressively more difficult to achieve, and leakage (tenanting of households with incomes above the threshold) and concentrations of rentals at threshold maxima is now more common.

5.6.1.2 Change in Rental Levels

Evaluation question: What were the rent levels just after completion and what are the rent levels at this point in time? Which factor(s) determine the rental increase per SHI?

Average rental levels have increased due to a concentration of rentals at upper levels of thresholds. A 2012 combined audit of eight estates indicated the following income groups served (income for both tenants) (SHRA (2012)):

- Under R1,500 pm: 1%;
- Primary Market: R1500 to R3,500 (32%), which is above the 30% minimum requirements;
- Secondary Market: R3,500 to R7,500: 63%
- Above Secondary Market: 4%.

The audit also shows significant differences in profile between estates. This shows the targeting of unit types and rentals to local market conditions. For example in two estates (Drommedaris and Emerald Sky) the following applied:

- 17% of rentals at Drommedaris were between R500 and R1000 per month while this comprised 2% of units at Emerald Sky.
- Rentals between R1,000 and R1,500 accounted for 30% at Drommedaris and 46% at Emerald Sky of units
- Rentals from R1,500 to R2,000 were 32% at Drommedaris and 15% at Emerald Sky.
- Rentals between R2,000 and R2,500 were 20% 25% respectively, while those between R2,500 and R3,000 were 0% at Drommedaris and 14% at Emerald Sky.

Rentals are impacted on by the fact that SHIs face annual escalations in running costs (salaries, rents, utilities, etc.). In addition, in less efficient SHIs and SHIs with smaller portfolios, average per unit rentals must cater for relatively larger per unit overhead structures.

The Policy makes provision for a 2,5% annual rental escalation, which should be applied by all SHIs. However, evidence exists that certain SHIs are increasing rentals by up to 18%, above CPI (Interview: Arie Diephout). This is most likely due to SHIs' need to ensure sufficient operating income to meet Debt Service Cover ratios required by SHRA, debt service commitments and service and rates charges to municipalities. SHRA's stipulations of, for instance Debt Service Cover and reserves require SHIs to increase rents to ensure regulatory compliance and maintain accreditation status.

5.6.1.3 Tenant Turnover Rate

Evaluation question: What is the turnover in the RCG subsidised projects and what are the reasons of former tenants to vacate the units?

Tenant churn is a normal and expected outcome of rental accommodation. However, accurate statistics are difficult to find and experiences differ on average churn rates. For instance, in inner city Johannesburg churn is generally higher due to the way that many people use the city as a point of access to other opportunities. In Cape Town, tenancy tends to be for longer periods, and often for decades.

An analysis of eight SH estates (SHRA, 2012) calculated the following turnover rate variances: Drommedaris; Emerald Sky, Lakehaven, Strathdon: < 1.2; Park Towers: 1.7; Signal Hill: 2.5. Note however that the average occupied lifespan of most of these developments is less than five years. However, key SHIs agree that on average a fair estimate of households that will occupy each SH unit over a twenty-year lifespan would be five (average occupancy of four years per household). It is further noted that well-managed SH stock should exceed a 20 year lifespan, implying it can service more than five households over its full lifespan (Interview: Malcolm McCarthy, based on discussions with NASHO members).

Churn varies by area and by SHI, depending on their specific focus, tenant management strategy and the socio-demographic profiles of their areas of operation. However, on average turnover is low.

5.6.1.4 Differential Unit Pricing

Evaluation question: What is the percentage of tenants paying a different rental price for the same unit?

Depending on SH stock profile in a specific development and the specific management policy of SHIs it is estimated that one quarter of tenants will pay differential rentals based on whether their incomes meet primary or secondary market criteria.

Most SHIs reserve bachelor and one bedroom (and a selection of two bedroom units for primary market tenants. Therefore, there is overlap between rentals to primary market tenants and secondary market tenants, depending on the profile of units held by the SHI in each project. However, given that on average around one third of stock are bachelor and one bed units, it is assumed that a majority of primary market tenants access these units, with secondary market tenants accessing the more common 2-bedroom units.

