Department: Human Settlements
REPUBLIC OF SOUTH AFRICA

Department: Planning, Monitoring and Evaluation
REPUBLIC OF SOUTH AFRICA

Impact and Implementation Evaluation of the Social Housing Programme

FULL EVALUATION REPORT

Final

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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: 4 March 2016

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Abbreviations & Acronyms

AfD	Agence Française de Développement
CBD	Central Business District
CPI	Consumer Price Inflation
CRU	Community Residential Unit
DBSA	Development Bank of South Africa
DFI	Development Finance Institution
DIGH	Dutch International Guarantees for Housing Foundation
DORA	Division of Revenue Act
DSCD	Debt Service Cover Ratio
GPF	Gauteng Partnership Fund
HDA	Housing Development Agency
IDP	Integrated Development Plan
IS	Institutional Subsidy
ISHP	Interim Social Housing Programme
JHC	Johannesburg Housing Company
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
PFMA	Public Finance Management act
PIC	Public Investment Corporation
RCG	Reconstruction Capital Grant
RONA	Return on Net Assets
RZ	Restructuring Zones
SARS	South African Revenue Services
SH	Social Housing
SHF	Social Housing Foundation
SHI	Social Housing Institution
SHIP	Social Housing Investment Programme
SHRA	Social Housing Regulatory Authority
SPSH	Support Programme for Social Housing
TUHF	Trust for Urban Housing Finance
UDZ	Urban Development Zones

Policy Summary

The Department of Performance Monitoring and Evaluation and the National Department of Human Settlements undertook an Impact and Implementation Evaluation of the Social Housing Programme in South Africa between 2007/08 and 2014/15.

Over 18,000 units have been approved for development through the programme, of which nearly 10,000 has been developed by a limited cohort of eleven Social Housing Institutions (SHIs). These Social Housing (SH) units have a combined investment value of over R4,5-billion, and are regulated by the Social Housing Regulatory Authority (SHRA). The evaluation 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. 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. However, 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.

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. 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.

Currently the SH sector is experiencing a rapid decline in delivery, and the SHRA faces problems relating to its regulation of SHIs, and the management of the investment of the Restructuring Capital Grant (RCG) subsidies. Should urgent intervention not be taken, the sector will cease to deliver subsidized rental stock.

The evaluation proposes the following to be undertaken inter alia:

1. The NDHS must urgently re-calibrate the SH financial instruments as follows:
    1.1. The Eligible Income Bands for the primary market should be raised from R3,500 to R5,500 household income per month. The upper level of the secondary market should be raised from R7,500 to R10,000 household income per month. 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.
    1.2. 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 regularly increased in line with inflationary increases in future, as stipulated in the policy.
    1.3. The basis by which funding is provided should be simplified 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. The requirement to reset rentals on entry of new tenants into SH units 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.
    1.4. A medium to long-term funding commitment to SH must be made, in order to create a platform for certainty within the sector.
2. 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 programme. Quick Win

projects that are already in planning should be identified for fast tracking into implementation. This is not intended to replace the development of new SHIs which should be developed over the medium term.

Executive Summary

Introduction

The Department of Performance Monitoring and Evaluation and the National Department of Human Settlements undertook an **Impact and Implementation Evaluation of the Social Housing Programme in South Africa between 2007/08 and 2014/15.**

The aim of the social housing programme is to create affordable rental housing stock in South Africa's major urban areas that frees its occupants from on-going government dependency, and will contribute to the restructuring of urban areas (SHRA (2005)); National Housing Code (NDHS (2009)).

Social Housing in South Africa has evolved over time and is clearly set out in policy and legislation particularly in respect of the Comprehensive Plan (NDHS, 2004), the Social Housing Policy (NDHS, 2005), the Housing Code (NDHS, 2007) and the Social Housing Act (NDHS, 2008). There is **strong alignment in these documents** on the objectives and key principles of the programme which is firstly to **contribute to the restructuring of South African society** by addressing structural, economic, social and spatial dysfunctionalities and secondly to **provide a subsidised rental option to poor households.**

The institutional and funding framework of the programme is complex but there are clear roles and responsibilities in respect of the key stakeholders. Of these the most significant are the SHRA which has been established as the sector regulator and is responsible for investing in the sector on behalf of government and SHIs which are the implementing agents responsible for developing and managing social housing stock.

Evaluation findings

1. **Impact area 1: Spatial, economic and social restructuring**

   The Social Housing Programme (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 is that:

   - The SHP has not been part of a coordinated restructuring framework due to inconsistent public restructuring definitions, policies, plans and funding framework 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.

2. **Impact Area 2: Creating of affordable rental**

   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 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.

3. Impact Area 3: Value for money

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.

4. Implementation Area 1: Restructuring Zones

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 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. 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.

5. Implementation Area 2: SHI Delivery and Financial Viability

There is a limited and constrained SHI sector with very few (8) capacitated SHIs. There is a 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. Many SHIs are actively pursuing alternative project opportunities. There are strong indications that conditions in the sector are worsening. 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.

6. Implementation Area 3: Monitoring and Oversight

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 crisis point.

Conclusion

The evaluation conclusion is that, the 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.

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 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. 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.

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 tenanting 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.

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 final Evaluation Report that sets out the findings of the evaluation process.

1.1 Background to the Social Housing Intervention

Social Housing (SH) is an important housing delivery approach in South Africa. As set out in the National Development Plan (National Planning Commission, 2010), the Breaking New Ground policy (National Department of Human Settlements (NDHS), 2004) and the Social Housing Policy(Social Housing Regulatory Authority (SHRA) 2005) its aim is to create affordable rental housing stock in South Africa's major urban areas that frees its occupants from on-going government dependency, and will contribute to the restructuring of urban areas.

The overall rationale and high-level programme logic for Social Housing is articulated in the National Housing Code (NDHS, 2009, p11).

> "Whilst South Africa has made great strides … [in housing] a number of structural constraints in achieving fundamental change remain a cause for concern. Political constraints have largely been removed but obstacles arising from the economic structure and spatial patterning of South African society have proven stubborn and persistent. In some instances … programmes … even inadvertently reinforce apartheid inequities".

There is a need therefore to ensure that the links between processes of social restructuring and housing policies and instruments are brought into closer alignment. Social Housing is considered to be a key instrument in this regard, and can *"…contribute strongly toward the achievement of urban restructuring and urban renewal through urban integration and impacting positively on urban economies"*. (NDHS, 2009, p.11).

1.2 Defining Social Housing

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 RZs, 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, including deferred ownership arrangements such as "rent to buy", even though in the early days of the Social Housing programme some developments piloted Rent-to-Buy as a form of tenure.

The key components of the above definition are as follows:

- Under the current policy **low to medium income households** refers to a monthly household income of between R1,500 and R7,500. Within this broad affordability band, SHIs can target a diverse resident population, including households from different income categories. Alternatively institutions can also focus on meeting special needs of a particular population, such as the elderly, the disabled or single-parent families.
- **Social Housing projects** include a variety of housing types, such as high-rise, medium-rise (walk-up) and low-rise (single-storey) housing. These can be located on contiguous sites, or scattered across urban areas. Generally, Social Housing estates consist of medium to higher density projects (60 units per hectare and up to 200 units per hectare) usually in two to four storey walk-ups (no lifts) or increasingly, as land becomes scarcer and more expensive, in medium to high rise tower blocks with lifts (eight to thirteen storeys and more) in inner-city areas.

- An **SHI** is defined as a **legal entity established with the primary objective of developing and/or managing Social Housing** stock, which is owned by the institution. SHIs are intended to be sustainable institutions that can be co-operatively, privately or municipal-owned entities, operating on a profit or not-for-profit basis over a long period of time. A SHI must be a company registered under the Companies Act, 2008 (No. 71 of 2008) or a co-operative registered under the Co-operatives Act, 2005 (No. 14 of 2005), or any other form of institution acceptable to the Social Housing Regulatory Authority (SHRA). To qualify for public funding support, SHIs (whether public or private, for profit or not-for-profit) must be accredited by the SHRA.
- **Residents participate to a greater or lesser degree in the overall management of their living arrangements**. Usually this is done through formally established structures such as a tenant committee.
- In addition to residential accommodation, Social Housing estates can **incorporate a range of other facilities and services**. These provide community development incentives and empowerment benefits, and promote a lifestyle conducive to community cohesion. The SHI may provide social services (health, education, recreation), economic services (such as financial counselling and links to income generation opportunities), and/or training and empowerment programmes, capacity building and job-creation. There is special attention to **creating good public spaces around a Social Housing project** including both a safe and secure environment, and well maintained clean shared areas.

1.3 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. This evaluation will contribute to the rental housing policy review process.

This evaluation is partly an **impact evaluation** and partly an **implementation evaluation**. It responds to broad questions that were set out in the Terms of Reference, and were refined and agreed in the Inception Report with the Steering Committee.

1.3.1 Impact Evaluation Areas

The **Impact evaluation** focuses on the following:

- **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? Sub questions in relation to this issue are:
- Spatial restructuring: To what extent has the programme broken apartheid racial and class spatial patterns.
- Social restructuring: To what extent has the programme improved access to work and education for tenants, health outcomes and social cohesion.
- Economic restructuring: To what extent has new investments in real estate in the area has been generated (Brownfield/Greenfield) and there is increased demand for real estate (housing and commercial).
- **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?

1.3.2 Implementation Evaluation Areas

The **Implementation Evaluation** focuses on the following issues:

- **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? Sub questions in regards to this issue are:
- Have the published RZs also been identified as urban restructuring/ regeneration/revitalisation areas?
- How has the structuring of public roles and responsibility and the finance in the agreed restructuring zones offered incentives to private finance?
- What planning has gone into these areas about tipping markets (getting the right level of investments) such that they produce the desired medium term private commercial and residential investment?
- **Social Housing Institution Delivery and Financial Viability:** *To what extent have SHIs developed capacity to deliver at scale and build a financially viable model?* Sub questions in regards to this issue are:
- Has the requirements and rigour of the SHRA SHI accreditation been adequate to address their viability?
- 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?
- What measures are put in place to support SHIs in the sector and how effective are these?
- What is the relation with the municipality/local authorities and have annual performance agreements been implemented?
- 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?
- **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? Sub questions in regards to this issue are:
- 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?
- 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?
- What is the turn-over in the RCG subsidised projects and what are the reasons of former tenants to vacate the units?
- What is the percentage of tenants paying a different rental price for the same unit?
- What is the impact of the rental increase on the affordability especially for the primary target market?
- **Monitoring and Oversight:** How effective has the monitoring and oversight system for the Social Housing Programme been and how can this be strengthened?

1.3.3 Evaluation Phases

This evaluation has been undertaken in five phases, as follows:

- **Phase 1: Inception,** culminating in the approval of the Inception Report for the project. This phase included the development of a Theory of Change for Social Housing (SH), undertaking a Literature Review and developing the Evaluation Methodology.
- **Phase 2: Desktop Research:** This included compiling datasets and the undertaking of a literature review.

- **Phase 3: Fieldwork** included face to face interviews and undertaking the online survey.
- **Phase 4: Analysis and Synthesis** involved analysing all primary and secondary data, developing, testing and finalising recommendations.
- **Phase 5: Finalisation and Close Ou**t entails producing final documentation and formal closure of the project.

1.3.4 Limitations

The evaluation has the following limitations:

- **Wide Scope of Evaluation:** The evaluation covers legislative and policy, financial and delivery aspects of SH, and considers both direct and indirect demographic outcomes, spatial and social costs and benefits. This wide scope necessitates reliance on existing reference materials, and also at times has required less than optimal approaches be adopted to evaluate outcomes. It is suggested that this work should be the precursor to certain more extensive and better resourced studies into key aspects of SH's performance.
- **Data Limitations:** Without fail, the consulting team has been required to compile their own databases for analysis, based on a combination of numerous other datasets that in many cases are not consistently internally accurate nor directly comparable between sources.
- **Challenges with impact assessment: D**ue to data limitations, a small and dispersed portfolio of SHP investment it became clear during the inception phase that attribution might be difficult. It was later decided that the evaluation will analyse the contribution social housing makes to the expected outcomes. Therefore the findings do not depict or set out to prove a cause and effect relationship between the SHP and the outcomes measured, but programme contribution.
- **Impact and Implementation Evaluation:** Notwithstanding the central role that the NDHS and SHRA play in the SH sector, this evaluation is not intended to be a detailed review of these entities' performance, but rather to ascertain the overall performance of the sector, to identify key issues requiring attention and to make recommendations based on these.
- **Programme Scope:** This evaluation is a retrospective analysis of the Social Housing Programme (SHP). It reviews the period from the commencement of the Interim Social Housing Programme (ISHP) (2008/2009), up to the end of the 2013/14 financial year. Approximately 18,922 units of subsidised SH have been approved by SHRA in 68 separate RCG projects across ten municipalities in seven provinces.

1.4 Evaluation Method

A **mixed-method evaluation approach** was used for this evaluation. This includes the development of a Logic Framework for the SH sector, a comprehensive local and international literature review, development and analysis of existing datasets on the performance of various aspects of the SH sector, face to face interviews with key people in the SH sector and an online survey to ascertain overall opinions regarding the SH sector.

1.4.1 Development of a Theory of Change and Logic Framework

The SH programme was not conceptualised according to a predefined Logic Framework or Theory of Change (ToC). As a result of this, the consulting team, in collaboration with the Project Steering Committee, developed a Theory of Change for the SH sector as the normative basis for this evaluation. This Theory of Change is based on the SH policy documents for the programme at the time of its inception. The Theory of Change is set out in Section 3.

1.4.2 Literature Review

A comprehensive national and international **Literature Review** on SH was completed. A project library of 474 documents was assembled, and over 90 key international and local documents were analysed and synthesised into the Literature Review document. This is included in a separate report (DPME & NDHS 2015). The two reports should be considered together.

The Literature Review defines SH in South Africa; describes the evolution of Social Housing in South Africa; sets out the current legislative and policy framework; develops the Theory of Change for SH; outlines the Institutional framework; analyses the financing of SH; and analyses the geographic modalities and current geographic outcomes. Finally, the current performance of the sector is analysed.

1.4.3 Statistical Analysis of Administrative Data Sources

Extensive statistical sources were compiled (mostly on the basis of administrative data supplied by the SHRA) and analysed in order to provide an empirical baseline of evidence for the evaluation. 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.

All datasets developed for this evaluation are available for further analysis and use by interested parties, in order that they can provide an empirical base of evidence against which to assess and develop the SH sector in South Africa. The data sets developed can be seen in **Appendix A**.

1.4.4 Counterfactuals analysis

The evaluation has used 'Counterfactuals' to social housing which is defined as the situations in which occupants of Social Housing would find themselves if the Social Housing under analysis did not exist. In other words, ***"Where would occupants of SH be living if they were NOT living in SH?"***

Appendix B outlines the counterfactuals defined for Social Housing. The main counterfactuals are:

- **House Rental:** Private rental of township houses or subsidised (RDP) houses from owners, either as a unit or via shared rental with other households;
- **Backyard Rental**: Rental of backyard rooms (and to a lesser extent, backyard shacks) from private house owners in predominantly old township areas and newer subsidised housing areas; and
- **Inner City Affordable Rental**: This includes well-managed affordable units in high-rise or medium-rise building units owned by private landlords (predominantly bachelor, one-bedroom and two-bedroom flats).

1.4.5 Case Study Analysis

Two sets of case studies were developed to inform the Evaluation:

- **Project Case Studies:** Six project case studies were analysed in detail, along with their host institutions. These were identified during the inception phase. The projects and institutions included Emerald Sky (Sohco); Walmer Link (Imizi); Brandwag (Freshco); Fleurhof (Madulamoho); Lakehaven (First Metro Housing Company); and Drommedaris (Communicare). These case study projects represented nine phases of development constructed between 2008 and 2012, developed by five SHIs across five provinces, delivering 2,826 RCG-subsidised units, of which 1,082 are in the primary target market. These projects were approved across four SHRA funding tranches.
- **Social Housing Institution Case Studies:** In addition to this, a high-level analysis was undertaken of the nine largest SHIs, in order to add context to the institutional analysis. These case studies provide more contextual information on the history, development and current status of the largest SHIs in South Africa. The selected sample includes Imizi, Joshco, Msunduzi, Own Haven, Communicare, First Metro, Sohco, Madulamoho and Yeast.

1.4.6 Primary Data Collection

Two primary data collection methodologies were used for the study:

1) Firstly, interviews with key identified respondents in the SH sector, and
2) Secondly administering an online survey to obtain comparable attitudinal data from a wider grouping of people operating in the SH sector.

1.4.6.1 Key Respondent Interviews and Interactions

Face to face interviews were held with 36 respondents, identified by the consultants and Project Steering Committee as representing the interests of key stakeholders in the SH sector. These interviews were conducted at respondents' offices, and took between one and a half and four hours each. A limited number of interviews were held telephonically, and a few respondents completed the interview questionnaire in writing. In addition to this, a number of other engagements were held. Members of the team had follow-up interviews with key people, attended sector workshops arranged by NASHO, and attended various SH forums and committees (including Provincial Steering Committee meetings in three provinces). Certain interviewees were contacted multiple times, in order to ensure sufficient necessary information was obtained. The initial findings of the study were also presented at the National Rental Task Team in June 2015.

A list of respondents is included in the references section. The interviews were structured across the following groupings.

- **National Government Departments:** National Treasury (NT), Department of Performance Monitoring and Evaluation (DPME), Department of Human Settlements (DHS).
- **Regulatory Authority**: Social Housing Regulatory Authority (SHRA)
- **Provincial Human Settlements Functions**: Eastern Cape, Gauteng Province, KwaZulu Natal Province and Western Cape Province)
- **Municipal Social Housing Functions**: 8 interviews were held in the five cities with the largest social housing portfolios (City of Johannesburg, City of Cape Town, eThekwini, Buffalo City and Nelson Mandela Bay Metro).
- **Sector Representative bodies**: Various interviews and meetings, one workshop and one specially convened strategic engagement was held with representatives from the National Association of Social Housing Organisations (NASHO).
- **DFIs and Specialist Financiers**: Interviews were held with key people at the National Housing Finance Corporation (NHFC), the Gauteng Partnership Fund (GPF) and the Dutch Institutional Guarantees for Housing (DIGH).
- **Private Financial Institutions**: Interviews were held with the key financiers of social housing from the private sector (Nedbank, Standard Bank, ABSA[1]).
- **Private Developers**: Interviews were held with developers of social housing[2], as well as three affordable private rental developers.
- **International Support Agencies**: Interviews were held with two representatives of agencies supporting Social Housing in South Africa.
- **Representative Institutions**: An interview was held with the housing functionary at the South African Local Government Association (SALGA).
- **Social Housing Institutions:** Representatives from the six case study SHIs were interviewed.

1.4.6.2 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. This survey provides useful contextual information on the composite viewpoints of key players in the SH sector on critical issues facing the SH sector at present, as well as on key evaluation questions. However, the sample size is not sufficient to undertake sector-specific analyses, except for the SHI sector.

[1]Note that due to changes in personnel and the loss of key affordable housing functions in private financial institutions, findings from interviews held in 2013 for SHRA's State of the Social Housing Sector report were also incorporated into this process.
[2]Note that due to changes in personnel, findings from interviews held with developers in 2013 for SHRA's State of the Social Housing Sector report were also incorporated into this process.

It is important to state that, while in itself the online survey is intended to provide contextual information from a significant number of key players in the SH sector, this survey is not necessarily *on its own* a statistically valid basis for supporting the conclusions drawn in the report. However almost exclusively, results of the survey offer a clear proxy for attitudes expressed in the 36 detailed interviews held with key players in the industry. In addition, viewpoints expressed almost exclusively support the findings of the empirical data analysis undertaken for this report. Therefore, unless specific contradictory viewpoints were raised in interviews, or in data analysis, the summary survey results offer an excellent proxy for demonstrating the views of key players in the SH sector.