Given the stipulation that a minimum of 30% of units are reserved for primary target market tenants, unless a specific policy is enforced to only allocate specific sizes of units to primary market, on average less than 20% of tenants will be paying differential prices for similar units, unless stock profile is very similar (e.g. all two bedroom units) (Interview: Malcolm McCarthy). Some SHIs such as IMIZI successfully manage differential rentals for the same units. However, many SHIs indicate that this creates difficulties in the tenant bodies, and opt rather to differentiate rentals based on unit size. This has the unintended consequences of only allowing Primary Market renters to access smaller units.

5.6.1.5 Rental Increase & Affordability

Evaluation question: What is the impact of the rental increases on the affordability especially for the primary target market?

Rental increases have historically been kept below CPI by many SHIs, although increasingly additional rental costs escalating above inflation (in some instances double CPI) have created added burdens on tenant's incomes.

While any rental increases can impact on tenants, these have on average been held below inflationary increases and average salary increases of formally employed households. Major impacts are related to cost recoveries for services. **Over the last five years, the largest increase in living costs for SH residents is increased utility charges. In many cases utility costs can as much as double baseline rental costs.**

Interviewees note that the cost burden of rentals for those lower income households living in SH, in addition to service charges and other normal living expenses, are increasingly making it prohibitive for households in the Primary Target market for SH to continue to afford such accommodation. In addition, SHIs seeking new tenants in these income bands may find it difficult to procure tenants that can afford to live in such accommodation due to increases in general living costs. For instance, a minimum rental of R1000 per month, coupled with R400 service charges, equates to almost 50% of the total income of a household earning R 3,000 per month.

5.6.2 Evaluation Conclusion

The analysis concludes that on average over the eight years of the SH Programme SHIs have retained a focus on meeting the primary and secondary market categories specified for SH. However, the policy parameters for this targeting have not been reasonably re-benchmarked in relation to CPI and SH's operational requirements.

This has made demand responsiveness progressively more challenging to achieve, with the result that unintended consequences are now prevalent in the SH sector. These include demand creep above the upper income threshold (R7,500 household income), concentrations of rentals at the upper ends of the Primary (R3,500 household income) and Secondary eligibility bands (R7,500 household Income), and a loss of a stepped, or aggregated profile of rentals across the SH stock profile in favour of maximised average rents at threshold ceilings in order to ensure sufficient operating income for SHIs.

The inability to continue to reasonably respond to originally defined, and non-indexed income thresholds given prevalent household income and SH operational realities now makes this the single most important risk factor facing the SH sector, both due to the financial instability created in SHIs, as well as in the risks placed on the affordability of eligible households.

5.7 Implementation Area 4: Monitoring and Oversight

The section specifically answers the fourth Implementation Evaluation question, namely: How effective has the monitoring and oversight system for the Social Housing Programme been and how can this be strengthened?

The Theory of Change indicates that within the SH programme there are important M&E roles that must be performed in order for the SH sector to operate effectively.

Activities requiring monitoring include the *Development of a project pipeline*, and the *Accreditation and capacity building of SHIS as per accreditation process* and the overall operational performance of SHIS in relation to the key *Property Management* and *Tenant Management*.

Effective monitoring and oversight would then regularly track all **Outputs**, and assess **intermediate Outcomes** in order to ascertain the effectiveness of the SH sector in meeting **Long-term outcomes**, and progress towards overall **Impact**.

The evaluation reviews sector custodianship by the NDHS, regulatory oversight by SHRA, intergovernmental and inter-sectoral forums and research and development.

5.7.1 Evaluation findings

5.7.1.1 Sector Custodianship by the NDHS

The NDHS has to a large extent outsourced SH strategy, policy and regulatory development to other entities, including (historically) the SHF, ISHP and more recently SHRA (Interviews: Arie Diephout, Rory Gallocher; Harmen Oostra;.).

While these entities did and do have certain mandates, they continue to require strong guidance from the national department as a shareholder. The evaluation found that this has mostly not materialised and sector custodianship by the NDHS has been lacking.

Social Housing custodianship/management is split across a number of units within the National Department. Entities Oversight function is intended to monitor SHRA performance, and as a component of the overall human settlements programme, SH should be included in high-level monitoring, evaluation and review processes. However programme management is located within the Rental Programme management unit which is outside the policy unit that has responsibility of developing the housing code. This function does not directly oversee the approval of provincial business plans where the allocation of Institutional Subsidy and provincial performance on rental housing are approved as this function is performed by the Planning Chief Directorate. Monitoring of programme performance is also done by the Monitoring and Evaluation Chief Directorate through the MEIA Framework.

DHS did not intervene timely to prevent poor performance by the SHRA in the past three years which led to poor delivery. The department has also not taken leadership to ensure adequate and predictable IS allocation by provinces and alignment of this with SHRA plans, that restructuring zones are reviewed, etc. Poor Monitoring of the programme; i.e. how many and which indicators in the MEIA framework for social housing?

Both NHFC and SHRA have not responded quickly enough, in tandem or decisively enough in respect of sector needs and crises. This includes implementing policy and regulations, decisions on appointment of key role players in SH, designation of new RZs, and responses to political interference in the sector and rent boycotts.

5.7.1.2 Regulatory oversight by SHRA

Regulatory oversight by SHRA commenced strongly, but has between 2013 and 2015 lost efficacy, which has as a result reduced confidence in the SHRA from the sector. In summary, SHRA's role as the regulator and investor in SH is currently perceived to be very poorly performed. For example respondents to the Online Survey rank SHRA's performance in relation to the following roles as follows:

- Interpreting SH legislation and policy into executable strategy and plans: 51% poor or very poor;
- SH sector custodianship and leadership: 86% very poor or poor;
- Undertaking research and development for the SH sector: 75% very poor or poor;

- Assisting to guide the identification of RZs: 71% very poor or poor;
- Regulating SHIs: 62% very poor or poor,
- Developing a Social Housing Investment Pipeline (SHIP) of viable projects: 63% very poor or poor
- Implementing the investment of the RCG through SHIs: 55% very poor or poor

While significant data is collected from SHIs in the SHRA Quarterly Reports, a small proportion of this information is properly collated, quality controlled, analysed and utilised to monitor sector and SHI performance. SHRA's internal data management and other systems and procedures also appear to be in a poor state, with few systems implemented and current procedures not producing sufficient, accurate, regular, verifiable and publicly accessible information.

The SHRA has not developed a defensible SH Investment Plan (SHIP) based on sound information from Provinces which is a key oversight and management tool for the programme.

5.7.2 Evaluation Conclusion

The Evaluation finds that currently the monitoring and oversight system for the SH sector is impaired, and has not and does not offer the information required to guide the growth and development of the sector.

The failure of the NDHS to adequately oversee the SH sector, specifically the failure of SHRA to adequately perform its core mandates, but also the inability of the combined forums that guide the Human Settlements function generally and rental housing in particular (specifically the National Rental Task Team and the Provincial Forums) have brought the sector to crisis point.

These failures have already had a significant impact on current sustainability of the sector, and will continue to have a multi-year impact on the realistic future projected sector growth, even if urgent actions are implemented.

6 Conclusions and Recommendations

6.1 Overall Conclusions

The evaluation concludes that the programme has delivered value for money in relation to the conversion of public funds into viable rental stock in the medium to long term. It is the only state subsidy programme to gear public money with significant private investment and the relatively high levels of directed purpose, transparency, control and regulation, and delivery of accommodation in relation to public money invested, exceeds most other public subsidy programmes. While there are reservations regarding the efficacy of certain aspects of the programme (specifically, the regulatory costs versus regulatory benefits accrued through the SHRA to date), the potential of the sector to deliver substantially greater value for money is noted.