Table 1: Online Survey Respondent Profile

Sector	Respondents	Percent
National Public Sector (Human settlements strategy / Oversight / Funding (e.g. DPME / National Treasury	2	3%
National Public Sector: Social Housing Strategy / Policy / Entities Oversight (e.g. DHS Social or Rental Housing Policy	2	3%
Provincial Public Sector: Human Settlement or Social Housing (e.g. Human Settlements / Rental Housing or Social Housing Department)	6	10%
Metro or Municipal Official: Housing or Social Housing (e.g. Housing, Rental or Social Housing Department)	5	8%
Social Housing Regulatory Body (e.g. SHRA Council or Executive)	2	3%
Social Housing Representative Body (e.g. NASHO, SHIFT)	5	8%
Social Housing Institution Governance & Management (e.g. Board Member, CEO, Financial Manager or other Executive)	14	23%
Development Finance Institution (DFI): Social Housing Finance (e.g. NHFC, GPF, DBSA)	3	5%
Financial Institution: Housing and/or Social Housing (e.g. South African or International Bank)	4	7%
Private Sector Developer or Contractor (e.g. Housing or Social Housing Development)	3	5%
South African Professional Service Provider / Consultant (e.g. Planning, housing, financial or other consultant working with Social Housing)	5	8%
International Professional Service Provider / Consultant (e.g. International secondee or consultant to Social Housing sector or institution)	2	3%
Other	7	12%
TOTAL	**60**	**100%**

1.5 Project Review Processes

The project methodology included the following review processes.

1.5.1 Project Steering Committee Engagements

The Evaluation has been guided by a Steering Committee comprising key SH stakeholders. 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.

1.5.2 Consultants' Expert Team

The consultants convened an expert team that met and provided inputs into the project methodology and TOC as well as the draft findings report. This team comprised Dr Nick Van Der Lijn (Evaluation Expert, RebelGroup, Netherlands); Prof Francois Viruly, (Property Economist, University of Cape Town, South Africa) and Dr Margot Rubin (Housing and Planning Specialist, University of the Witwatersrand, South Africa).

1.5.3 Peer Review

Peer review comments of key document outputs from the project have been incorporated into the final documents.

1.6 Other Related Studies

During this Evaluation process, other projects of importance to the SH sector were undertaken. Engagements with, and formal sharing of information between these studies has enriched the final outcomes of this study. These included:

1) **National Treasury: Expenditure Performance Review on Social Housing** (RGSA (2015). This study, also undertaken by RebelGroup Southern Africa (but incorporating some additional team members) focuses on the financing aspects of SH, and reasons for the (non) participation of the private sector in the SH sector. This enabled a much deeper analysis of the financial conditions in the SH sector to be referenced and incorporated into this Evaluation.
2) **Department of Human Settlements: Community Residential Unit Programme Evaluation.** This evaluation is being undertaken by M McCarthy & J Pienaar Consortium (2015, not finalised). Engagements were held with this project team to discuss aspects of common interest and to ensure synergy between the findings of the studies.
3) **National Association of Social Housing Organisations (2015): Long-Term Financing (LTF) Study**. The LTF study considers the long-term trajectory of the SH sector, including targets and financial requirements for this. Formal engagements were held with this project team and NASHO, and engagements from both teams included participation from the other teams.

1.7 Impact & Implementation Evaluation: Background Documents

This report comprises the final deliverable for the project. It constitutes the fifth document deliverable for the project, and should be read in conjunction with these other documents:

1) Impact and Implementation Evaluation of the Social Housing Programme: **Proposal**
2) Impact and Implementation Evaluation of the Social Housing Programme: **Inception Report**
3) Impact and Implementation Evaluation of the Social Housing Programme: **Literature Review**
4) Impact and Implementation Evaluation of the Social Housing Programme: **Fieldwork Report**

2 Findings from the Literature Review

2.1 Background

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, as shown in the Table below (adapted from SHRA, 2014d). It is one of four programmes undertaken by Government. In addition there are private sector actors who provide rental accommodation.

Table 2: Social housing within the context of the rental sector[3]

Type	Definition	Main delivery agent	Governing legislation	Key funding sources
Social Housing	**Rental units aimed at households with incomes of between R1,500 to R7,500 per month**	**Social Housing Institutions**	**Social Housing Act, 2008**	**Grants from the SHRA, predominantly the RCG (RCG) and institutional subsidy.**
Institutional Housing	Supports Social Housing (above) by providing additional funding, as well as provides a range of special needs and niche market options to people with very low incomes (R1 500 to R3500)	Social Housing Institutions	Housing Code (2009)	Institutional Subsidy (IS) allocated by provincial government (not via the SHRA) applied in two ways as a "top up" to the RCG and grants to specific projects outside of the SHRA income band
CRU (CRU)	Rental units for very low income households (R1,500 to R3,500 pm). The programme includes hostels, public rental stock and distressed buildings (for example inner city)	Municipal Government	Housing Code (2009)	Community Residential Unit (CRU) Subsidy as detailed in the Housing Code, 2009, and allocated by provincial government (not via the SHRA).
Local Govt Rental Hsg	Post-1994 government constructed housing, occupied by private families or government staff on a rental basis.	Municipal Government	Municipal Bylaws and Regulations	Capital and operating allocations from the Municipal budget. In some cases IS or CRU is used.
Private sector rental (small scale landlords)	Affordable rental (R3,500 +pm) comprising backyard flats and rooms in existing suburbs and townships	Small private landlords	Municipal Bylaws and Regulations	Private equity. No public funding support provided other than some indirect costs to municipalities.
Private sector rental (larger landlords)	Corporate private sector landlords providing rental both at affordable prices (similar to Social Housing) as well as market related rentals (R7,500+pm).	Medium to large private landlords	Municipal Bylaws and Regulations	Private equity and loans from commercial financial institutions. Since 2012, the SHRA RCG can be accessed under specific circumstances.

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

In 1994, the challenges faced by the National Department of Housing (NDHS) were many. An estimated 86% of households earned less than R3500 per month. Housing affordability was seriously constrained and existing subsidies from the previous regime were designed to support the racially defined framework of the government's apartheid policy. The overall approach taken by government was framed by two imperatives. Firstly, to address the housing crisis directly through the scale delivery of subsidised housing for low-income households primarily for ownership, with a secondary focus on rental. Secondly, to create an environment in which the subsidised housing market could operate normally as part of the broader, non-subsidised housing market, in the interests of a growing and prosperous economy. (Rust 2006)

The strong focus on ownership as opposed to rental was reflected in the extent of delivery between 1996 and 2005. During this period the institutional housing subsidy (for rental) delivered about 34 000 units as opposed to the so-called Reconstruction and Development Programme (RDP) fully-subsidised housing subsidy (for ownership) which delivered upwards of two million units in the same period (Rust 2006)).

[3] As defined in Outcome 8 and social housing legislation. adapted from Centre for Affordable Housing Finance in Africa, June 2012

However there were key concerns around RDP housing delivery. The housing programme was generally perceived to have delivered poor quality stock and there was broad consensus that the neighbourhoods in which new housing was located were not holistic and did not offer sufficient access to opportunities and amenities. In many settlements there was very weak or non-existing linkages between the housing and income generating activities. Many housing projects resulted in a financial and maintenance burden for municipalities. Their location, scale and the poverty of their inhabitants resulted in high maintenance and management costs. (Charlton 2005):

In September 2004 the NDHS released its Comprehensive Plan for the Development of Sustainable Human Settlements, entitled “Breaking New Ground” (BNG) (Department of Human Settlements 2004). The Plan flagged the need to redirect and enhance various aspects of policy one of which was an increased focus on the rental market, which was identified to play an important role in that it offers affordability and high levels of location flexibility to its occupants. It is also seen as an initial step for households 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.

2.2 Legislative and Policy Framework

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

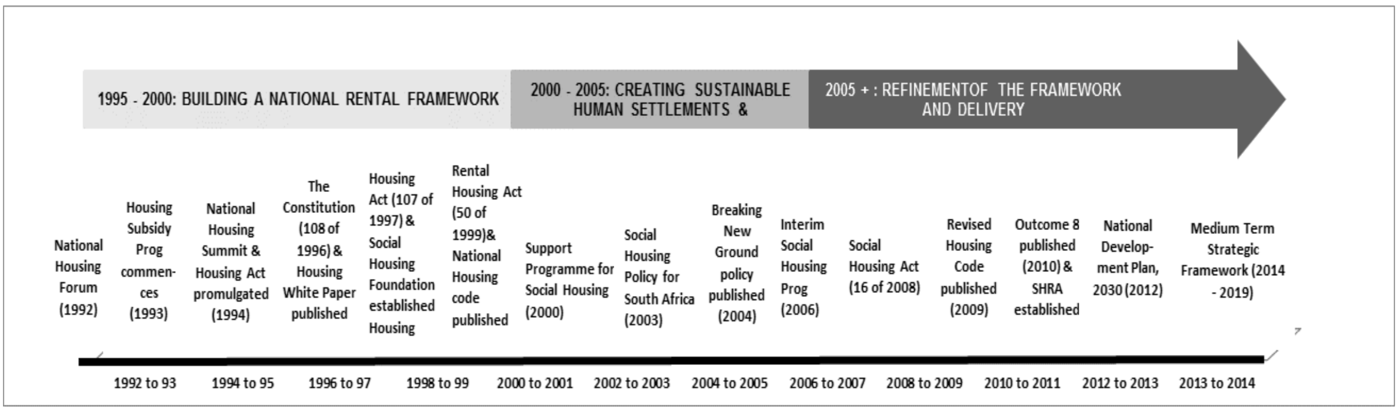
- The Constitution of South Africa, 1996 [Act No. 108 of 1996] [the Constitution]
- The Housing Act, 1997 [Act No. 107 of 1997 as amended in 2001] [the Housing Act]
- The Residential Landlord and Tenant Act, 1997 [Act No. 3 of 1997]
- The Rental Housing Act [Act No 50 of 1999]
- The Comprehensive Plan ‘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 (see below). A detailed overview of these documents is set out in the Literature Review. A time line of these key documents is shown in the figure below.

Figure 1: Time Line of Legislation and Programmes pertaining to Social Housing



The key elements of the social housing programme are set out predominantly in the Social Housing Policy (National Department of Human Settlements (NDHS) 2005), Housing Code (NDHS, 2009) and the Social Housing Act (NDHS, 1997). Based on these documents, the Social Housing programme has two primary objectives:

- Firstly, to contribute to the national priority of restructuring South African society in order 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 in so far as Social Housing is able to contribute to widening the range of housing options available to the poor.

The following **principles** are specified as underpinning the Social Housing Policy:

- **Promote urban restructuring** through the social, physical, and economic integration of housing development into existing areas, likely to be urban or inner-city areas. Specifically, Social Housing must be located within **urban Restructuring Zones (RZs)**, to be defined by the local authority and supported at provincial level. These zones are intended to provide geographic focus for accommodation opportunities for low-income people close to facilities, amenities and income generating opportunities.
- **Social Housing developments must influence and be influenced by integrated development planning**, and should therefore be in line with local Integrated Development Plans (IDPs) and other related plans created for the promotion of integrated development in urban areas.
- **Promote the establishment of well-managed, quality rental housing options for the poor**. Social Housing aims to widen the range of accommodation choices available to poor people and thereby contribute to a functioning housing sector through injecting additional rental housing stock in areas of opportunity.
- **Respond to local housing demand**. Social Housing forms one of the mechanisms of the state housing programme aimed at responding to the diverse needs of households. Demand for this form of housing may vary from area to area. Therefore Social Housing projects and their supporters must adequately demonstrate the demand for this type of housing option in areas where Social Housing development is planned or underway.
- **Deliver housing for a range of income groups** (including, inter alia, middle income, emerging middle class, working class and the poor) in such a way as to allow social integration and financial cross subsidisation. Social Housing should accommodate, within the same project, households with a mix of income levels – i.e. people in the 'medium' income categories, while at the same time reaching persons located at the lower end of the market. Social Housing will therefore provide opportunities across income streams. Government's grant funding will, however, be focussed on the lower income end of the target market.
- **Support the economic development of low income communities in various ways:** by ensuring that projects are located close to job opportunities, markets and transport, and by stimulating job opportunities to emerging entrepreneurs in the housing services and construction industries. Social Housing projects have a strong capacity to support the development of Small, Medium and Micro Enterprises (SMMEs) in services such as cleaning, security, plumbing, electrical and other maintenance functions.
- **Foster the creation of quality living environments for low-income persons.** In addition to residential accommodation, Social Housing projects must include related social facilities and amenities where appropriate and must provide adequate space to accommodate recreation and other needs related to higher density residential living. Explicit attention must be paid to design and construction quality, and the rental units must aim to achieve the spatial and physical quality set out in best practice precedents, which provide benchmarks for the sector.

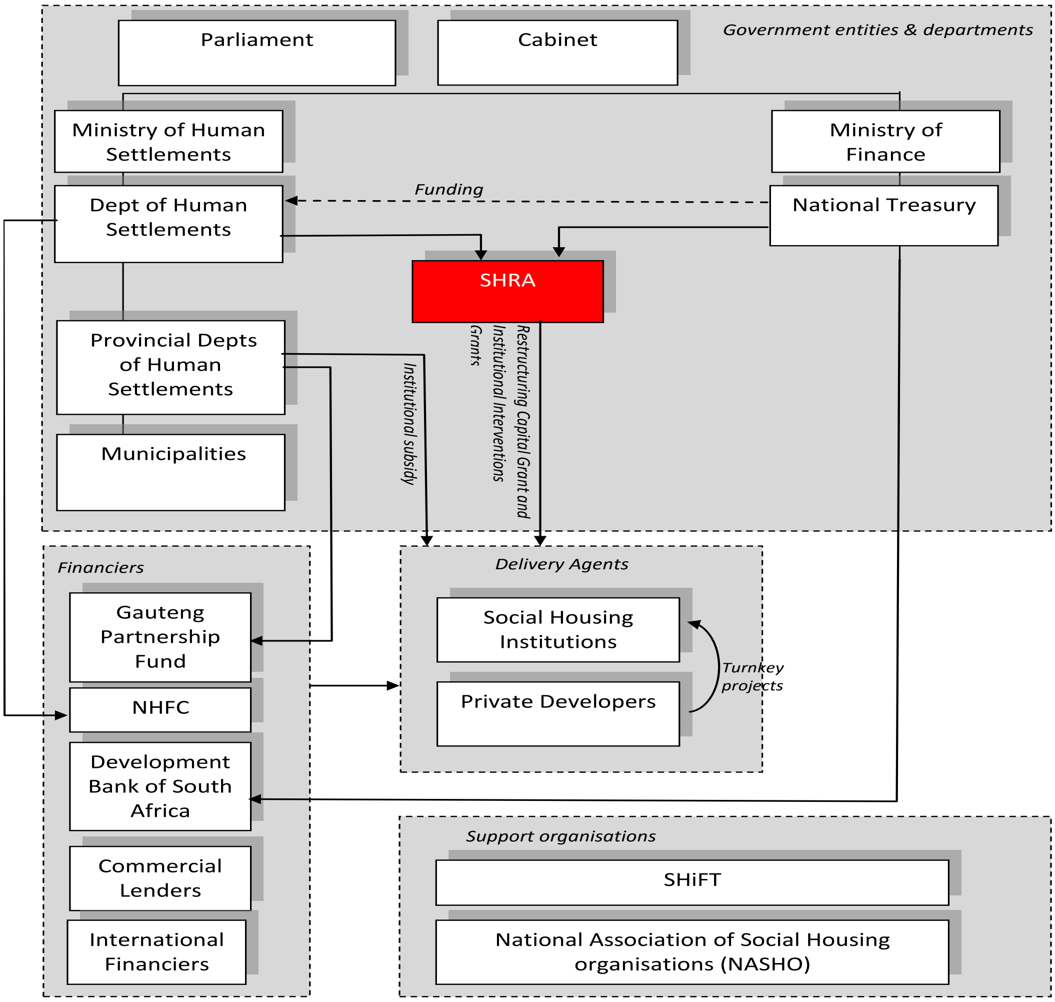
- **Promote a safe, harmonious, and socially responsible environment both internal to the project and in the immediate urban environs.** Social Housing must be mindful of its role in social and spatial restructuring and must demonstrate its ability to create social stability, racial and income integration and reduce crime in an area through quality, well-maintained physical environments and good management practices.
- **Promote the creation of sustainable and viable projects.** Social Housing projects must be financially viable in their own right, with low default rates (high rental repayment rates) and good management practices. Institutions owning and managing projects must start small and develop incrementally, closely related to and supported by the number of projects and number of rental units under management. Additional support provided to an institution will therefore relate directly to its performance in managing its projects.
- **Encourage the involvement of the private sector where possible.** Growth in the delivery and management of Social Housing will best be achieved through the involvement of both SHIs and the private sector, acting separately and in partnership. Support will therefore be provided to both actors in relation to viable projects. The Social Housing Corporation (as it was originally named, later to be renamed the SHRA) will determine whether the specific institution or project applying for assistance is appropriate or not within the context of this policy.
- **Facilitate the involvement of residents in the project and/or key stakeholders** in the broader environment through defined meaningful consultation, information sharing, education, training and skills transfer. Social Housing must encourage and support residents in their efforts to fulfil their own housing needs in a way that leads to the transfer of skills and empowerment.
- **Ensure secure tenure for the residents of projects,** on the basis of the general provisions for the relationship between residents and landlords as defined in the Housing Act, 1997 and the Rental Act, 1999.

  Social Housing must be facilitated, supported and/or driven by all spheres of government. The roles and responsibilities of the various spheres of government with regard to facilitating, supporting and/or driving Social Housing must ensure efficiency and prevent unnecessary duplication. The role of local government is particularly significant in defining RZs and facilitating the implementation of Social Housing within its area of jurisdiction. The ability of this sphere of government to create an enabling local environment is critical to the success of the sector. Cooperative governance and coordination of resources between the spheres and among the different government departments, is key for creating and enabling a supportive environment for the delivery of Social Housing.
- **Ensure transparency, accountability and efficiency in the administration and management of Social Housing stock**. Transparency in the way that decisions are made, information is exchanged, and accountability and efficiency in the administration of the Social Housing project is essential for its establishment and for making Social Housing successful as a sector.
- **Promote the use of public funds in such a manner that stimulates and/or facilitates private sector investment and participation in the Social Housing sector**. Public sector investment should be used to gear the private funding provided for Social Housing in order to obtain maximum benefit for the sector, local authorities, the state and Social Housing residents. Operational surpluses of SHIs must be reinvested in new Social Housing projects.

2.3 Institutional Framework

The key stakeholders making up the Social Housing sector include Policy Makers; Sector Regulation; Delivery Agents; Financiers and Support Organisations (SHIFT and National Association of Social Housing Organisations (NASHO)) (see figure below).

Figure 2: Overview of the Key Stakeholders in the Social Housing Sector



The role of the key stakeholders is shown in the table below.

Table 3: Roles of key stakeholders in the social housing sector

Role Player	Functions In Respect of Social Housing
National Government: *Oversight, legislation and regulation, ensuring compliance and funding frameworks.*	• Create and uphold an enabling environment for Social Housing, by providing the legislative, regulatory, financial and policy framework for the delivery of Social Housing; • Ensure compliance with its constitutional responsibilities; • Address issues that affect the growth, development or sustainability of the Social Housing sector; • Institute and fund the Social Housing programme; • Allocate funds from the Department's budget for the operational costs and commitments of the SHRA; • Determine norms and standards to be adhered to by provinces and municipalities; and • Monitor the SHRA.