There continues to be a need for the programme. The creation of a portfolio of affordable rental units that does not directly or adversely compete with other (non-subsidised) rental sub-markets, is financially sustainable in the medium to long term, and benefits more than a single beneficiary household in the lifetime of a single subsidy contributed, is unique amongst all state subsidy programmes. In addition, the role SH and SHIs play in contributing better quality to many beneficiaries' lives creates inter-generational benefits that break the cycle of deprivation amongst occupants. This in turn creates a 'virtuous housing cycle' where tenants pay rent, housing stock and environments are maintained, and SHIs contribute on-going revenue streams to municipalities through rates and service charges.

However, while SH was never intended to be a mass housing delivery programme, the SH sector has not met its potential as a creator and deliverer of affordable rental accommodation over the last eight years. The SH sector grew at a steady pace over the first five budget years of the ISHP and SHIP programmes and delivered stock that has predominantly met its primary and secondary target markets. However, there has been a significant downturn in delivery over the last three years of the programme and financial constraints have increasingly polarised affordability at the ceilings of the primary and secondary income thresholds, and have started to break through the current upper income threshold. This is primarily due to the lack of indexing of the income bands since the inception of the programme.

There are strong indications that conditions in the sector are worsening. Delivery is expected to continue to decline until it stagnates by 2016/17 unless urgent actions are taken. The key reasons for this are a lack of sector guidance and efficient oversight from the NDHS and SHRA; very limited pro-active investment in the development, capacitation and growth of SHIs, continued erosion of SH project feasibility (and hence SHIs' long-term sustainability) due to current financial arrangements in the SH financing system; and as a result, a lack of, and inability to develop and maintain a viable pipeline of social housing projects.

The evaluation has found that the inability to reasonably respond to originally defined, and non-indexed income thresholds given prevalent household income and SH operational realities makes this the single most important risk factor facing the SH sector, both due to the financial instability created in SHIs, as well as in the risks placed on the affordability of eligible households. These failures have already had a significant impact on current sustainability of the sector, and will continue to have a multi-year impact on the realistic future projected sector growth, even if urgent actions are implemented.

The evaluation found further:

- There is a limited and constrained SHI sector with very few (8) capacitated SHIs. SHIs are experiencing reduced financial sustainability due to marginal project viability and net operating deficits. As a result many SHIs are actively pursuing alternative project opportunities to remain viable businesses. There is a lack of an agreed SHI growth strategy and limited and ad hoc institutional capacitation programmes that do not adequately take into consideration diversity of SHIs.
- There is a lack of well-defined RZs in South Africa to guide the location of, and further investment in RZ areas. The legislative and regulatory provisions, as well as guidelines for RZ planning, identification, promulgation and review is not thorough, and this framework has not been systematically implemented. In a majority of cases RZs have not been carefully and appropriately defined and established, nor monitored and reviewed since designation. RZs generally do not fully take guidance from, nor support other levels of planning at city level, and are not subject to review in line with spatial planning reviews. Generally, too many cities have RZs designated for SH investments, and designated RZs are large and do not provide sufficient focus to meet a clear SH restructuring agenda. However RZs remain important as an instrument to focus RCG investment in areas with supporting growth and demand for rental housing.
- Currently the monitoring and oversight system for the SH sector is impaired, and has not and does not offer the information required to guide the growth and development of the sector.
- While the policy and regulatory framework for SH is generally sound and has been an important stabilising factor in the growth and development of the SH sector, its implementation is currently significantly flawed and is not calibrated to prevailing operating and market conditions. This situation is primarily a result of the combined ineffectiveness of the NDHS and SHRA to interpret, adjust and implement required changes for successful regulation and investment in SH. The failure of the NDHS to adequately oversee the SH sector, specifically the failure of SHRA to adequately perform its core mandates, but also the inability of the combined forums that guide the Human Settlements function generally and rental housing in particular (specifically the National Rental Task Team and the Provincial Forums) have brought the sector to a crisis point.

6.2 Recommendations

1. The **NDHS must urgently re-calibrate the SH financial instruments** as follows:
 - **The Eligible Income Bands for the primary market should be raised from R3,500 to R5,500 household income per month** which means that this band will be between R1,500 and R5,500. **The upper level of the secondary market should be raised from R7,500 to R10,000 household income per month**, which means that this band will be between R5,500 and R10,000.

Income bands must be indexed to inflationary increases in incomes at least every three years. It is important to note that this adjustment does not have any fiscal impact, in terms of increased SH subsidies, but can go far in stabilising the SH sector.

- **SHI should be encouraged to provide housing products to meet local conditions and to provide accommodation for all income groups in the local area with a particular focus on those at the lower end of the primary market.** To this end a **review of standards and targets should be undertaken.** Accommodation standards should be changed at the lower end of the subsidised SH sector to provide more affordable accommodation. This could include consideration for intermediate accommodation types, such as bachelor units, rooms with shared ablutions and shared rooms.
- **The RCG must be increased from its present level of R124,000 (set in 2007/2008) to at least R155,000 (an increase of R31,000).** The RCG must be reviewed annually and regularly increased in line with inflation, as stipulated in the policy.

It is noted that the Social Housing Policy specifically references the increase of the RCG in accordance with CPI rather than Building Cost inflation, as with other subsidy instruments. Note that this increase is necessary to counteract the inflationary erosion of the existing subsidy quantum. This must not reduce vigilance from SHRA regarding efforts to drive greater operational efficiency in SHIs.

- The requirement to reset rentals on entry of new tenants into SH to original levels must be revised to provide for **a reasonable level of rental escalation in line with inflation.** Similarly, the limitation on rental escalations should be revised in any future financial model.
- **The inherent complexity in the SH programme's funding and financing model requires review.** The multiple sources and types of finance should be simplified, aligned and streamlined. This should enhance and not undermine the unique focus of each of the subsidy instruments (RCG, IS and CRU) and the opportunity they provide in respect of meeting local conditions, the needs of different income groups and specific municipal restructuring agendas. In particular the RCG, IS and debt financing from NHFC and GPF need to be aligned so as to provide funding for a selected project. Debt funding should be provided on a concessionary basis.
- The NHFC provides an important service to the SH sector, as the largest provider of debt finance for SH projects. The envisaged restructuring of DFIs may have an influence on the ability of a future DFI to service social housing. It is therefore important that this critical input to a sustainable SH sector in South Africa is taken into account in this process, and **that the NHFC's ability to continue to provide debt to SHIs is not negatively affected.**
- **A medium to long-term funding commitment to SH must be made, in order to create a platform for certainty within the sector.** This in turn must be based on a realistic assessment of delivery targets for the sector. This stability will encourage commitment from SHIs, as well as provide a platform for potential improved private sector engagement in the sector. An important part of overcoming the current delivery slowdown in the sector is to ensure this longer-term funding picture is clear for SHIs to commence rebuilding project pipelines.
- **A realistic Medium Term Social Housing Implementation Plan (SHIP) should be developed.** A future call for projects should be announced in parallel with revised financial criteria in order to stimulate the development and packaging of viable projects. This must be aimed at providing a timeline for SHIs, Provinces and Metros to develop and package viable projects for financing, as well as to commence the development of a sustainable and credible project pipeline for the MTSF period that recognises and aims to unblock delays in and constraints to viable project development over the MTSF period (2015/16 to 2019/20). The SHIP should be developed through a process that coordinates and aligns projects between the SHRA, municipalities and provinces