Role Player	Functions In Respect of Social Housing
Provincial Government: *Planning for, resourcing and administering Social Housing investments.*	• Ensure fairness, equity and compliance with national and provincial Social Housing norms and standards; • Ensure the protection of consumers by creating awareness of consumers" rights and obligations; • Facilitate sustainability and growth in the Social Housing sector; • Mediate in cases of conflict between a SHI or other delivery agent and a municipality, if required; • Submit proposed RZs to the Minister; • Monitor Social Housing projects to ascertain compliance with prescribed norms and standards; • Administer the Social Housing programme, by approving projects; and • Approve, allocate and administer capital grants, in the manner contemplated in the Social Housing investment plan, to approved projects.
Municipalities: *Planning for, resourcing and initiating projects.*	• Encourage the development of new Social Housing stock and the upgrading of existing stock or the conversion of existing non-residential stock; • Provide access to municipal rental stock, land and buildings for Social Housing development in designated RZs and to municipal infrastructure and services for approved projects, and • Initiate and motivate the identification of RZs. • (In respect of Municipalities with Assigned powers, approve, allocate and administer capital grants, in the manner contemplated in the Social Housing investment plan, to approved projects).
SHRA: *Sector Regulation & Investment Coordination*	• Advice and information to the Department of Human Settlements • Register and accredit SHIs; • Recommend RZs; • Set principles for, regulate compliance and accreditation and act on non-compliance; • Regulate the investment public funds in Social Housing projects and programmes; and • Report on compliance (both in respect of individual SHIs and sector-wide).

2.4 Funding Framework

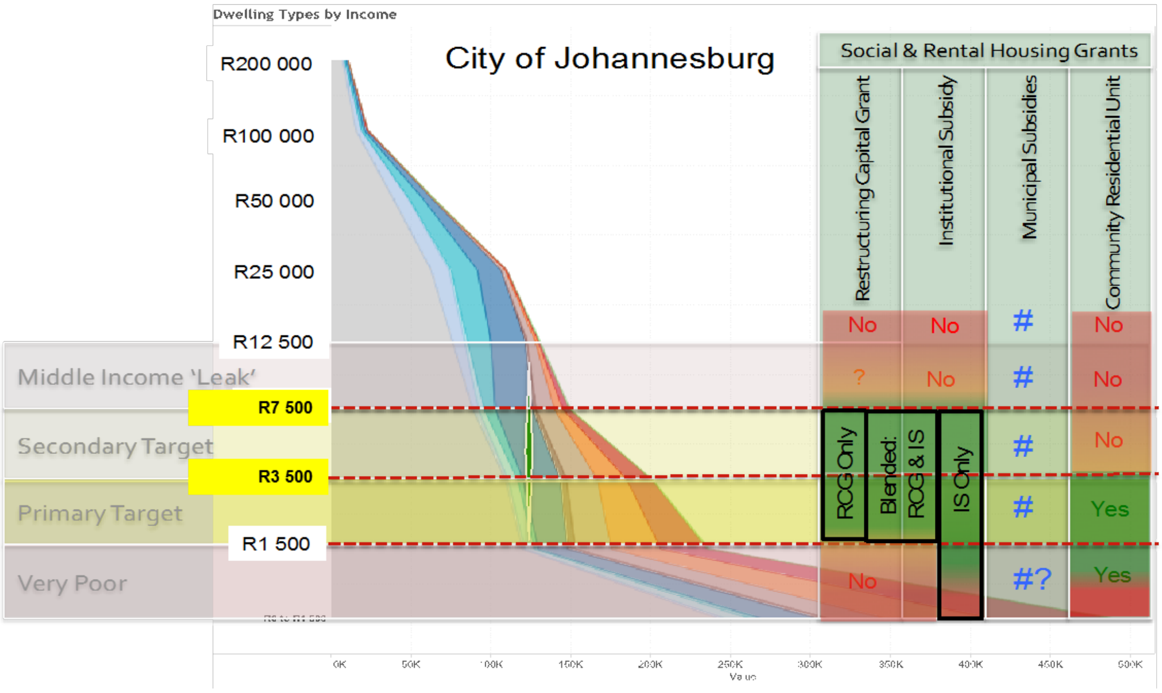
At its simplest level, the SH funding model incorporates the following funding components working in synergy:

- **Restructuring Capital Grant (RCG):** The RCG is administered by SHRA, and stands at R125,615 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" – R749 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 R110,000 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[4].
- Equity from the SHI: Equity contributions are not compulsory, but are sought in respect of the SH Policy.
- Debt Finance: Balance of financing to be provided by debt. Currently the bulk of debt finance is DFI (NHFC and GPF), only one instance of private sector debt funding has been observed (Nedbank).

[4] Key provincial variations are as follows: KwaZulu Natal: R110k for top structure only; WC: R110k for top-structure plus geotechnical variances; Eastern Cape: R110k for top structure + geotechnical variances and "Southern Cape condensation" allowance (R43,000) = R175k. Also in practice the Institutional Subsidy is applied to all households earning up to R7,500 per month.

The figure below outlines the RCG and IS instruments for rental housing in relation to the income bands they serve, namely the Primary Target Market (R3,500 household income and below) and the Secondary Target Market (R3 501 to R7,500 household income band). These are illustrated in relation to the profile of households in these income bands in the City of Johannesburg, as a reference point for showing the proportion of households potentially eligible for SH.

Figure 3: Rental Subsidy Programmes and Relationship to Target Income Groups



Source: RebelGroup Southern Africa (RGSA) 2014a

This figure also illustrates the intended focus income bands of other rental subsidy instruments, including the IS used on its own, and the Community Residential Unit (CRU) subsidy. The municipal subsidy column illustrates that in certain cases additional subsidies are passed on to SHIs in specific metros by municipalities, mostly in the form of operational subsidies to Municipal-owned SH entities, or in the form of free or below-market value land provided for SH development.

In a well-functioning sector, the Primary Target should account for at least 30% of units in a project, with the balance (70%) being distributed evenly across the secondary target market. In the early years of the ISHP programme, this was regularly achieved by SHIs.

A schematic overview of the flow of the different funding sources in the SH sector at national, provincial and local governmental level, as well as from private sector sources are illustrated in **Appendix C**.

2.5 International Literature Review

An extensive review was undertaken of international literature relating to the social housing sector. Social Housing has a long history dating back to the early 20th century where it emerged primarily in Europe as a response to emerging housing needs resulting from massive industrialisation and urbanisation. According to Carswell (2012) Social Housing embraces a wide range of initiatives that aim to provide good quality, affordable rental housing for vulnerable groups.

Some of the key findings from the review are set out below.

2.5.1 Approaches to and existence of social housing

The institutional frameworks in respect of social housing in different countries are unique, but in much of Europe there are similarities in the broad allocation of responsibilities for providing social housing between the state, the private sector, voluntary organisations and households. In most European countries the current trend is to bring back the involvement of private and not-for-profit entities in the delivery of social housing, with continuing large scale government subsidies and finance as well as sectoral regulation.

There are two different approaches in the allocation of social housing in Europe, either a ‘universalistic’ model of social housing provision or a ‘targeted’ approach. Under the ‘universalistic’ or social welfare approach housing is considered a public responsibility and is delivered either through municipal housing companies (e.g. Sweden, France) or through not-for-profit organisations (Austria, the Netherlands). In order to guarantee that the whole population has access to quality and affordable housing, social housing has a market-regulating role (e.g. through rent control). A key objective of housing provision in this model is to ensure a social mix - to try and achieve spatial integration and to foster social cohesion.

Social housing is often known as public housing provided and owned by government, though particularly in the UK and The Netherlands most public housing is run by non-profit organisations. In Germany and Spain commercial landlords might provide the social housing- in exchange for a subsidy they set rents at a specific (social) level, and dwellings are allocated to certain target groups. In the US tax credits are available in exchange for providing funds for the development of affordable housing (Bratt et al. 2006) and in Australia there is a National Rental Affordability Scheme that plays a similar role. In Ireland, Spain and Belgium specialist social agencies provide the housing in the private market, and vulnerable groups are catered for by rent guarantees, and social workers are employed.

An increasing trend internationally is that housing allowances have become a key instrument in safeguarding housing affordability in the social and the private rental sector and housing associations are becoming more and more of a vehicle to fight segregation.

Generally social housing is not found in developing countries. In Japan and Korea housing support was linked to support for the economy (via building companies), and directed at home ownership. Currently housing policies are now being developed in China and Korea to accommodate the huge urbanisation taking place – large affordable housing schemes are being built in Beijing and Shanghai for example. The provision of social rental dwellings appeared too expensive or too susceptible to corruption. Rather housing support takes the form of encouraging self-help housing with micro finance.

In Latin America there were attempts to develop public rental, but they were expensive. In Venezuela there was a large-scale programme to replace shanty towns with public rental – but it led to new problems, and high rent arrears. In Latin America and parts of Africa social housing came out of a top down policy, with little accountability and was strongly associated with corruption. Policy therefore shifted to the self-help housing option as a way of improving housing conditions, rather than using public rental. Housing support by government in Latin America therefore focuses on homeownership (where land is provided for free). This is seen as the best solution for people on low incomes rather than social rental. (Carswell 2012)

In the US there has been an ambivalent and sometimes hostile attitude towards providing housing assistance to the poor. After the depression reformers recognised that the private sector or philanthropy would not solve the economic and housing problems of the poor so a federal public housing programme was started in 1937 – to stimulate the economy as its’ primary aim rather than address slum conditions or housing affordability, and by 1942, 175 000 public housing apartments had been built in 290 communities.

Millions of people in African cities are tenants. Rental housing is an important, if only a partial answer to urban housing problems, but it is a housing option especially for the urban poor, and in situations where people are not ready or able to buy or build houses of their own. Rental housing is an integral part of a well-functioning housing market. In spite of this, governments in Africa have done little to support the improvement of rental housing which already exists or the expansion of affordable rental housing. Instead In the past few decades, African governments have actively promoted homeownership through various means (United Nations Habitat & Cities Alliance 2011).

2.5.2 Role of social housing

(Fitzpatrick & Stephens 2008) cited in (Scanlon & Whitehead 2011) point out that social rented housing in advanced economies plays four essential roles:

- The supply function (production). As an “ambulance service”. With a weak social security system and relatively high poverty and inequality, as in the United States, the social rental sector is characterised as performing an ‘ambulance service’ function. Access to social housing is based on income, but people need additional vulnerabilities and support needs to be allocated a unit. In Canada 58% of allocations to public housing are for people with special needs, and 70% of community housing. The same occurs in Australia. The notion of social housing as an ambulance service is because it is temporary - once the 'emergency' is over, eligibility may be withdrawn. This is not the case in France or Germany, where, if a tenants' income increases they will not be asked to leave necessarily, but to pay a higher rental.

- Social Rented Housing as a "safety net": Compared with Scandinavian countries and most other Western European countries, the UK has a high level of poverty and inequality, and the social security system has done less than elsewhere in Europe to reduce inequalities arising from the labour market. The idea of a safety net of state benefits is meant to prevent post-rent incomes falling below a basic minimum income. Priority has gone to those in greatest housing need, and allocations target those on low incomes. Allocation of social rented housing is like a means tested benefit in the UK, as compared with Germany and the Netherlands (and France). As in other countries certain restrictions have been introduced to regulate behaviour – mainly anti-social behaviour.
- Social rented housing and the 'wider affordability function': There are much lower levels of poverty and inequality in the Scandinavian countries and the Netherlands than in the UK, as there are in France and Germany, to a lesser extent. Social housing therefore has wider eligibility in those countries. Sweden does not have an income limit, in Germany, 40% of households could be eligible,

2.5.3 Tenure types

The UN Habitat publication *A policy guide to rental housing in developing countries. Quick Policy Guide Series - Volume 1*) (United Nations Habitat 2003) gives the following breakdown of housing tenure:

Table 4: Housing tenure in selected countries and in their largest city

Country	Owned (%)	Rented (%)	City	Owned (%)	Rented (%)
Germany	40	60	Berlin	11	89
The Netherlands	53	47	Rotterdam	26	49
USA	66	34	New York	45	55
UK	69	31	London	58	41
Colombia	54	31	Bogota	46	43
Brazil	74	25	São Paulo	70	20
South Africa	77	22	Johannesburg	55	42
Chile	73	20	Santiago	73	21
Bolivia	60	18	La Paz/El Alto	55	23
Thailand	87	13	Bangkok	54	41
Mexico	81	11	Mexico City	76	16

Source: (United Nations Habitat 2003) (pp 9-11) and recent census figures from Colombia and Mexico. (Where percentages do not add to 100%, it is because the authorities have calculated other kinds of non-ownership separately).

2.5.4 Government policies to support the supply of social housing

Government policies to support the supply of social housing are set out in the table below.

Table 5: Government policies to support the supply of social housing

Subsidies	Tax concessions	Regulations
Grants for construction of renovation of SH. In most countries SH is in perpetuity, but in some (Germany) the "social" is time limited. Some countries (France, UK) also fund owner occupied SH as well as rental	Income tax Exempt providers of SH from income tax	Require developers to include a certain % of affordable housing in new developments (England and France). There may be a minimum development size, and apply to commercial as well as residential

Subsidies	Tax concessions	Regulations
Subsidise loans for developers of SH	Give tax relief on investment in constructing SH for rent or sale, to be set against income from all sources	
Provide land for SH at below mv or free (as in SA)	Give tax relief for interest from mortgage-backed securities used to fund low interest mortgages or low income housing	
Give grants to bring empty properties back into use with allocation conditions (England)	VAT Allow SH providers to pay a lower rate of VAT (as in France)	
Provide government guarantees for housing association loans		
Give government guarantees of rent or mortgage payments from low income households		

Source Scanlon and Whitehead, 2011

The social rental sector is now becoming more market orientated in Western countries, and the broad social rental model is under pressure from governments in Europe. Most European countries push homeownership as the preferred tenure as the solution for low income people. In the past the main source for public housing was government loans, but now the trend is towards capital market loans. Governments want to lower their social housing budgets and look towards the most efficient ways of achieving social rental housing – and attracting private investment into the sector. In almost all Northern European countries there is less emphasis on the provision of traditional social housing and more on providing a range of affordable tenures, and to use private finance. There has also been more emphasis on improvement and regeneration of existing stock, and redevelop areas where employment has declined. Housing associations in the UK and the Netherlands are now having to diversify and set up group structures to carry out non-“social housing” business.

2.5.5 Capacitation / development of SHIs

In the UK and the Netherlands there are professional bodies for SHIs – on which Nasho in South Africa is modelled. They do policy development for the sector and lobbying, representing the sector to government, and have a strong training and capacity building role. In the UK there is also the Chartered Institute of Housing that has a professional qualification that most people working in the sector, particularly municipalities, would undertake. The course has also been accredited in parts of the world where here are large stocks of social housing, such as in Australia and Hong Kong.

In the Netherlands in the period of the professionalisation (i.e. from the 1970's up to the 1990’s) the influence of the two umbrella bodies was big. The *NWR* represented about 80% of all the SHIs in the Netherlands and had a staff of more than 700 people most of them specialists. At that time if there was a directive from the Department that was sent to SHIs it was 'translated' and commented on by the *NWR* in such a way the implications were clear for the SHIs and the sector at large. The *NWR* and to a lesser extend the NCIV were very powerful bodies in the 1980's and 1990's that negotiated with the unions on behalf of the employers to get the best conditions of employment for the sector.

2.6 Conclusions

Social Housing in South Africa has evolved over time and is clearly set out in policy and legislation particularly in respect of the Comprehensive Plan (NDHS, 2004), The Social Housing Policy (NDHS, 2005), the Housing Code (NDHS, 2007 and the Social Housing Act (NDHS, 2008). There is strong alignment in these documents on the objectives and key principles of the programme which is firstly to contribute to the restructuring of South African society by addressing structural, economic, social and spatial dysfunctionalities and secondly to provide a subsidised rental option to poor households.

The institutional and funding framework of the programme is complex but there are clear roles and responsibilities in respect of the key stakeholders. Of these the most significant are the SHRA which has been established as the sector regulator and is responsible for investing in the sector on behalf of government and SHIs which are the implementing agents responsible for developing and managing social housing stock.

3 Theory of Change for Social Housing

A Theory of Change (ToC) sets out the components and logical process ("pathway of change" or "outcomes pathway") required to bring about a desired impact (long-term goal). As the Center for Theory of Change defines it as follows:

> *"…a Theory of Change defines all building blocks required to bring about a given long-term goal. This set of connected building blocks–interchangeably referred to as outcomes, results, accomplishments, or preconditions is depicted on a map known as a pathway of change/change framework, which is a graphic representation of the change process."*[5]

In simple terms a ToC describes the types of interventions that bring about the outcomes depicted in the pathway of a change map (sometimes called a logic model or logical model). Each outcome in the pathway of change is tied to a specific set of outputs and inputs. In other words the ToC should explain how the application of specific resources results in specific outputs, which if implemented correctly under specific assumptions would result in specific outputs (which could range between immediate-intermediate-or long-term outcomes) which if achieved would have an impact (i.e. enable the programme to reach its long-term goal).

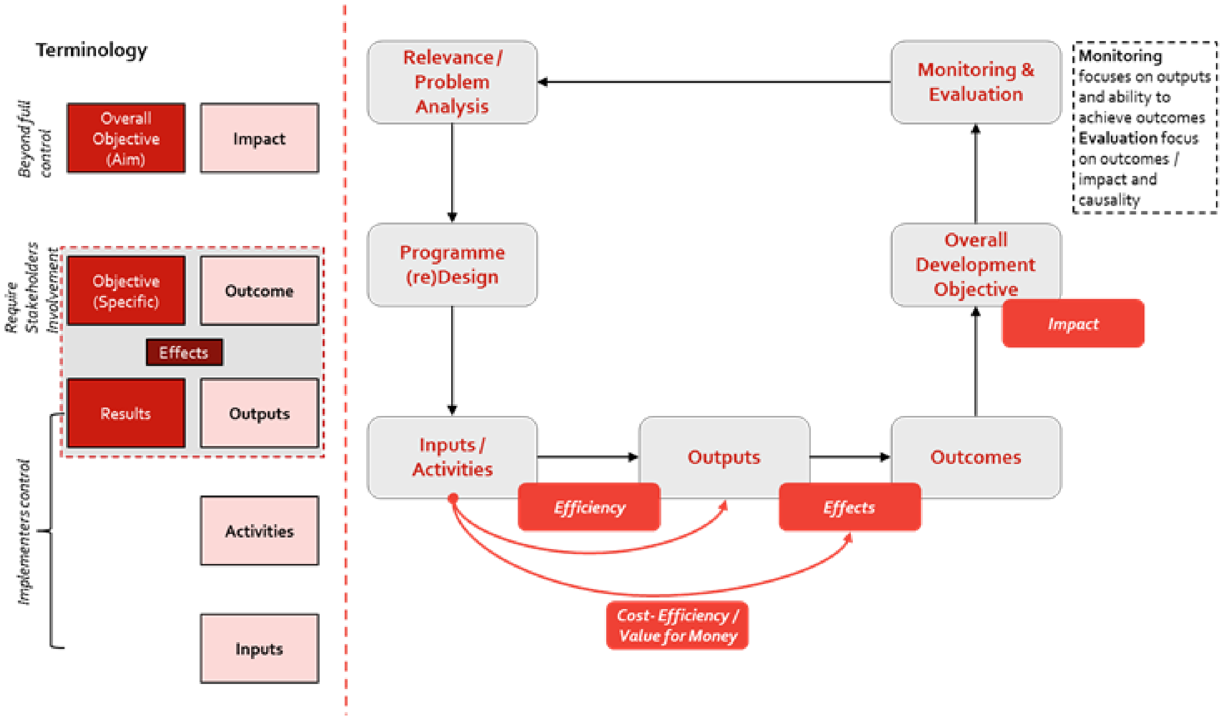
Where a programme does not have an explicitly articulated ToC, one has to be constructed on the basis of available programmatic documentation and/or policy. In the case of Social Housing – for which currently no ToC has been produced – a ToC has been developed on the basis of the Social Housing Policy (Social Housing Regulatory Authority (SHRA) 2005) as articulated in the National Housing Code (National Department of Human Settlements (NDHS) 2009)

The core elements of this Theory of Change and Logic Framework developed for Social Housing are outlined in this section.

3.1 Pathways to Change

Figure 5 below outlines the Pathways to Change, and key terminology used in the SH Impact and Implementation Evaluation.

Figure 4: Pathways to Change & Key Terminology



[5]See http://www.theoryofchange.org/what-is-theory-of-change/

3.2 Social Housing Programme Logic

3.2.1 Primary Objectives of Social Housing

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.

Specifically, 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, and where the provision of Social Housing can contribute to redressing this situation.
    - o Social Housing, if provided at sufficient scale, and if linked effectively to the policy instruments aimed at boosting the delivery of medium-density housing, will contribute to increasing the equity and efficiency of South African cities.
- On the one hand this will be achieved by ensuring that the poor are not pushed farther and farther to distant and marginal locations.
- On the other hand a spatially more compact growth form will improve the efficiency of service delivery and reduce the costs of urban governance.
- **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.
    - o Job creation will be enhanced via the construction of complete (as opposed to incremental) homes, which means greater primary, secondary and subsequent employment multipliers. The extent of this impact depends on the scale of the programme as a whole (which remain as a political choice constrained by the fiscus and by capacity in the sector).
    - o Job creation is also served by the creation of employment opportunities in the management and maintenance of stock.
    - o Social Housing will also be a tool in the revitalization/regeneration of important economic areas that are lagging or underperforming. Successful regeneration initiatives in other parts of the world indicate that comprehensive strategies are necessary and that the introduction of Social Housing into blighted environments has had positive external impacts on the surrounding environments. Successful economic revitalization also boosts employment creation.
- **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.
    - o Within selected Social Housing schemes, and across the programme as a whole, a mix of race and income levels in the beneficiary profile will be aimed for.

- 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.
- Well-managed Social Housing projects have low internal (to the project) crime rates, and contribute to stabilizing external (to the project) crime-ridden environments. This is of course not

only very valuable in its own right but also in relation to revitalization initiatives referred to above.

- SHIs play a significant role in establishing and maintaining a relationship with their residents. The unique support services offered to residents contribute towards providing a sense of belonging and security among residents, stabilize the household members, and builds on efforts to help residents take on leadership roles and new responsibilities within the larger community. This helps to reconnect the residents with resources in the city and region with resultant integration and market effects from the creation of well-functioning neighbourhoods.

3.2.2 Housing Sector Functioning

The formal rental sector in South Africa has historically been underdeveloped when measured against international norms for countries at similar levels of development[6].

- Rental housing is especially important to the poor, offering choice, mobility and an opportunity to those households who do not qualify for an ownership subsidy. The poor in South Africa struggle to access the limited number of affordable rental opportunities provided by the formal market (especially in good locations).
- While the proportion of rental accommodation to ownership varies in different areas, there is a general consensus that those housing sectors that are functioning well have a good balance between ownership and rental. In light of the current imbalance in South Africa in this regard, the development of Social Housing must be viewed as an important contributor to the housing options for the poor, and to the functioning of the sector as a whole" (National Department of Human Settlements (NDHS) 2009).".

3.3 Social Housing Theory of Change

On the basis of the above a ToC has been articulated below and set out in Figure 5 at the end of this section. The overall purpose of the Social Housing programme is to:

> *"…contribute to the national priority of restructuring South African society in order 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."* (National Department of Human Settlements (NDHS, 2005, p7)

Underlying the ToC is the following narrative:

- Historical (i.e. Apartheid) spatial planning, reinforced by **urban land markets that have excluded poor, predominately black, households** from key urban centres that are relatively well-located with respect to urban amenity and economic opportunity.
- A key barrier to accessing such well-located areas is the **high cost of land and housing** which is typically significantly more expensive when compared to peripheral locations. Consequently property markets tend to optimise the land cost and aim for "highest and best use" which in most instances will result in the production of ownership or rental housing that is not affordable to lower-income households. (This is also the reason that historically lower-cost RDP housing has been developed in the periphery).

The Social Housing programme seeks to purchase access for lower-income households to well-located urban areas through significant state subsidisation of accommodation for lower-income households who would otherwise not be able to afford to do so.

- Given the land and other input costs, such accommodation developed in well-located areas tends to be significantly more expensive than peripheral low-cost housing. In order to optimise

[6] It is noted that rates of rental vary significantly across countries, and this is outlined in the Literature Review (RGSA, 2015). However, South Africa's rental sector was significantly constrained through Apartheid, due to (amongst other reasons) the constraints on the movement of black people to urban areas, and the lack of ability to purchase property.

the available space, such housing needs to be **built in a medium-to-high density** form (multi-storey typology). Given this typology management is required in order to secure common areas and preserve the stock for all occupants. Additionally given the costs associated with stock and the longer-term social objectives, Social Housing is of a rental tenure form[7].

- Through the introduction of Social Housing projects into well-located areas the programme is able to bring poorer, mainly black, households into better spatial locations with **improved access to education, health care, social facilities and services as well as economic opportunity**. In respect of the latter the argument is that households are more proximate to economic opportunity, reducing the job search costs and household transportation expenditure.
- In some areas (notably inner city areas in decline) the introduction of Social Housing not only contributes to income and race integration, but can play a catalytic role with respect the local economy and direct and indirect employment. This occurs firstly through the actual construction and management of Social Housing units, but also through the introduction of greater densities of residents - these residents require a range of retail and other business activities. Furthermore, Social Housing can also act as a lead investor in the regeneration of an area which if successful can result in increased public and private investment in an area.

From a Social Housing programme perspective, the essential features are the following:

- In order to have impact, a growing, sustainable Social Housing sector is required that operates at some level of **scale**.
- In order to achieve such **sustainability** (which we understand to be institutions with large portfolios of projects that are able to generate sufficient returns to both ensure long-term asset preservation but also additional project development as well as balance sheet growth), SHIs need to develop and effectively manage a growing portfolio of viable projects.
- **Viable projects** are the result of **good management** of projects by SHIs, as well as good regulation of institutions and approval of projects by the SHRA at a sector, institutional and project level, but appropriate location and funding mix also ensure that projects deliver a required return to cover financing costs, provision for long-term maintenance as well as an additional margin for future reinvestment.

The above narrative has been translated into the ToC and is described below.

In order to achieve the overall objective of "Contributing towards spatial, economic and social restructuring", the following must hold true for the Social Housing programme with respect to the inputs, activities, outputs and outcomes of the programme.

3.3.1 Inputs

The following **INPUTS** must be available:

- o Funding, which covers SHI (or project developer) income and equity; availability of debt finance (provided by commercial banks or DFIs); government grant finance (IS and RCG).
- o An effective / functioning policy and regulatory framework, which also included an effective regulator/ investment authority (the Social Housing Regulatory Authority) and an effective housing policy lead (NDHS).
- o Well-defined RZs that have been appropriately defined and established in terms of RZ regulations.
- o Land and buildings for development of social rental stock.
- o Appropriate and effective land use, spatial and municipal investment planning that supports/ reinforces the RZ's and creates the enabling conditions for development.

Assumptions:

[7] In many instances tenants of social housing earn too much to qualify for fully-subsidized housing but too poor to qualify for entry-level mortgage financed housing.

- The most critical assumption underpinning these inputs is that RZs have been appropriately defined and established in terms of RZ regulations.
- RZ's by definition equal well-located areas.

Risks:

- The key risk is the availability of suitably located land / buildings (which cannot be overcome through price mechanisms)

3.3.2 Activities

The following **ACTIVITIES** are effectively undertaken/ performed:

- The effective planning and development of projects, which includes the incorporation of Social Housing into municipal / regional medium-long-term plans.
- The Social Housing Regulatory Authority (SHRA) and other support institutions accrediting and capacity building SHI in terms of the accreditation / capacity development approach as set out in the Social Housing Act and Regulations.
- Development of a project pipeline (accreditation of projects) in RZs for investment by the SHRA. (A credible pipeline is critical to providing certainty to the sector and encouraging both public and private sector capital allocation).
- SHIs are able to effectively undertake property management (which includes rent management, maintenance and facilities as well as vacancy management) and tenant management (which included tenanting, tenant liaison, tenant exiting and tenant empowerment).

Assumptions:

- Consistent public funding at scale is available
- The RCG instrument implemented as per original policy intent
- Construction and management capacity exists in housing markets
- Sufficient research exists or is undertaken to inform the investment and capacity building plans (creating market informal symmetries)
- An effective regulator and policy framework exists
- Effective demand for Social Housing exists and there is market failure i.r.o supply of good quality, well-located affordable rental housing for low-medium income households

Risks:

- Ineffective Regulator
- Insufficient public funding at scale
- Insufficient private sector investment because projects are either not financially viable or too risky
- Lack of effective demand

3.3.3 Outputs

The following **OUTPUTS** are delivered:

- Accredited projects that meet the regulatory investment hurdles / KPIs and other requirements.
- A sector investment plan that creates a multi-year investment framework and provides a degree of certainty to SHIs and private funders in respect of the availability of public finance.
- Viable Social Housing projects (i.e. delivery of social rental stock) that are also well located (i.e. within properly defined RZs)

- o Accredited SHIs that have the requisite capacity to effectively develop and manage Social Housing units.
- o Tenant mix in respect of income / race / gender that support the policy objectives of integration.
- o Well-managed social rental housing units.

Assumptions:

- Consistent public funding at scale is available
- The RCG instrument implemented as per original policy intent
- Construction and management capacity exists in housing markets
- Sufficient research exists or is undertaken to inform the investment and capacity building plans
- An effective regulator and policy framework exists
- Effective demand for Social Housing exists and there is market failure i.r.o supply of good quality, well-located affordable rental housing for low-medium income households

Risks:

- Insufficient public funding at scale
- Insufficient private sector investment because projects are either not financially viable or too risky
- Lack of effective demand

3.3.4 Intermediate Outcomes

If the above outputs are cost-effectively and efficiently delivered then the following **INTERMEDIATE OUTCOMES** are likely:

- o A growing and sustainable portfolio of Social Housing. (The premise being that sustainable portfolios comprise viable projects and scale supports reduced per unit operating costs improving overall sustainability).
- o Financially sustainable SHI's with the capacity to develop hold and manage social rental housing units. Financial sustainability of projects and the portfolio together with requisite support should ensure that SHI's are capable developers and managers of Social Housing units. Critically the programme assumes that with financial sustainability comes the accumulation of a surplus (or the creation of equity) which should form the basis for future project development, reduce financing costs and in the log-run reduce reliance on state funding.
- o Growing sustainable portfolios together with capable SHI's ensure that asset preservation occurs, i.e. that units are well maintained and grow in value. This not only preserves stock for future generations and also underpins a healthy balance sheet.
- o **Indirect intermediate outcomes** that occur as a consequence of Social Housing investment (i.e. to which Social Housing contributes include:
    - ▪ Increased Investment in economic, transport and social infrastructure (typically investment by local government in response to increased household densities and demand).
    - ▪ Increased investment in urban management, crime preservation and related activities (typically implemented by SHI's or Residential Improvement Districts or Central Improvement Districts).
    - ▪ Increased private sector investment in economic activities (either as response to increased household densities, e.g. retail or in response to catalytic Social Housing investments in an area).

Assumptions:

- Core assumption is that Social Housing is medium-density housing resulting in increased household densities within an area.
- Improved opportunities for individuals and households arise because of moving to well-located rental housing.
- Well-located as determined through the definition of a RZs is understood as proximity / access to employment opportunities, education, health and social opportunities.
- SHIs have the ability to recover both operating costs and a surplus from their portfolio, i.e. are able to effectively collect rentals in order to build up equity over time.
- That there will be sufficient focus on all the other factors to achieve effective integrated neighbourhoods and economic regeneration and social Housing projects will not be isolated intervention.

Risks:

- Social Housing is an isolated intervention and unable to catalyse the kind of changes that make project viable in the long term.
- Changes in projected cost structures may undermine financial viability of SHIs (e.g. utility cost escalations).
    - Market demand risk (market certainty and dependence on macroeconomic conditions).
    - Risks internal to SHI

3.3.5 Long-Term Outcomes

If the above intermediate outcomes are achieved it is likely that the LONG-TERM OUTCOMES will be met:

- Sustainable Social Housing for low to medium income households as part of a functioning housing sector.
- Effective liveable neighbourhoods.
- Economic and social revitalisation / regeneration.

Assumptions:

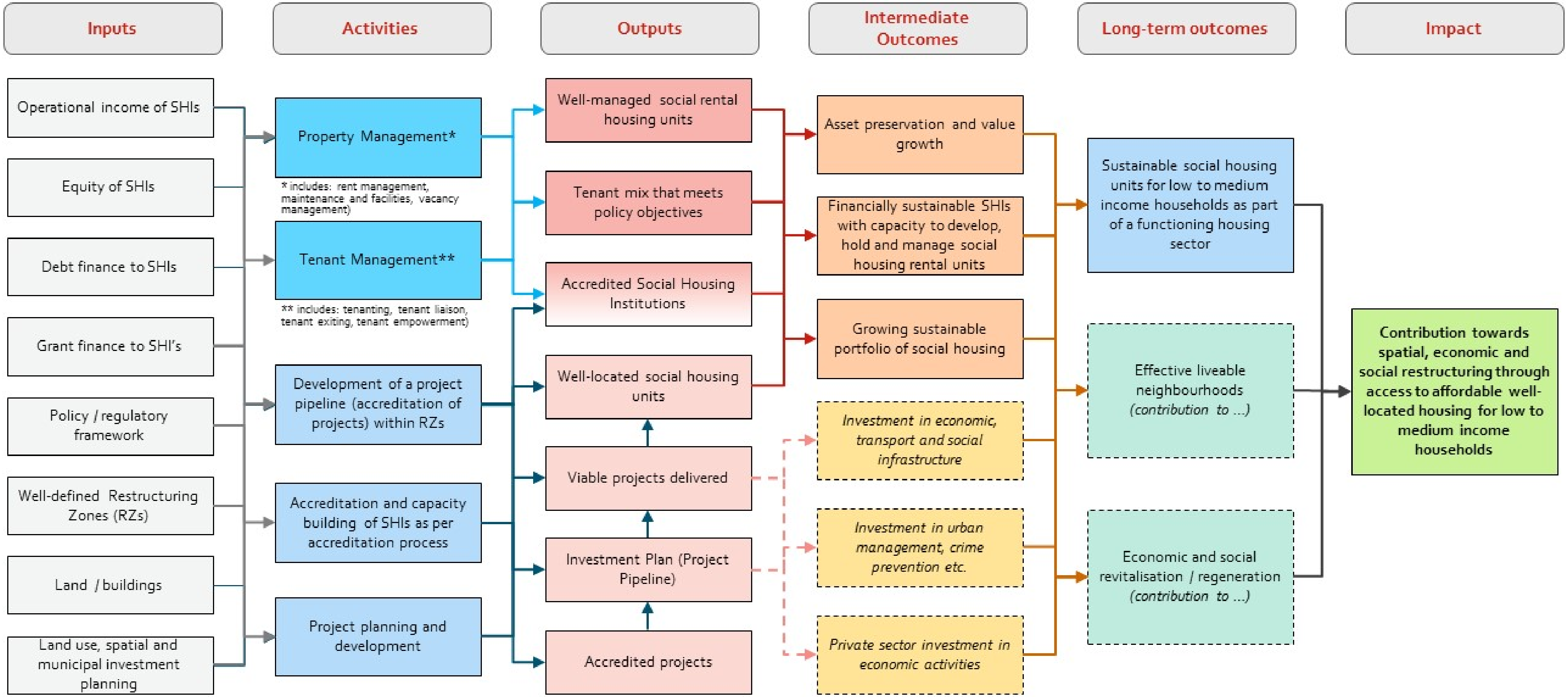
- As for Intermediate Outcomes, plus
- Direct and indirect employment and economic development effects occur through construction, investment and local economic development.
- Effective housing markets should include affordable / social rental options
- Effective regulation to keep social housing responding to target group

Risks:

- As per Intermediate Outcomes
- Municipality not fulfilling its public/urban management functions that will lead to area degrading and losing its appeal to middle income households.
- Overtime land/property market changes (tip over) can make land/buildings less affordable to SHIs and likelihood of gentrification as the area begins to recover.

If these long-term outcomes are met, Social Housing will contribute towards the overall intended impact of spatial, economic and social restructuring (at a city level).

Figure 5: Social Housing logical framework model



Assumptions:
- RZ were appropriately defined and established in terms of RZ regulations
- Risk: Availability of suitably located land / buildings

Assumptions:
- Consistent public funding at scale is available
- Grant instrument implemented as per original policy intent
- Construction and management capacity exists in housing markets
- Effective regulator and policy framework
- Effective demand for social housing exists
- There is market failure i.r.o supply of good quality, well-located affordable rental housing for low-medium income households
- Risk: Lack of private debt finance (market failure) because either projects are not financially viable or too risky

Assumptions:
- Assumption that Social Housing = medium-density
- Well-located = proximity / access to employment opportunities, education, health and social opportunities
- SHIs have the ability to recover both operating costs and a surplus from their portfolio in order to build up equity
- Improved opportunities for individuals and households because of moving to well-located rental housing
- Direct and indirect employment and economic development effects through construction, investment and local economic development
- Effective housing markets should include affordable / social rental options
- Risk – insufficient focus on all the other factors to achieve effective integrated neighbourhoods and economic regeneration (risk is that social housing is an isolated intervention)
- Risk – changes in projected cost structures may undermine financial viability of SHIs (e.g. utility cost escalations)
- Risk – market demand risk (market certainty and dependence on macroeconomic conditions)

4 Evaluation Findings

4.1 Impact Area 1: Spatial, Economic & Social Restructuring

This section assesses the extent to which Social Housing has contributed to the restructuring of South Africa's apartheid spatial form, through the lenses of spatial restructuring, economic restructuring and social restructuring. The section specifically 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?*

4.1.1 Theory of Change Analysis

The ToC as set out in section 3.3 above indicates that one of the two primary objectives of the Social Housing programme is to:"…contribute to the national priority of restructuring South African society in order 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." (NDHS, 2005, p7). The ToC indicates that the contribution of social housing to restructuring objectives relates to three dimensions:

- Spatial whereby Social Housing is 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 and where the provision of Social Housing can contribute to addressing this situation.
- Economic whereby Social Housing will contribute to job creation and economic revitalisation.
- Social whereby a mix of race and income levels will be aimed for.

The ToC notes that what this means is that the Social Housing programme seeks to purchase access to well-located urban areas through significant state subsidisation of accommodation for lower-income households, who would otherwise not be able to afford to do so**.** The ToC indicates that the housing should be built in a medium to high density form, should be in spatial locations with improved access to education, health care, social facilities and services, as well as economic opportunity and should not only contribute to income and race integration, but play a catalytic role with respect to the local economic and direct and indirect employment.

The evaluation seeks to determine the extent to which the above has occurred.