- **SHRA must urgently engage with larger, more stable SHIs and their Provincial and City authorities to agree the basis by which projects are identified and included on the SHIP.** Quick Win projects that are already in planning should also be identified for fast tracking into implementation. This is not intended to replace the development of new SHIs, but rather to recognise that SH development capacity over the next three years will predominantly come from existing SHIs with latent delivery capacity. Over the medium term there is a need to develop new entities (see 7 below). In formulating the SHIP, funding should be allocated to a specific project for the full term of the project (5 to 7 years).
2. **A fundamental review of RZs and how SH projects are located, approved and implemented should be undertaken** on the basis that SH investments should be focused in fewer urban areas (and this must include the **de-designation** of certain RZs), and concentrated in more specifically targeted areas of restructuring in limited cities in order to improve the levels of investment in these areas and the ability to coordinate other funds in these areas. These areas should be designated in relation to the state of their economies, the importance of urban spatial, economic and social restructuring within them, and the likely long-term development potential of these areas to generate maximum benefit from SH investments. This must be a technical, not a political decision. SH investments should be more closely aligned with, or linked to existing planning instruments (e.g. SDFs, Housing Plans, IDPs) in order to ensure SH investments better meet municipal spatial restructuring priorities, and to ensure better alignment to municipal land allocations and other public investments in such areas
 3. **Appropriate and aligned sector Capacity Development should be undertaken.** The roles and functions of the NDHS, SHRA and other organisations, specifically NASHO, in respect of institutional capacitation and SHI capacitation must be resolved, and implemented. SHRA in turn must continue to implement a clear SHI capacitation strategy that is clearly linked to delivering the SHIP, and assists to develop existing and new SHI delivery capacity.
 4. **A revised, simplified, less onerous regulatory regime should be developed and implemented** by the NDHS and SHRA in order that SHIs are not overburdened by compliance requirements. SHRA should encourage and support SHIs to be flexible and innovative in undertaking SH projects, while at the same time undertaking ongoing monitoring to ensure compliance to the investment requirements. As part of this SHRA must initiate, develop and maintain good relationships between public sector role players (national, provincial and municipal role players in project approval and alignment of financing) and SHIs in respect of SHIP development.
 5. **In order to improve the performance of the SH sector the following should be implemented:**
 - **Stabilise and Capacitate SHRA:** NDHS and SHRA's combined ineffectiveness in providing leadership, guidance, policy interpretation and regulatory certainty is the major risk to the future sustainability and growth of the SH programme. Urgent and bold steps are required to bring SHRA under the leadership of a capacitated Council supported by a supportive national department, to appoint competent and committed Executive leadership and to urgently re-capacitate the SHRA.
 - **Role of SH in Human Settlements Strategy:** The current crisis in the SH sector has undermined the importance of SH in South Africa's human settlements framework. It is necessary to re-affirm the importance of SH in the forthcoming Human Settlements White Paper. This should include discussion on its value for money to the State, the virtuous economic cycle that SH establishes between tenants, SHIs, municipalities and provincial and national government, and its important city re-structuring role.
 - **Private Sector Financing Approaches:** Alternatives that create better frameworks for private sector participation in the SH sector as funders and managers of SH stock must be considered. This will need to consider how to deal with the lack of collateral for private funders, either through changes in policy or via the creation of a guarantee mechanism. In addition, consideration of a mechanism that could allow potential private sector investors to exit the sector must also be considered.

- **Improved Monitoring and Evaluation Mechanisms:** The current gaps in the M&E framework have allowed manageable issues to cascade into a sector crisis. M&E approaches must be implemented that ensure relevant oversight and insight into the performance of the SH sector. In this regard :
 - NDoHS oversight of the sector should be improved and located in one department that will monitor the basis by which the policy and regulations are being implemented, the appointment of key role players in SH, designation of new RZs, and responses to political interference in the sector and rent boycotts. The unit should work closely with the SHRA.
 - The SHRA should ensure that data collected from SHIs is properly collated, quality controlled, analysed and utilised to monitor the sector and SHI performance.
 - The SHRA's internal data management and other systems and procedures should be reviewed and improved.

It is noted that, even if the above is implemented immediately, there will still be a time lag to impacts being visible in the preparation, approval, development and tenancing of new projects and in phasing in the income bands across existing portfolios. Therefore, even with these changes, **pragmatism is required regarding the sector's ability to meet the 27,000-unit target in the MTSF due to the breakdown in project pipeline and sector delivery trajectory.** It is estimated, however, that if this recommendation is implemented in the short term, a pipeline of projects could be facilitated to deliver up to 20,000 units over the MTSF period. It is estimated that between 12,000 and 14,000 units of social housing could be approved for construction in the next three years. Importantly, by the end of the MTSF period in 2019, the Social Housing sector should have a sustainable and growing pipeline of around 5,000 units per annum.