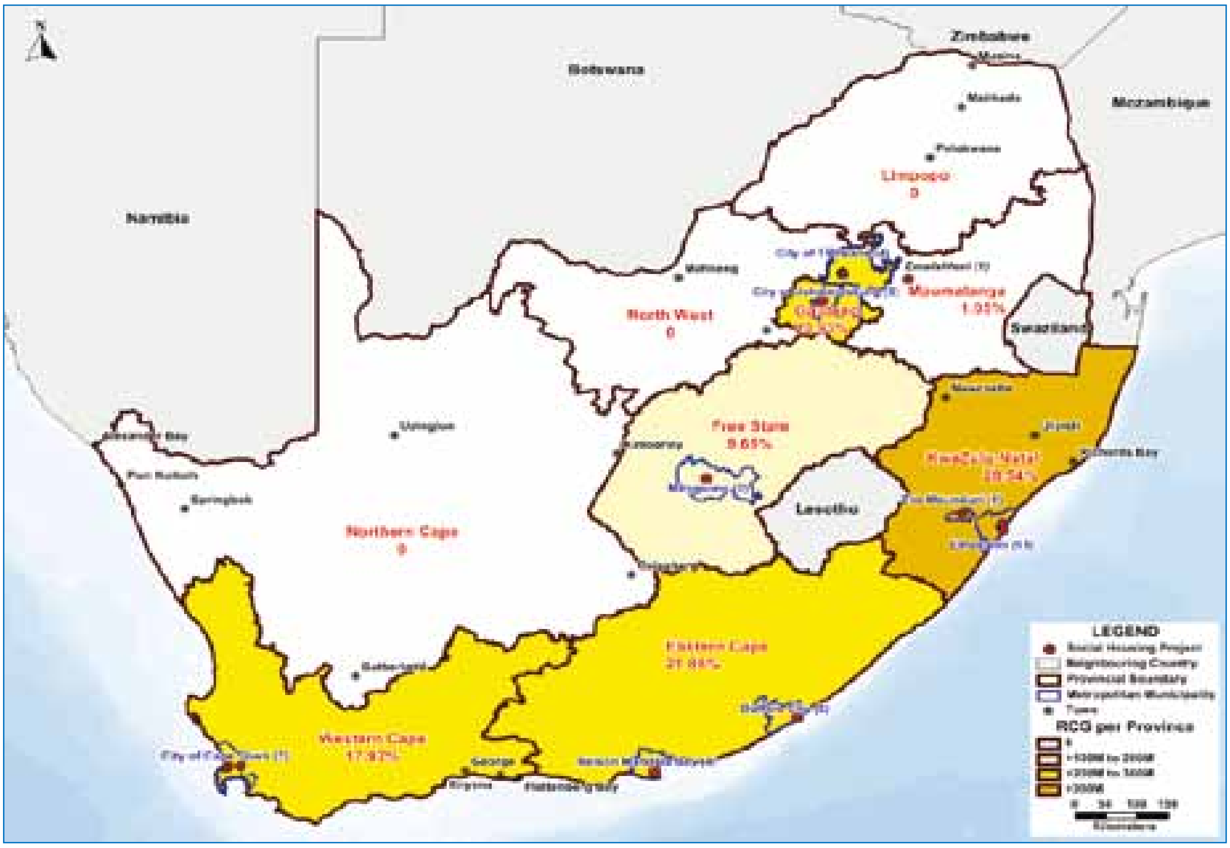
4.1.2 Evaluation findings

4.1.2.1 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). The Social Housing Act defines a RZ as **a geographic area that has been identified by the municipality, with the concurrence of the provincial government, for purposes of investing the RCG in Social Housing (**Housing Development Agency & NASHO (2013). 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).

The map in the Figure below indicates the location of RCG-funded projects per province in South Africa. This illustrates a concentration of RCG funded projects within the provinces with the greatest metropolitan and urban populations. (Housing Development Agency & National Association of Social Housing Organisations (NASHO) 2013)**.**

Figure 6: Distribution of the RCG investment per province

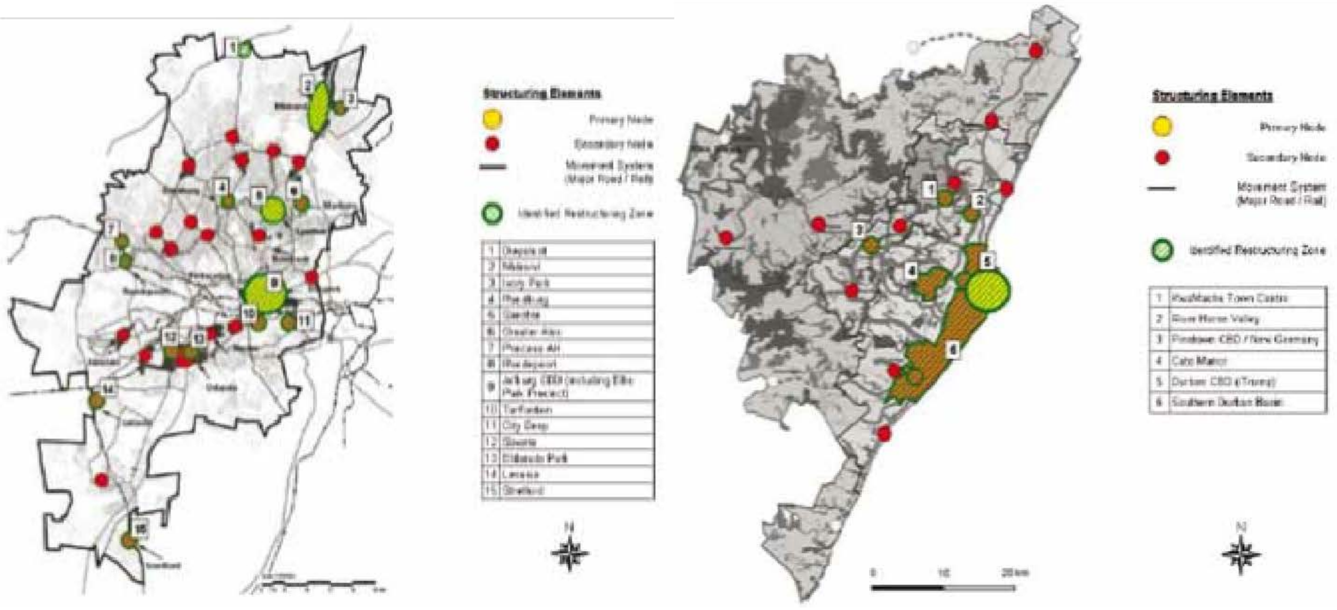


Source: (Housing Development Agency & National Association of Social Housing Organisations (NASHO) 2013)

There are significant concerns around the RZs. 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. The idea of consolidation of the RZs (and de-proclamation or changes where necessary) are also outlined in the policy, but not implemented at the moment (Diephout 2011).

The maps below illustrate the location of 15 RZs in Johannesburg and 16 dispersed across KwaZulu Natal. The distribution in Johannesburg shows that RZs are located in very different locations with a number on the suburban edge. The KwaZulu Natal map indicates a wide dispersal across the province, within metropolitan areas, large and even some intermediate sized towns (KZN Department of Human Settlements, 2012). Importantly, the size of many RZs cover large parts of existing metropolitan and large urban areas, which makes concentration of social housing investments extremely difficult to achieve. This dilutes the potential impact the relatively limited overall public investment in social housing could have in specific areas, if greater concentration were achieved.

Figure 7: Location of RZs in Johannesburg and KZN



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

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 the majority of RCG projects are implemented in suburban areas (78%).

Table 6: 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)

With respect to spatial restructuring the following additional facts are noted:

- **Limited Scale**: The size of the SH portfolio is limited and this has inhibited the ability of the spatial restructuring that could be achieved. The RCG SH programme has financed the development of 16 451 units in 59 projects focused in South Africa's five largest metropolitan areas, of which 53% (8 972 units) are completed and occupied (See **Appendix A**). While this equates to between 225 and 300 Ha of Greenfields development (at 80 and 60 units per Ha respectively), dispersal across urban areas, multiple RZs and even within RZs dilutes potential impact. This is reinforced through the interviews with officials at eThekwini, Buffalo City and the City of Cape Town, all of whom felt that projects are too scattered and too few to have made a spatial impact. The officials in the City of Cape Town did note that social housing has been developed in the transport corridors and this has been effective although at too small a scale.
- **Coordination with municipal spatial planning and investment**: SH's direct 'contributory' or 'catalytic' role in spatial restructuring (providing sustainable SH Units) has limited impact without concomitant public investments in infrastructure, other housing and social facilities. SH projects are not closely linked to overall restructuring spending on housing, physical and social infrastructure. The lack of a Social Housing Investment Plan (SHIP) is evidence of this, with most SH projects being developed in an ad-hoc and isolated way. Only in recent years have some cities (e.g. City of Cape Town and City of eThekwini) made available strategic landholdings in the city for SH, with these forming a part of larger city restructuring agendas. No evidence could be found of SH developments directly resulting in, or forming a component of a larger public sector investment framework for urban restructuring.
- **Access to Well-Located Land:** To be well-located and to directly contribute to restructuring, SH must be constructed on well-located land parcels that maximises its restructuring potential. While most SH projects are in relatively good locations, these are still to some extent determined by availability of affordable land rather than overt programmes by Municipalities, Provinces and SHIs to identify and target placement of SH on specific, better-located land parcels. For example the official interviewed in the City of Cape Town noted that most social housing projects are on the periphery as a result of the availability and cost of land.

  Some municipalities have recognised the importance of land availability, such as the thirteen strategic land parcels identified and allocated to SHIs around the City of Cape Town, and five key development sites identified and made available for SH in eThekwini. While both of these schemes are currently faltering due to conditions in the SH sector, they do show the potential of a municipal-driven land identification and allocation process in driving SH investments with maximum restructuring impact (Interview: City of Cape Town, KZN Province).

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 eThekwini, 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.

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.

4.1.2.2 Economic restructuring

As indicated in the TOC the basis by which the social housing programme is to enable 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.

Key findings in this respect are set out below:

- **SH as 'Bridge header' Affordable Residential Investment**: Anecdotal evidence of SH developments preceding private investments in certain areas does exist, and various projects illustrate the use of SH to bridgehead residential development in otherwise non-residential areas or large, vacant land parcels. Examples of this include JHC's Brickfields development located in Newtown in inner city Joburg; Pennyville, which is located on vacant Crown Mines land between Soweto and Riverlea, Fleurhof, that is located on land that used to house a single-sex hostel belonging to Consolidated Main Reef Gold Mine and Joshco's City Deep development that has transformed an old mine hostel area located within a predominantly industrial zone. However, apart from anecdote, the scale of SH investment in most areas is not large nor concentrated enough to relate directly to concomitant economic investment or activity.
- **Role of Housing in the Economy:** 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.
- **Permanent Job Creation through SH:** SH has limited job creation potential, but SH has created limited permanent jobs related directly to SH activities, primarily tenant management and maintenance activities.
- **SH as 'Investment Contributor':** Certain stakeholders, specifically in degenerated inner city areas (City of Johannesburg), consider Social Housing as a public investment leader and contributor to area stability. This includes Madulamoho's Hillbrow developments, JHC's Brickfields development[8] and a cluster of SH developments in Buffalo City and Nelson Mandela Bay). It is noted that social housing was piloted in most metros prior to the period of analysis for the RCG-funded projects. Most of the larger SHIs that submitted funding applications in ISHP1 (2008/09) already had stock under management in the first year of the ISHP programme (2008/09). Further, initial SH project investments financed using Institutional Subsidies were developed in all major metropolitan areas prior to the ISHP and SHIP. This is limited by the scale of SH delivery, which is generally considered as a co-investment in the rejuvenation of inner city areas. For instance, rejuvenation of Newtown and other inner-city areas of the City of Johannesburg was enhanced by SH investments, but relied heavily on many other public investments by other actors, through defined investment programmes, such as those developed and implemented by the JDA.

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.

4.1.2.3 Social restructuring

As indicated in the TOC 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.

[8] Brickfields is a pre-ISHP SH development, but is used here as an indicative 'flagship' development.

- 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% of online survey respondents 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.

4.1.3 Evaluation Conclusion

The evaluation conclusion is that, the 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 framework 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.

4.2 Impact Area 2: Creation of Affordable Rental Accommodation

This section considers the extent to which the SHP has contributed to the provision of a sustainable portfolio of rental housing that meets the rental accommodation needs of its intended beneficiary market, namely low to medium-income households. The section specifically 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?*

4.2.1 Theory of Change Analysis

As indicated in the ToC in order for the social housing programme to have impact, a growing, sustainable Social Housing 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. The SHRA needs to ensure that projects are undertaken at appropriate locations with a funding mix that ensures that the project delivers a required return to cover financing costs, provision for long-term maintenance, as well as an additional margin for future reinvestment.

Given the above 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.

4.2.2 Evaluation Findings

4.2.2.1 A growing, sustainable portfolio of SH units

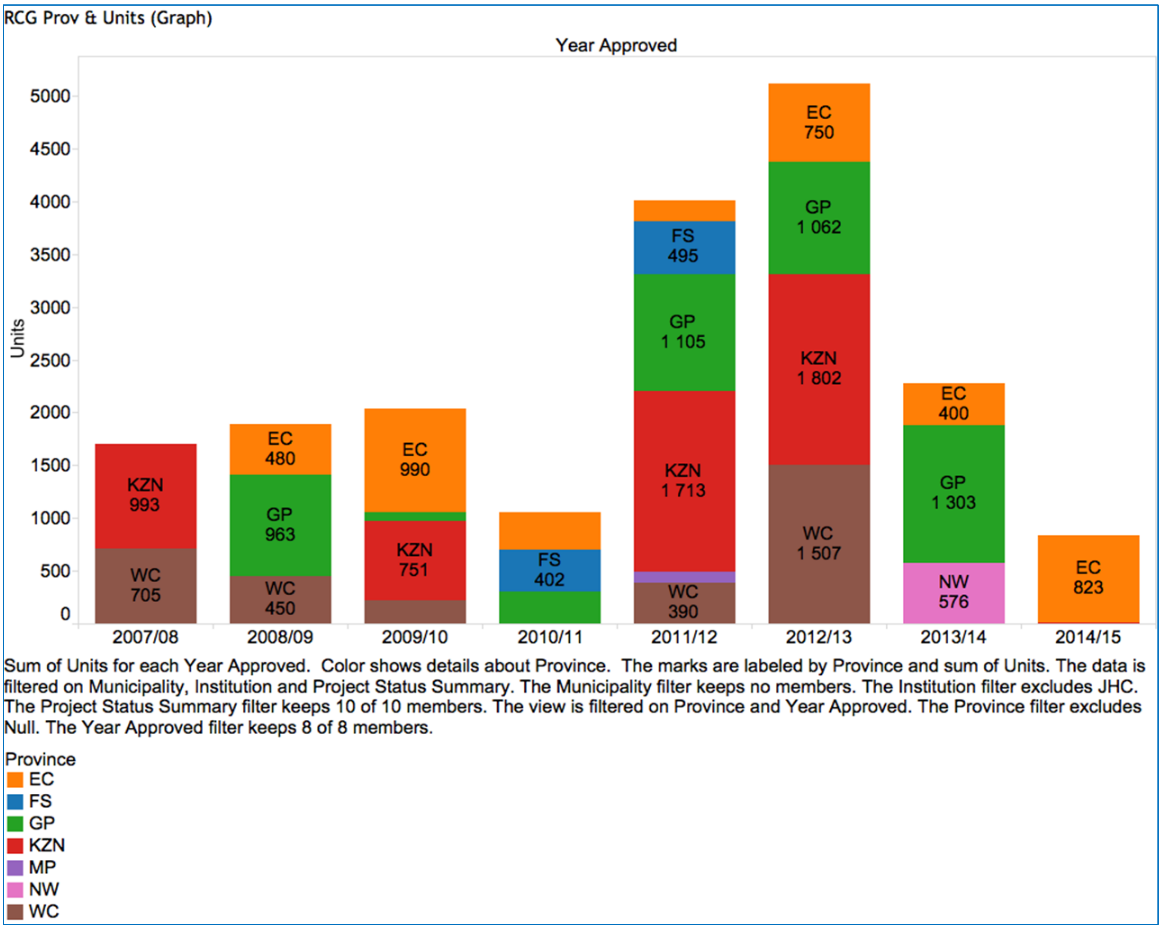
Prior to 2008, the total portfolio of subsidised SH units under management is estimated to include around 23,000 units held by accredited SHIs (RGSA, 2013). Since that date, the figures below show the number of approved SH projects across the nine provinces, as well as the annual rates of project approval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

Table 7: 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*	*No. of projects*	*Units*	*No. of projects*	*Units*	*No. of projects*	*Units*	*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

Figure 8: Approved SH Projects and Units Per Annum, Per Province (2007/08 to 2014/15)



Source: RGSA SH Projects Database

As shown in the figures 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. Note that certain projects are sub-phases of larger, multi-year projects. 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). Project approvals have been rapidly declining in the years since then.

The rate of growth of the 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. Once the programme was underway and begun to demonstrate the impact of delivery, targets beyond these figures were meant to be debated and agreed. It was considered to be academic to talk of larger scale delivery at that stage, as the necessary capacity for this did not exist at the time (RGSA, 2015; Interview: Malcolm McCarthy, Discussions: NASHO Long-Term Financing Workshop).

In terms of Output 1 for Outcome 8, government aimed to provide 80,000 units of well-located and affordably priced rental accommodation units by 2014 (20,000 units per annum). The Outcome 8 target for SH was 24,332 units by 2014/15. Analysis of SHRA project approvals indicates that over this period 13,290 units were approved and completed, or under construction[9].

There is a general view in the SH sector that a viable average delivery rate for an established SHI is 350 units per annum. Properly calibrated and with its existing SHI capacity, the SH sector is capable of sustainably delivering at least 4,000 and 5,000 units per annum, escalating at around 10% per annum (our estimation given historical peak delivery trends).

However as indicated in the figures above 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). Without urgent, immediate intervention, submissions, approvals and construction of new SH projects are projected to continue to decline and most likely stagnate by 2016/17 (Various interviews). If current conditions are not addressed the programme will not meet MTSF 2014-19 targets.

4.2.2.2 **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 and RCG quantum seriously constrains SHIs' ability to develop and operate SH at a positive net operating income. Financial modelling undertaken for the EPR Social Housing Financial Evaluation indicates that at current RCG and IS subsidy quantum and eligibility bands, it is not possible for SHIs to develop projects that generate sufficient net operating income to cover debt repayments and to create medium-term sustainability. Modelling of nine case study projects indicates that seven of these projects were not financially sound at their points of approval (RGSA, 2015). Modelling undertaken by NASHO for their Long-Term Financing project shows that current subsidy and income band parameters results in a net operating loss per unit of R200 per month, compared to a net operating surplus per unit of R200 per unit at the start of the ISHP programme in 2008/09 (NASHO, 2015).

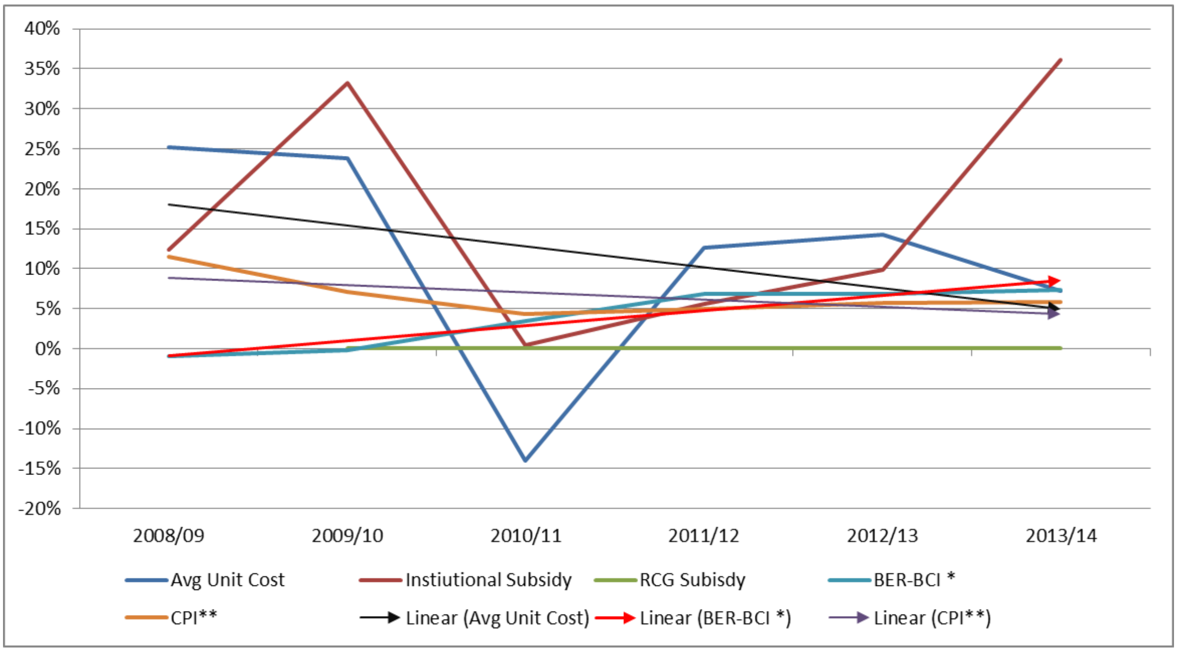
In response to real constraints on project technical, financial and institutional viability, SHIs are often forced to take business decisions that are not in the best interests of Social Housing beneficiaries. Rental income constraints due to primary and secondary income group ceilings force SHIs to 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).

[9] Note that this figure includes provisional figures for 2014/15.

The outcome is that, as rentals increase, units are progressively less affordable to targeted income groups. As a result, a gradation of rentals from, say, R750 per month to R3,500 per month gives way for the minimum number of units being held at the maximum allowable rental under the primary income ceiling, and many or most of the other units being priced as close to the secondary beneficiary ceiling.

The RCG Subsidy quantum has been progressively eroded by inflationary cost increases in new accommodation construction. The figure below indicates the annual rate of escalation of average social housing unit costs, the RCG and institutional subsidy against various inflation indices.

Figure 9: Building Cost Inflation vs. RCG



Source: SHRA project data, DoHS subsidy data and circulars, SARB Residential Building CPI and BER Building Cost Inflation Index

** BER BCI reflects average tender prices for building construction (not just residential)*

*** Based on gross fixed capital formation by type of asset: Residential buildings*

What is evident in the above graph is that the annual rate of building cost escalation (BER-CPI) has accelerated over the period while the RCG has not been escalated in the same timeframe. This effectively means that less subsidy is available to develop units that are becoming increasingly more expensive. Over this period the gradual increase in the institutional subsidy has so a degree mitigated this negative impact.

This erosion is also clearly illustrated in NASHO's Long-Term Financing study (NASHO, 2015). Online survey respondents rank the need to increase the RCG subsidy quantum in line with inflation as the third most important issue affecting the effective and efficient operation of the sector at present. Further, 54% of respondents considered it either the first (26%) or second (28%) most important issue. 87% of respondents from SHIs agree fully (82%) or partly (5%) that the lack of indexing of the RCG to building cost inflation is impacting on the financial feasibility of current and new RCG-funded SH projects. 59% of online survey respondents disagreed slightly (20%) or strongly (39%) that sufficient subsidy capital from the RCG and IS grants exists for SHIs to develop new SH projects.

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. Survey respondents rank the need to increase the RCG subsidy quantum in line with inflation as the third most important issue affecting the effective and efficient operation of the sector at present. 54% of respondents considered it either the first (26%) or second (28%) most important issue. 87% of respondents from SHIs agree fully (82%) or partly (5%) that the lack of indexing of the RCG to building cost inflation is impacting on the financial feasibility of current and new RCG-funded SH projects.

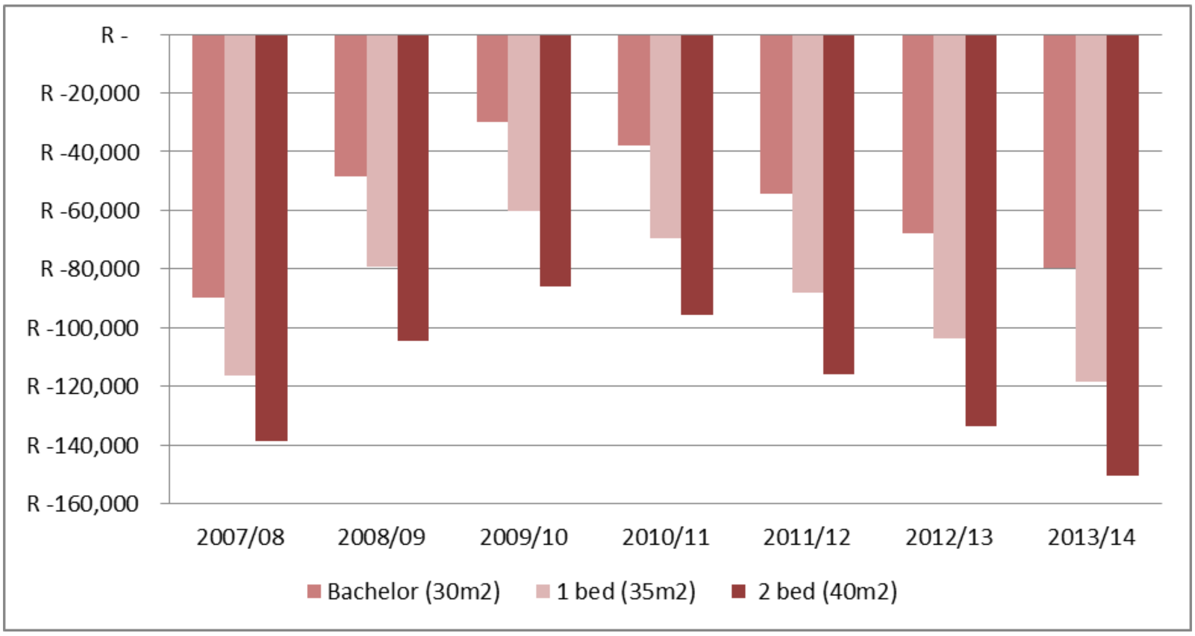
An alternative way of viewing this trend is presented in the table and figure below which indicates the average shortfall between the total cost of various typical social housing units unit and the total subsidy available (including RCG as well as institutional subsidy).

Table 8: Total Subsidy vs Average Unit Cots, 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
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

Source: RGSA 2015

Figure 10: Shortfall between Total Public Funding and Typical Unit Cost



Source: RGSA 2015

What the above data show is that despite increases in the institutional subsidy over the period the amount of product that can be purchased has diminished as average unit costs have risen substantially while the RCG has remained static. For instance a 30m2 in 20013/14 will require an SHI to fund at least R 80,000 through debt financing, equity or other means. However the greater the degree of financing required (especially if at commercial rates) the higher the likelihood that social housing projects become unviable or have to increasingly serve higher income segments in order to generate sufficient rentals to cover financing costs.

Financial conditions in the 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 the 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. These issues were fully supported by every SHI interviewee, as well as by NASHO. The existing tranche of projects provisionally approved during the 2014/15-budget year (SHIP 5a) includes only nine projects (831 units), and there are viability concerns regarding a number of these projects (Interviews: Dewalt Koekemoer, Malcolm McCarthy).

Of the projects currently approved and being implemented in this tranche, all have received additional subsidy top-ups from provincial and/or municipal human settlements departments (Joshco, Ekurhuleni and Imizi) to make them financially viable (Interview: Malcolm McCarthy).

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.

The SH Policy intended that the subsidy applied to a SH project would be sufficient to cover the capital development costs of the units, as well as to contribute to SHI equity in order to build SHI financial stability and create a balance sheet sufficient to support future developments (RGSA, Inception Report). 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 SHP 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.

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.

4.2.2.3 **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 counterfactuals, including shared rented houses, backyard accommodation and even inner-city flats, that tend to be smaller and allow greater levels of overcrowding than SHIs. Therefore, whereas counterfactuals compete on rentals, SHIs generally provide higher quality, larger units with access to full services (see **Appendix B)**.

In general, 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. There are concerns that in certain markets (such as the City of Johannesburg inner city), direct price competition from private accommodation providers has created a weakening in demand, evidenced by slower take-up of new affordable rental units released onto the market over the last two years (Interviews, Renney Plit, Renier Erasmus). However other SHIs report that demand for SH units remains strong, and quick tenanting of new projects indicates latent demand (Interviews: Renier Erasmus, Heather Maxwell, Rory Gallocher).

At current income thresholds, it is the affordability of targeted households that is eroding. It is increasingly difficult for households within the SH income bands to afford rent and services costs. For example, a household earning R3,500 per month (deemed to be able to pay R1,050 per month for rent) could pay up to an additional R750 per month for services. The total accommodation cost burden is therefore R2,000. This was supported by findings form the survey. 86% of online survey respondents from SHIs 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. In many SHIs, average service charge costs are a significant burden on top of rentals.

While the Social Housing policy clearly provides for annual adjustments to subsidy quantum and 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.

The viability and financial structure of Social Housing projects and SHIs is constrained by current income band limits, which have not been calibrated since the commencement of the SHP. Online survey respondents ranked the need to adjust income thresholds for household eligibility for SH as the most important issue affecting the effective and efficient operation of the sector at present. 64% of respondents considered it either the first or second most important issue. 86% of respondents from SHIs fully agree that the lack of indexing of income eligibility bands for SH access to inflationary wage increases impacts on the ability of SHIs to charge reasonable rentals and serve the primary and secondary target markets. This issue was also supported by every interviewee from an SHI that has developed and/or holds social housing stock. 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.

The regulatory requirement for SHIs to re-benchmark rentals to original levels when re-tenanting units places further risk on SHIs' ability to generate sufficient income to cover rising costs. 86% of Online survey respondents from SHIs fully agreed (77%) or partly agreed (9%) that re-benchmarking of rentals for new tenants to original levels impacts on the ability of SHIs to meet normal operating cost increases.

On the basis of the above evidence, while in general SHIs have retained a focus on households within the regulated primary and secondary target income groups, it is becoming increasingly difficult for SHIs 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 SHIs, due to the increase in the general cost of living.

4.2.2.4 **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. This leads to an absence of clarity regarding the specific roles that different rental markets perform (including SH rental, CRU rental, house rental, backyard rental) and subsequently which sub-markets and affordability bands specific grant funding interventions are meant to target (specifically, RCG and CRU funding). In turn, this creates overlaps in sub-markets, and has resulted in direct competition between subsidised accommodation (such as between RCG and CRU-funded stock in the same areas).

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. A well-functioning subsidised housing market would provide sufficient subsidised, owned accommodation to relieve pressure on subsidised rental (SH) accommodation. However, 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 eThekwini (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 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). Only 22% of online survey respondents consider CRU subsidies to be effective or very effective in stimulating the production of social housing in South Africa, in comparison to 76% who consider RCG grants, and 63% who consider IS grants to be very effective or effective. This in turn destabilises the more regulated SH market, increasing risks in the subsidised rental sector.

The CRU programme has funded around 20,000 units since its inception, roughly equal in number of units developed through the SH programme. However, the CRU programme applies significantly more subsidy per unit produced, develops on average accommodation that is significantly larger; charges significantly lower rentals, does not require accredited institutions to operate the stock; has high levels of management inefficiency and rental defaults (RGSA EPR HS; Interviews: Malcolm McCarthy & Jacus Pienaar). This more highly subsidised, less regulated and more loosely implemented programme deflects municipalities' attention away from actively developing and supporting the development of SH pipelines in their areas.

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 entities[10].

The SH Policy intended to encourage scale development by the private sector (after institutional capacitation) through public private partnerships (PPPs). To date, no successful PPP arrangements have been established in the SH sector in relation to direct development of SH stock. Certain mixed typology developments do however combine SH in privately driven developments (Pennyville, Fleurhof, Cosmo City).

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

4.2.3 Evaluation 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 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.

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.

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 is a limited and constrained SHI sector which very few (8) capacitated SHIs. There is a lack of an agreed SHI growth strategy, limited and ad hoc institutional capacitation programmes and reducing

[10] 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)

financial sustainability of SHIs due to marginal project viability and net operating deficits. Many SHIs are actively pursuing alternative project opportunities.

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

4.3 Impact Area 3: Value for Money Assessment

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

4.3.1 Theory of Change Analysis

In terms of the Theory of Change 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 G*rant 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).

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 unit*s 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 SH counterfactuals identified for comparison.

4.3.2 Evaluation findings

4.3.2.1 Financial Costs of the SH programme

Funds invested in RCG-approved social housing projects constitute at least R4,57-Bn across the period of the ISHP and SHIP programme[11], 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 Corporate[12], GPF as a provincially established and supported State Corporate).
- R0,34-Bn of Equity and Shareholders Contributions (7% of total SH funding and finance[13]) and R0,084-Bn (2% of total funding and finance) donor funding.

It is noted that the SH programme is the only subsidy programme to raise significant amounts of debt as a prerequisite for project implementation[14]. In comparison to these funding flows, other counterfactuals require little or no public contributions from national, provincial and municipal government.

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,

[11]This includes projects under investigation.
[12]Note 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).
[13]While 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.
[14]The 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).

municipalities have been required to provide more financial or in-kind contributions to make SH projects financially viable. In comparison, effectively no municipal contributions are currently made to private rental housing development or backyard accommodation**.**

However, the informal rental counterfactual, where such accommodation is located on subsidised accommodation, also leverages off original subsidy investments by the state.

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 is questioned. 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.

With the exception of Joshco, other MEs have a very poor record of delivery in relation to public funds allocated to them. An evaluation of MEs by Gardner, Rubin and Mayson (2012) outlined the tenuous state and poor delivery record of many SH MEs. Online survey respondents rated the overall performance of MEs much worse than other SHIs: 21% rated SHI performance very poor or poor, while 59% rated MEs as poor or very poor. While 55% rated SHIs generally as good to excellent, only 13% rated MEs as good.

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.

As a new sub-market, SH provides opportunities for private contractors and developers during project planning and construction, on a for-profit basis agreed with SHIs. However, beyond limited pilot projects with limited success private participation in development, operation and financing of SH has been and is projected to remain severely constrained.

4.3.2.2 **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 subsidy 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.

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: NHFC, GFP). Even where projects (and institutions) have been in financial crisis due to rent boycotts, financial arrangements have been made. For example, SOHCO faced a serious and prolonged rent boycott that brought the institution to the brink of financial collapse. However, ultimately the stock was sold (and retained for SH by SHRA), and SOHCO has been able to continue and grow its operations. This is in contrast to the prior portfolio of SH financing of the IS stock prior to 2008/09 (primarily by the NHFC), which had an extremely high rate of default.

In contrast to all other subsidy programmes aimed at middle and low income households, SH ensures revenue streams return to municipalities where SH is located via rates, service charges and statutory levies. The 2010 CBA between SH and RDP housing indicates that RDP housing creates a substantial lifecycle cost burden to municipalities, while this is not the case with Social Housing. On the contrary, in Social Housing, costs are effectively passed on to residents. The distributional analysis shows that although RDP unit costs are lower, these costs are carried by municipalities and not by residents themselves.

While Social Housing costs per unit are higher than those in RDP, residents and the SHI carry these costs. Subsidisation of RDP housing therefore creates a future financial burden for municipalities. Social Housing is a net asset to municipalities, as SHIs on the whole pay rates and service charges, and SHI occupants bring purchasing power into municipalities and reduce reliance on heavily subsidised public transport.

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). This includes at least six projects for which disputes exist or which have been halted (Moko and Domus), each of which is undergoing independent actions.

This is in stark contrast to the comparable legacy IS programme (for which no accurate data exists for the approximately 30,000 subsidies paid beyond units held and managed by SHRA-regulated SHIs), and to the current CRU programme which is alleged to be highly unregulated and irregular, and for which very little verifiable data exists (RGSA: Expenditure Performance Review, 2015).

4.3.2.3 **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 span[15] 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 income households. 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 any period[16]). However this is offset by other benefits.

Concerns regarding artificial restrictions affecting sector growth (financial calibration specifically) are limiting the scale of SH production, which in turn reduces the effectiveness of overhead commitments to the sector on a per unit basis.

The SH programme is the only state subsidised housing programme which gears state grants with other financial resources, raising a quarter of its capital requirements in the form of debt that is repaid from SHI resources. Further SH units are recycled and re-applied to their target markets more than once during their life cycles.

[15]This 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).
[16]The 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.

4.3.3 *Evaluation Conclusion*

The evaluation concludes that in general terms, 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.

4.4 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?

4.4.1 *Theory of Change Analysis*

"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.

4.4.2 *Evaluation Findings*

4.4.2.1 **Defining, selecting and management of Restructuring Zones**

Appendix D provides an overview of the location of social housing and restructuring zones nationally and in specific municipal areas.

SH has the most rigour built into its approach to identifying location of projects when compared with counterfactuals, due to the requirement that SH projects are located within RZs. 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.

This could be partly as a result of definition of RZ in policy as indicated by other interviewees:

The Social Housing Act (2008) defines an RZ as "a geographic area which has been…identified by the municipality, with the concurrence of the provincial government, for purposes of social housing, and designated by the Minister in the Gazette for approved projects".

The requirements for defining RZs were meant to be outlined in more detail, but instead were only defined at a very high level only, including reference to spatial, economic and social dimensions (Interview: Arie Diephout).

In the online survey, 58% of respondents fully agree or agree that the RZ policy and criteria for identification and designation are clear and sufficient to create well-defined RZs. 45% disagree fully or partly. Of survey respondents 45% fully agree or agree that the identification and designation of RZs to date have followed the spirit and letter of the policy, with 13% neither agreeing nor disagreeing and 43% disagreeing partly or fully. Of all respondents 52% either fully or partly were of the view that the policy was not applied according to the spirit and letter of the policy, and is biased towards political influence rather than planning and technical considerations. This view was also supported in interviews:

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).

The process of selecting RZs though encourages the involvement of municipalities in the housing programme. In order to proclaim a RZ, municipalities should motivate for a RZ, and submit it to the Provincial MEC for approval, who in turn submits it to the Minister of Housing for final approval and Gazetting. No other subsidised projects require this level of planning. However, this 'bottom-up' approach encourages the view that all municipalities are entitled to have RZs, rather than clarifying specific urban areas to be targeted for SH investments. This is evident in the second tranche application for RZs.

A second tranche of RZs (submitted to the Minister of Housing but not yet approved) indicate a number from smaller towns that seem to follow project identification rather than fitting into a predetermined, well-structured area designated for restructuring. SALGA's submission to SHRA includes a number of RZ applications from smaller towns, also wanting to have Gazetted RZs (SALGA, 2015; Interview: Alison Tshangana)

The selection and demarcation process was also found to be open to political influence. The case of Msunduzi is instructive here. A comprehensive process was undertaken using a planning methodology to define a 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.

The evaluation also found that 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%). This is supported by findings from interviews:

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).

Most RZs are not focused on specific, targeted areas identified for restructuring, and include substantial parts of target cities, including suburbs, townships, inner cities, vacant land and informal settlement. Few focus directly on specific restructuring locations. For instance, the City of Johannesburg RZ covers a vast area that includes various City Regions, Development Nodes, Corridors of Freedom and large subsidised project development areas. In addition, 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.

Lastly, there has been no formal review process of RZs and their effectiveness, nor re-assignment, change of boundary or removal of RZs by any Municipality, provincial or national body since the commencement of the SHP in 2008 (HDA and NASHO, 2013). This is contrary to the requirement for a review of Preliminary Restructuring Zones and an overall regular review process in the SH Policy.

> *A set of guidelines approved by MinMec included the requirement to review RZs every three years. This has never been implemented (Interview: Arie Diephout).*

The only formal analysis of RZ effectiveness was undertaken by the HDA and NASHO (HDA & NASHO, 2013), but this was not a formal review process.

Some interviewees did indicate that they felt the RZs were working and were effective instruments, such as in Cape Town (Interviews: City Officials). However there were also calls for more RZs to be Gazetted, which in itself does indicate a potential misinterpretation of intent of the original intent of this instrument.

Figure 11: Restructuring Zone in the City of Johannesburg

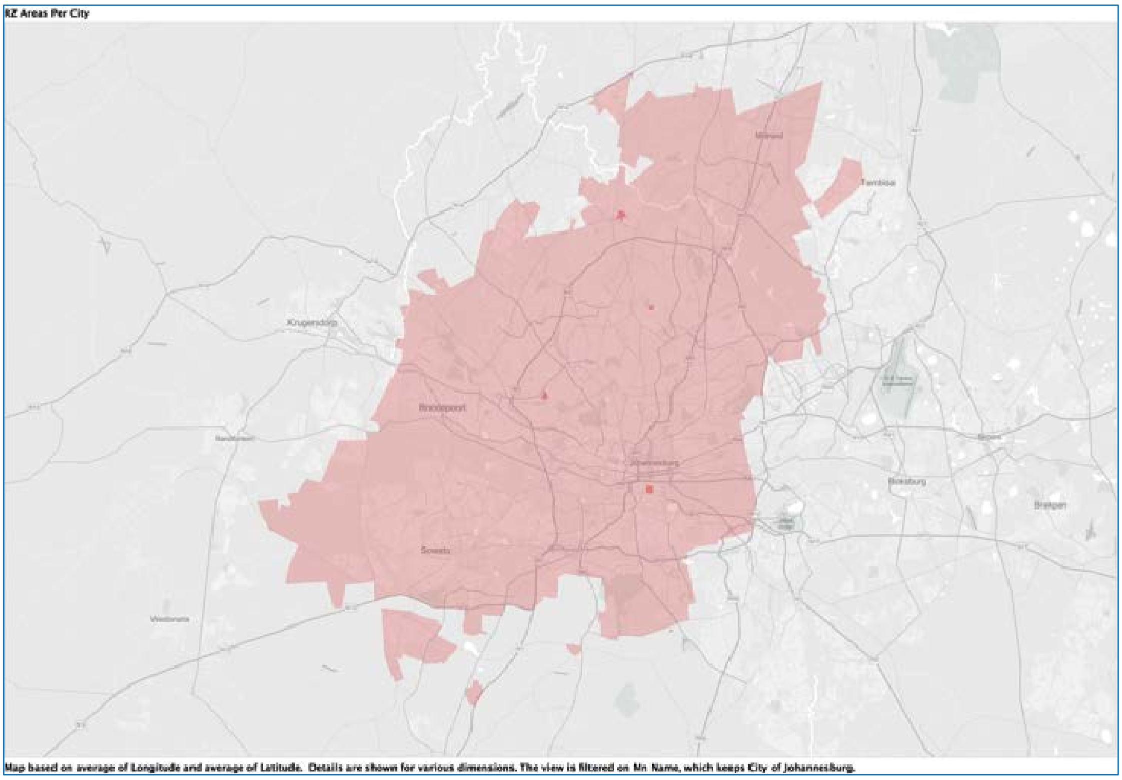
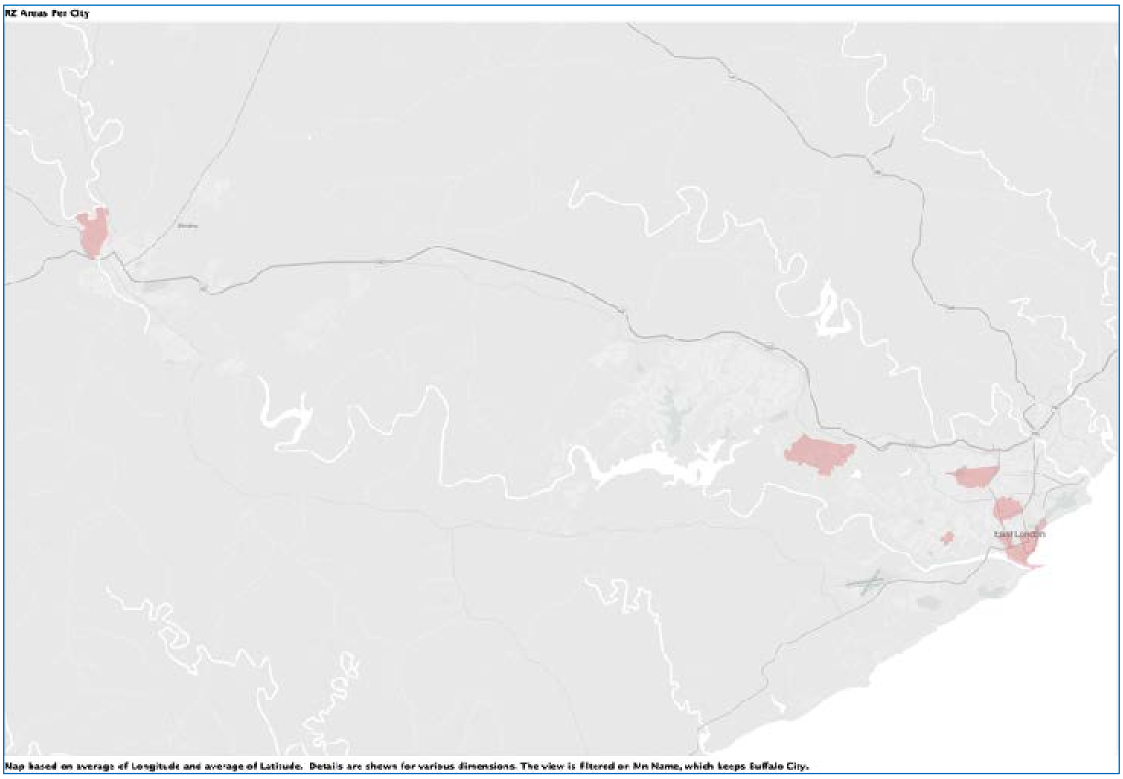


Figure 12: Restructuring Zone in Buffalo City



4.4.2.2 Alignment with other planning tools

South African development discourse offers a wide range of planning concepts, tools, interventions and instruments intended to foster restructuring. These include four levels of spatial planning (NDP, Provincial Spatial Plans, Municipal Spatial Plans, Precinct Plans); economic development plans, Urban Development Zones, Special Development Areas / Special Economic Zones; Human Settlements plans and provincial and local planning frameworks.

RZs are generally large enough to include many other planning instruments and restructuring focus areas. In most cases (such as the city of Johannesburg and City of Cape Town), RZ boundaries do include Urban Development Zone boundaries. 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. Online survey recipients were split regarding whether SH has been constructed in areas that support the urban restructuring focus of the programme. The majority47% agreed fully (9%) or partly (38%) with this statement, while 31% disagreed partly and 9% fully. Where such coordination exists, it is mostly by default, rather than design, given that RZs were mostly Gazetted in 2008/09, yet most spatial planning instruments and economic development plans have been updated subsequent to that date.

4.4.2.3 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.**

Little to no property investment expertise has been focused on the development of, testing of, or reviewing of designated RZs. SHRA has not had significant property investment expertise in-house. Where provincial and city administrations have planning functions, no evidence exists of these functionaries directly considering and planning for the role that SH can play in leading housing investments, and through this, guiding concomitant public investments.

While research has been undertaken into property economics, land value capture and encouraging private investments by national interests (FinMark Trust, Urban LandMark, NASHO), no formal research process has been undertaken by SHRA or the NDHS into these questions.

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.

4.4.3 Evaluation 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.

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. 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. 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.

4.5 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?

4.5.1 Theory of Change Analysis

In order to ensure the **long-term outcome** of "Sustainable social housing units for low to medium income households…" the following three **intermediate outcomes** must be met, namely a "Growing sustainable portfolio of SH" and "SHIs with the capacity to develop, hold and manage SH rental units". This will ensure "Asset preservation and value growth" of SH stock under management. These in turn directly rely on the following **outputs**: "Viable projects delivered" by "Accredited SHIs", that ensure [tenant mix and] "Well managed social rental housing units" serving a "Tenant mix that meets policy objectives".

From a SHI perspective, the **activities** required to produce these outputs are good *"Property management"* and *"Tenant management"* of stock held by SHIs that have concomitant *"Accreditation and capacity"* to undertake adequate *"Project planning and development"* from a *"…project pipeline of accredited projects within RZs".*

The **guiding inputs** not under the control of SHIs that are required for these activities to occur include a robust and facilitative "*Policy/ regulatory framework",* the availability of suitable *"Land and Buildings"* for

SHIS within *“Well Defined RZs”* positioned within a well-implemented *“Land use, spatial and municipal investment planning”* framework.

Critically, **financial inputs** are key. “Grant finance to SHIs”, is required, based on the assumptions that the “Grant instrument is implemented as per the original policy intent” and that “Consistent public funding at scale is available”. In addition, “Debt finance to SHIs” is needed to gear grants received.

From the SHI perspective, **SHI operational inputs** require well-managed entities that *ensure “Operational income of SHIs”* is sufficient to cover operating overheads and debt servicing, and that *“Equity of SHIs”* grows and is available to create institutional stability and a base for ensuring “Viable projects [are] delivered”.

The evaluation reviews the SHRA regulation, project feasibility, institutional capacitation, intergovernmental relations and SHI operations.

4.5.2 Evaluation Findings

The evaluation outcomes in relation to this implementation area are set out below.

4.5.2.1 **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 2010. 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, as set out in the Figure below. 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.

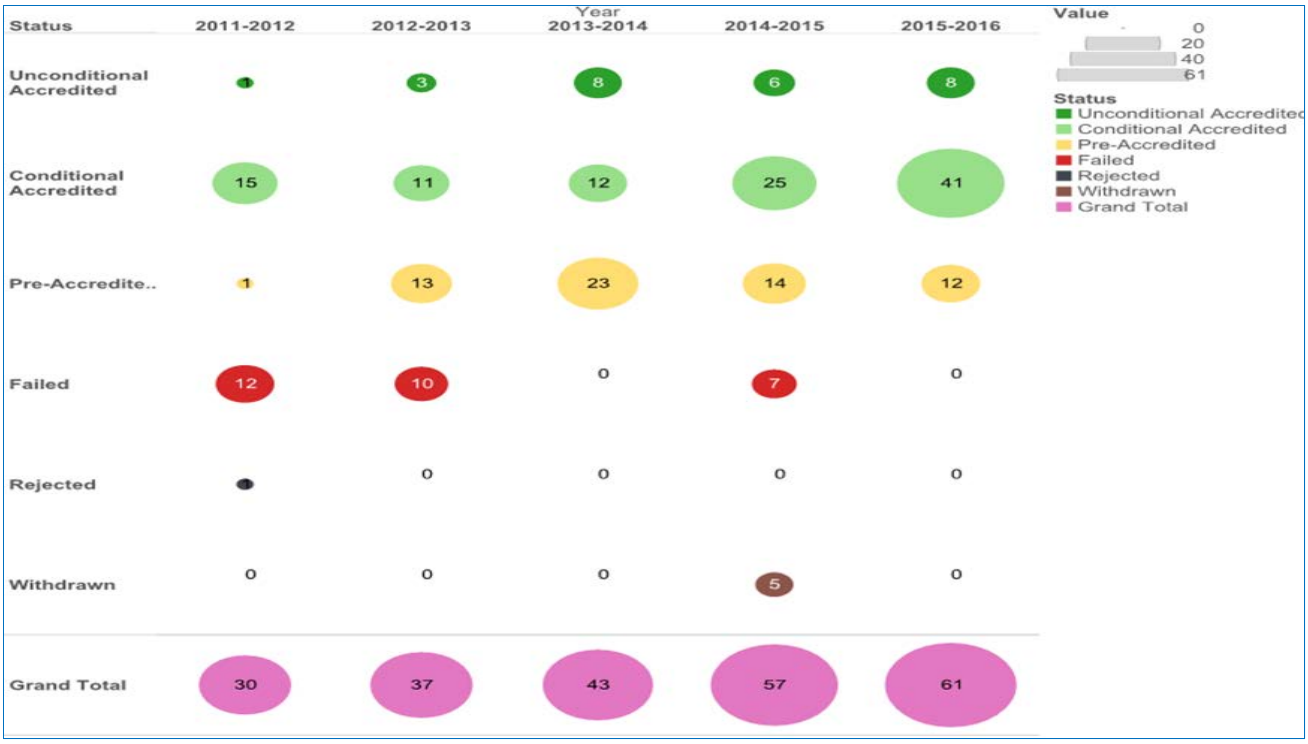
Table 9: SHRA Accreditation Summary (2011/12 to 2015/16)

Status	**Year**				
	2011-2012	**2012-2013**	**2013-2014**	**2014-2015**	**2015-2016**
Unconditionally Accredited	1	3	8	6	8
Conditionally Accredited	15	11	12	25	41
Pre-Accredited	1	13	23	14	12
Withdrawn	0	0	0	5	0
Failed	12	10	0	7	0
Rejected	1	0	0	0	0
Total	**30**	**37**	**43**	**57**	**61**

Source: SHRA Accreditation Data Analysis

While an increasing number of SHIs have fallen under SHRA’s regulation, there are certain concerning trends in respect of this regulatory process. Figures 13 and 14 below show the change in number of institutions per accreditation status over the last five years. The reductions in pre-accreditations in favour of Conditional Accreditations are most notable, as are the small number of Unconditional Accreditations.

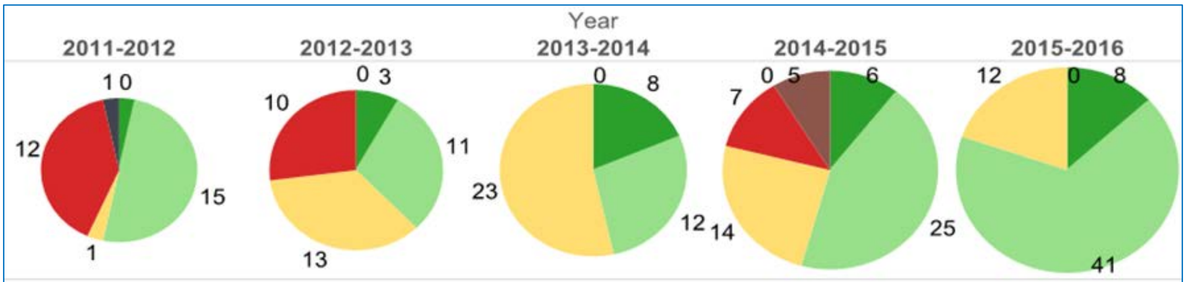
Figure 13: SHI Accreditation per Status (2011/12 to 2015/16)



Source: SHRA Accreditation Data Analysis

It is noted that the number of conditional accreditations has increased rapidly over the last three years, more than doubling from 12 to 25 between 2013/14 and 2014/45, and increasing by a further 60% between 2014/15 and 2015/16.

Figure 14: Number of SHIs Accredited Per Status (2011/12 to 2015/16).



Source: SHRA Accreditation Data Analysis

Table 9 below shows the inconsistency of accreditation among the top twelve SHIs under regulation. 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. 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 lack of stability in accreditation is a concern for the ability of the SH sector to develop and grow. And though there is consensus that SHRA's regulatory requirements in relation to the assessment and accreditation of SHIs are generally comprehensive, there are 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.

Table 10: Changes in Accreditation Status in Top SHIs (2011/12 to 2015/16)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Cape Town Community Housing Company (CTCHC)	Failed	Conditionally Accredited	Unconditionally Accredited	Conditionally Accredited	Pre-Accredited
Communicare	Conditionally Accredited	Unconditionally Accredited	Conditionally Accredited	Unconditionally Accredited	Unconditionally Accredited
First Metro Housing Company (FMHC)	Conditionally Accredited	Conditionally Accredited	Unconditionally Accredited	Conditionally Accredited	Conditionally Accredited
Housing Association East London (HAEL)	Conditionally Accredited	Pre-Accredited	Pre-Accredited	Conditionally Accredited	Unconditionally Accredited
Imizi Housing Association	Conditionally Accredited	Conditionally Accredited	Conditionally Accredited	Unconditionally Accredited	Unconditionally Accredited
Johannesburg Housing Company (JHC)	Unconditionally Accredited	Unconditionally Accredited	Unconditionally Accredited	Unconditionally Accredited	Unconditionally Accredited
Johannesburg Social Housing Company (JOSHCO)	Conditionally Accredited	Conditionally Accredited	Unconditionally Accredited	Conditionally Accredited	Conditionally Accredited
Madulamoho Housing Association	Conditionally Accredited	Unconditionally Accredited	Unconditionally Accredited	Unconditionally Accredited	Unconditionally Accredited
Own Haven Housing Association (OHHA)	Conditionally Accredited	Conditionally Accredited	Unconditionally Accredited	Conditionally Accredited	Conditionally Accredited
SOHCO (Amalinda) Housing	Conditionally Accredited	Conditionally Accredited	Conditionally Accredited	Pre-Accredited	Conditionally Accredited
SOHCO Property Investments	Conditionally Accredited	Conditionally Accredited	Conditionally Accredited	Pre-Accredited	Conditionally Accredited
Yeast City Housing (YCH)	Conditionally Accredited	Conditionally Accredited	Conditionally Accredited	Unconditionally Accredited	Unconditionally Accredited

Source: SHRA Accreditation Data Analysis

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). While the quality of SH regulations are more polarised, over 60% of respondents still believe them to be good or excellent.

Online interview 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). 63% rated DHS performance as very poor or poor (14% good, 2% excellent). 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 poor overall performance of the NDHS and SHRA have had a negative impact on the SH sector.

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 average, SHIs perform key functions required to ensure their sustainability relatively well. Respondents to the online survey ranked SHIs averaged performance in the following key areas as follows:

- SHI Governance (Boards): 43% good or excellent, 29% bad or poor (highest negative rating);
- SHI Institution Management (CEO and Exco): 51% good or excellent, 18% poor;
- Ascertaining project feasibility and implementation: 49% good or excellent, 24% poor or bad
- Effective tenant management: 65% good or excellent (highest rating), 18% poor or bad;
- Efficient property management: 49% good or excellent, 16% poor or bad
- Financial management & oversight: 45% good or excellent, 16% poor or bad.

However, key risk areas that do exist in some SHIs include governance, property management and tenant management.

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.

4.5.2.2 **SHI Capacity**

Of the 61 SHIs under regulation in 2015, only nineteen have projects completed and/or approved for RCG funding. The table below shows these institutions, the years in which projects were approved, and the total numbers of units these SHIs have under management. Only twelve institutions have grown their stock over the last two years. The future growth of new SHIs is important, but it is critical to balance this against supporting the institutions that currently develop and manage the bulk of the SH portfolio. It is noted that only twelve institutions have grown their stock over the last two years.

Table 11: SHIs by RCG Stock Volumes: Complete or Approved Projects (2007/08 to 2014/15)

<table>
<tr><th>Institution</th><th>2007/08</th><th>2008/09</th><th>2009/10</th><th>2010/11</th><th>2011/12</th><th>2012/13</th><th>2013/14</th><th>2014/15</th><th>Total</th><th colspan="2"></th></tr>
<tr><td>SOHCO</td><td>629</td><td>930</td><td>176</td><td></td><td>330</td><td>482</td><td></td><td></td><td>2547</td><td rowspan="3">3 SHIs >2000 RCG units</td><td rowspan="12">19 SHIs with completed or approved RCG projects</td></tr>
<tr><td>Joshco</td><td></td><td>963</td><td></td><td></td><td>452</td><td>328</td><td>798</td><td></td><td>2541</td></tr>
<tr><td>First Metro</td><td></td><td></td><td>442</td><td></td><td>780</td><td>850</td><td></td><td>8</td><td>2080</td></tr>
<tr><td>Madulamoho</td><td></td><td></td><td></td><td>286</td><td>300</td><td>1129</td><td>252</td><td></td><td>1967</td><td rowspan="4">4 SHIs 1000 – 1999 RCG units</td></tr>
<tr><td>Msunduzi</td><td>364</td><td></td><td></td><td></td><td></td><td>952</td><td></td><td></td><td>1316</td></tr>
<tr><td>Moko</td><td></td><td></td><td>309</td><td></td><td>933</td><td></td><td></td><td></td><td>1242</td></tr>
<tr><td>IMIZI</td><td></td><td></td><td></td><td>347</td><td></td><td>368</td><td>400</td><td></td><td>1115</td></tr>
<tr><td>Yeast City</td><td></td><td></td><td>81</td><td>15</td><td>82</td><td>734</td><td></td><td></td><td>912</td><td rowspan="5">6 SHIs 500 – 999 RCG units</td></tr>
<tr><td>FRESHCO</td><td></td><td></td><td></td><td>402</td><td>495</td><td></td><td></td><td></td><td>897</td></tr>
<tr><td>Own Haven</td><td></td><td></td><td>814</td><td></td><td>22</td><td></td><td></td><td></td><td>836</td></tr>
<tr><td>Tubelisha</td><td>705</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>705</td></tr>
<tr><td>Hlalanathi</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>603</td><td>603</td></tr>
</table>

Institution	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	Total		
Mmamapendlo							576		576		
Domus					120	278			398	6 SHIs <500 RCG units	
Communicare			219		120				339		
Norvena					271				271		
Toproot							253		253		
Qhama SHI								220	220		
eMalahleni HI					104				104		
Grand Total	**1698**	**1893**	**2041**	**1050**	**4009**	**5121**	**2279**	**831**	**18922**		

Source: RGSA SH Projects Database (Note: Tubelihsa N2 Project was approved outside the SHIP process)

To date, only eleven SHIs have completed projects, and ten institutions manage occupied RCG-funded stock. The table below shows the SHIs with completed and occupied RCG stock under management. In total, 9,223 RCG-funded units are completed, occupied and under management by ten institutions (the eleventh, Thubelisha, is no longer in operation).

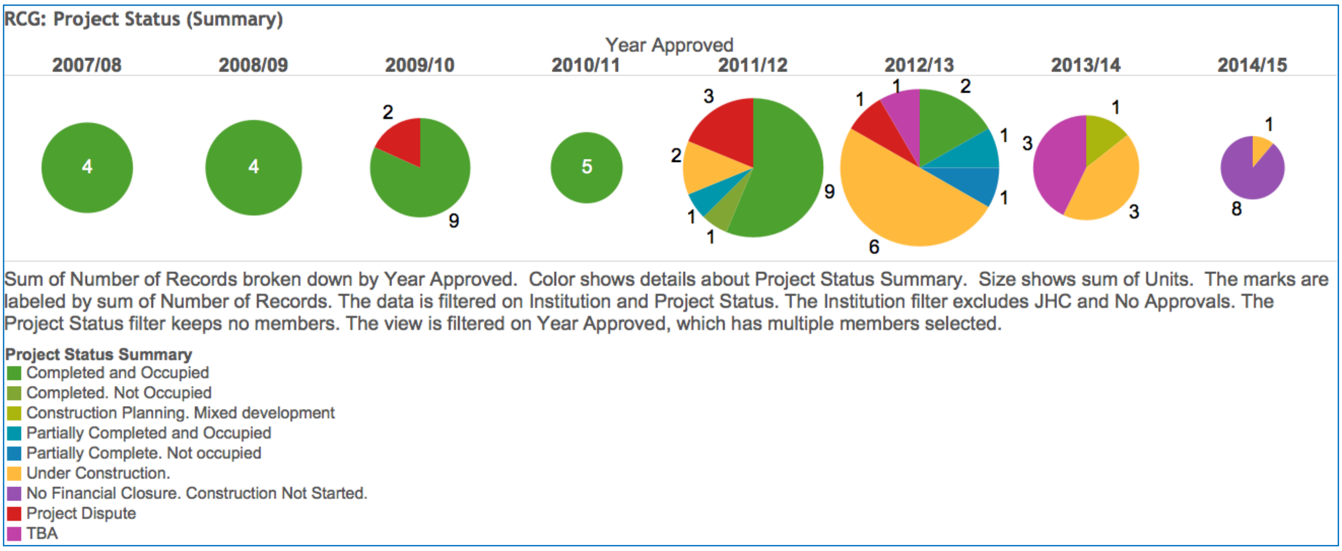
Table 12: SHIs by RCG Stock Volumes: Complete or Approved Projects (2007/08 to 2014/15)

	Year Approved								
Institution	**Aug-07**	**Sep-08**	**Oct-09**	**Nov-10**	**Dec-11**	**2012/13**	**2013/14**	**Total**	
SOHCO	629	930	176		330	100		2165	
Joshco		963			452		296	1711	
First Metro			442		780			1222	
Own Haven			814		22			836	
IMIZI				347		368		715	**11 SHIs with completed and occupied RCG stock**
Tubelisha	705							705	
Madulamoho				286	300			586	
FRESHCO				402				402	
Msunduzi	364							364	
Communicare			219		120			339	
Yeast City			81	15	82			178	
Grand Total	**1698**	**1893**	**1732**	**1050**	**2086**	**468**	**296**	**9223**	

Source: RGSA SH Projects Database

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.

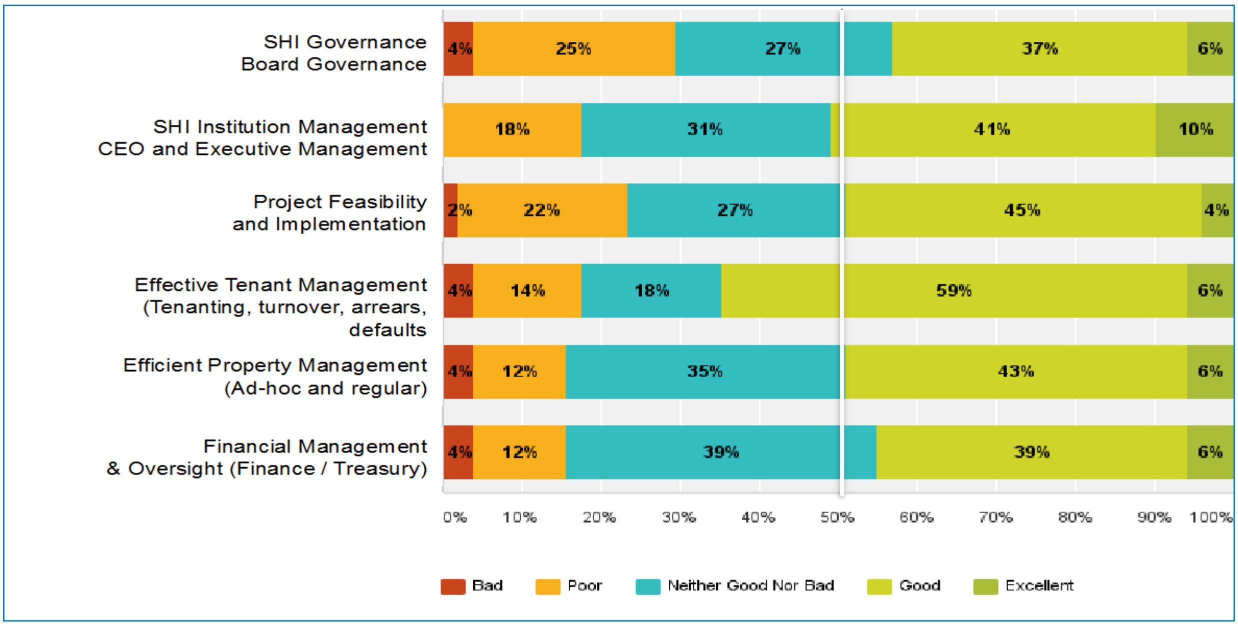
Figure 15: Project Completion Status By Year (2007/08 to 2014/15)



Source: RGSA SH Projects Database

The figure below shows the perceptions of survey respondents to the capacity of SHIs in respect of six key roles they must perform to plan, develop, hold and manage SH stock. In general, this 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.

Figure 16: Perceptions of SHI Capacity and Performance



Source: Social Housing Survey 2015 (n=51)

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. Further, SHIs at different stages of their life cycles are necessarily different, and may over time require different types of supports and inputs.

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, this is seen in the increase in the number of accredited SHIs, as well as the improvement in rental collection. However, project, financial and company management skills within SHIs continues to be a challenge. In addition, the lack of clarity as to who is responsible for addressing this issue, i.e. the SHRA or the NDHS exacerbates this issue.

- **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. More importantly, a number of SHIs have little or no stock under management.
- **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. Poor performance of some SHIs in respect of financial soundness, rental collection and tenant management capacity is a key concern for the future of the sector. Extensive work is required to build capacity within the SHIs to address this issue.
- **Poor Performance of Municipal Entities:** In general, with the exception of Joshco, municipally owned SHIs have poor performance records. Poor management practices, high overhead structures, limited stock portfolios and high rates of default and bad debt continue to hamper this sub-sector (Gardner, Rubin and Mayson, 2012).
- **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.

Delivery of SH in the future

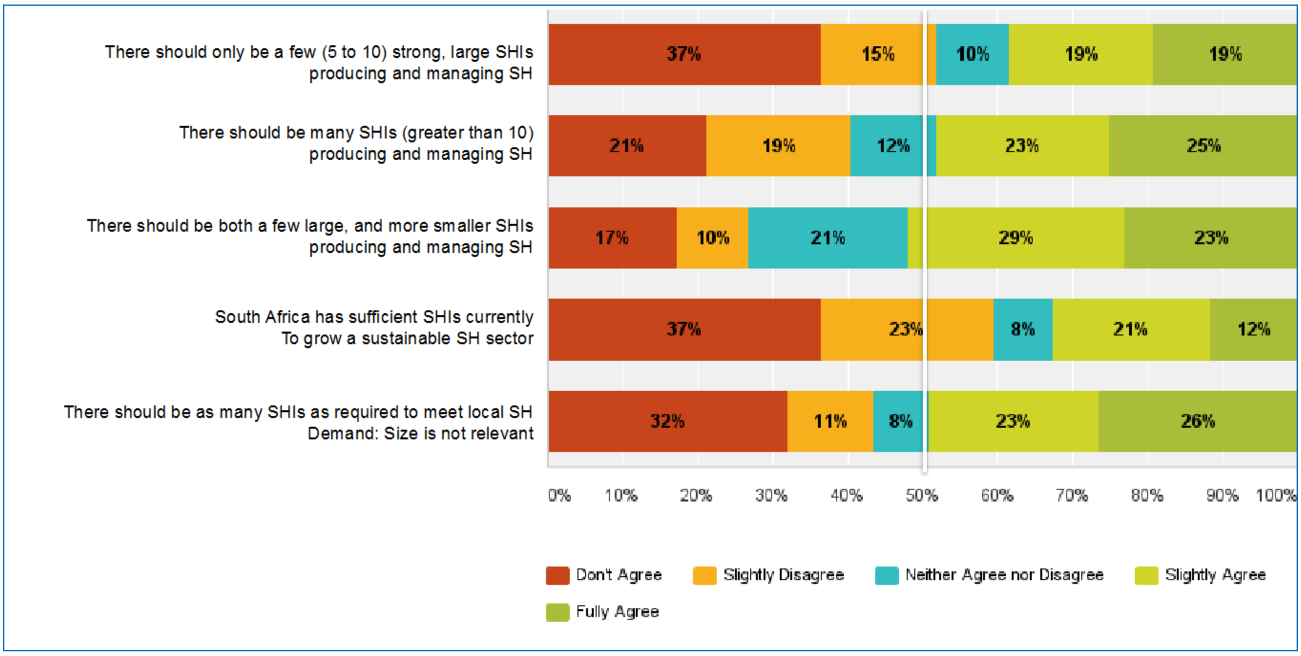
Different views exist in the SH sector regarding the future capacity of SHIs to deliver adequate SH in South Africa. There are currently 61 accredited SHIs 8 Unconditionally, 41 Conditionally and 12 Pre-Accredited, of which 17 have had projects approved, and 11 have subsidised stock under management. Therefore, there is currently a limited cohort of eight SHIs with capacity to plan, implement and manage new SH. These are, Sohco, Johannesburg Social Housing Company, First Metro Housing Company, Madulamoho Housing Association, Msunduzi, IMIZI, Yeast City Housing, Own Haven Housing Association.

Others with subsidised stock under management are not considered to be current candidates for new SH development (Johannesburg Housing Company, that does not develop subsidised SH, Communicare, due to change in strategy and Freshco, which faces operational difficulties).

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.

Responses to the online survey (see figure below) indicate strongest preference for both a few large, and more, smaller SHIs producing and maintaining SH, with 52% agreeing fully (23%) or slightly (29%). 52% disagreed that there should only be 5 to 10 large, strong SHIs.

Figure 17: Perceptions of Future SHI Capacity Required



Source: Social Housing Survey 2015 (n=53)

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. In addition the following is noted:

- **Ability of the existing SHIs to deliver:** Capacity of existing SHIs to plan and implement new projects, and to manage existing stock is not considered a major constraint to SH growth. Online survey respondents rated the need to improve SHI capacity to manage existing stock and capacity to plan and implement projects as the two least important issues of six key issues affecting the effective and efficient operation of the housing market. Only 19% of respondents ranked planning and implementation capacity as first or second most important issue, and only 9% considered capacity to manage existing stock as a second most important issue. However, current sector capacity to plan and implement projects is constrained by the relatively low number of capacitated SHIs. In addition, operating efficiencies amongst certain SHIs, and specifically most Municipal Entities, burdens efficiency of stock management. Further there is concern around whether the existing SHIs can expand sufficiently to deliver the number of units for which there is subsidy funding.
- **Alternative Delivery Models:** New delivery methods and institutions are being explored to address this issue for example using large construction companies to partner with SHIs to undertake the development of projects, taking advantage of economies of scale.

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). 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.

On the basis of the interviews undertaken it is likely that the SHIP 6 call for project applications this year will not yield significant interest, possibly apart from certain new, smaller, mostly untested operators. The eight largest SHIs in the sector who have the greatest likelihood of delivering sustainable projects in the future have indicated that they are not likely to submit funding proposals as it is currently structured. These SHIs are currently not spending time on developing future projects due to the uncertain funding environment, which given project packaging lead times, will negatively affect social housing project delivery for at least the next three financial years.

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). A SH project pipeline is a necessary deliverable that SHRA should produce, based on a rolling up of provincial and metro plans. The SHRA produced a SHIP for the first time in 2015/16. However, given problems at SHRA and the breakdown in delivery in the SH sector and the lack of engagement between SHRA, municipalities and provinces, this is not considered to be a credible indicator of realistic projects available (Various interviews).

4.5.2.3 **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, as well NASHO's LTF Study, 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 due to jeopardised project feasibility 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.

4.5.2.4 Institutional Capacitation

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

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. A workshop was convened by SHRA in June 2015 to outline SHRA's new (and first formal) institutional support policy. In addition, up until the 2015/16-budget year, no clear budget line item existed for institutional support and investment within SHRA's budget. Hence, since 2008/09, the limited institutional investment activity has been funded directly from the capital (RCG) budget line item. This is in sharp contrast to the extensive institutional investment approach adopted prior to the ISHP programme by the SHF.

For most of the ISHP and SHIP period, the relationship between SHRA and NASHO, the key SHI representative body, has been dysfunctional / unproductive, which has affected the ability to create and implement an effective sectoral support structure (Interviews: Khulile Boqwana, Dewalt Koekemoer; Malcolm McCarthy).

Officials responsible for SHP in national and provincial Department of Human Settlements and local government have very limited first-hand knowledge and expertise in Social Housing or rental housing. In some cases they have limited access to credible information regarding SH. One interviewee indicated that "many officials are new to their roles, and limited support is available from NDHS or SHRA to improve this situation" (Interview: eThekwini 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.

Work done for the long term finance study also shows that SHIs are different and require different approaches to capacitation. A categorisation system for SHIs is proposed to provide a framework within which to assess lifecycle differences as follows (NASHO, 2015):

- *NESHI* (Newly Established SHI): NESHIs are start-up SHIs which have received accreditation and are focused on building up to a portfolio;
- *RESHI* (Rapidly Expanding SHI): RESHIs have moved beyond start-up phase into a more rapid accumulation of stock, based on expanded rental management and development capabilities;
- *WESHI* (Well Established SHI): WESHIs operate at scale, achieving operational efficiency whilst also reaching peak growth potential. Management strength and a degree of commercial acumen enable WESHIs to enter other businesses, for example affordable housing rentals, to accumulate cash equity for reinvestment in their social housing businesses; and
- *MESHI* (Mature Established SHI): at 20 years old, SHIs are likely to reach optimal economies of scale at 5 100 units, becoming MESHIs. While some may continue to develop, their focus shifts to seeding and capacitating new SHIs, while at the same time evaluating the sustainability of their portfolios and taking strategic asset management decisions. Maintenance and recapitalisation of ageing existing buildings are significant priorities during this phase.

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 limited scale, without formal budget line items nor policy or programme guidelines. There is also limited focus on capacitation of government officials. Social Housing is a fairly complex housing instrument yet there is no official induction curriculum for new recruits managing social housing.

4.5.2.5 Inter-Government Relationships

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

Social Housing policy requires 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. A number of agreements have been developed, at times signed between provinces, municipalities and SHRA. These are all considered to be out of date, or impractical to implement. Where agreements were implemented, they did not adequately capture, nor regulate the intent of the SH Act, that this would lead to an agreed, coordinated pipeline of projects aligned to SHRA and provincial subsidy budgets, and municipal land allocations, etc.

While two provinces (KZN and WC) have developed Provincial Rental Strategies, these have not proved useful in implementing a sustainable SH programme in these provinces, and are now effectively out-dated. (Interview: KZN Human Settlements Department).

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.

4.5.2.6 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%).

On the basis of 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.

4.5.3 Evaluation Conclusion

In response to the overall evaluation question: To what extent have SHIs developed capacity to deliver at scale and build a financially viable model? **The evaluation finds that SHIs have not developed capacity to deliver at scale and have not built a financially viable model**. The key reasons for this are as follows:

- 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 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.

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.

4.6 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?

4.6.1 Theory of Change Analysis

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.

What is critical to note here is that the ToC, supported by the SH Policy itself, refers specifically to a generalised, not an absolute target group ("low to middle income households"), and although household income thresholds are set, the Policy specifically requires the calibration of these income levels against the Consumer Price Index (CPI) which has not been done for eight years, since promulgation of the policy in 2007/2008.

The evaluation reviews income group targeting, change in rental levels, tenant turnover rates, differential unit pricing and rental increases and affordability.

4.6.2 Evaluation Findings

The outcomes from the evaluation of demand responsiveness are set out below.

4.6.2.1 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 in2007/08 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.

4.6.2.2 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.

4.6.2.3 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.

4.6.2.4 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.

4.6.2.5 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 been kept below CPI by many SHIs, although increasingly additional rental costs escalating above inflation 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.

4.6.3 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.

4.7 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?

4.7.1 Theory of Change Analysis

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* **Activities**.

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.

4.7.2 Evaluation findings

The Flow Chart in **Annexure E** outlines the broad monitoring and oversight process envisaged for the SH sector.

4.7.2.1 **Sector Custodianship by the NDHS**

Sector custodianship by the NDHS has been lacking and requires urgent review. 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; Literature Review.). While these entities did and do have certain mandates, they continue to require strong guidance from their home department / shareholder, which has mostly not materialised. 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.

The MEIA framework does track certain indicators including SH units delivered and number of restricting zones approved, but provides for limited direct monitoring of the SH programme is undertaken and relies mainly on SHRA's reporting data.

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.

While changes have recently been made to national BAS financial reporting (National Treasury, 2015), consistent and accurate financial reporting on IS allocations and expenditure is difficult to ascertain in current financial (BAS) and Provincial Practice Note reports (RGSA, 2014).

4.7.2.2 Regulatory oversight by SHRA

Regulatory oversight by SHRA commenced strongly, but has over the last two years lost efficacy, which has as a result reduced confidence in SHRA from the sector. In summary, SHRA's role as the regulator and investor in SH is currently perceived to be **very poorly performed**. 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; 22% excellent or good;
- SH sector custodianship and leadership: 86% very poor or poor, 7% good;
- 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;
- Development and implementation of a Social Housing Regulatory Plan (SHoRP): 67% very poor or poor, 5% good;
- Regulating SHIs: 62% very poor or poor, 14% good;
- Developing a Social Housing Investment Pipeline (SHIP) of viable projects: 63% very poor or poor, 7% good
- Implementing the investment of the RCG through SHIs: 55% very poor or poor; 16% good
- Investment in developing SHI capacity to develop, hold and manage stock: 78% very poor or poor, 0% good
- Engagement with, and alignment of functions if SH sectoral stakeholders: 79% very poor or poor, 7% good.

While significant data is collated 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. The onerous reporting requirements placed on SHIs produce copious data that is therefore never converted into SH market intelligence by SHRA. Many interviewees noted that regulatory compliance takes up significant staff time and effort, to the extent that some SHIs have people almost completely dedicated to this task.

SHRA's internal systems and procedures are in a poor state, with few systems implemented and current procedures not producing sufficient, accurate, regular, verifiable and publicly accessible information. It is noted, for instance, that SHRA had a fully automated IT system developed for project adjudication and tracking which was developed but never implemented (Interview: Jacus Pienaar).

SH Policy requires that SHRA produces an annual State of the Sector report, which outlines conditions in the sector and assists to build consensus and investor confidence and interest in the sector. Since inception, only one SoS report has been produced (SHRA, 2013).

Until 2014/2015, SHRA did not produce a SH Regulatory Plan for the SH sector (Interviews: Khulile Boqwana, Dewalt Koekemoer, Malcolm McCarthy, Arie Diephout). As a result, there has not been clarity on the focus, role and implementation approach to the regulatory function

There is currently no defensible SH Investment Plan (SHIP) which is a key oversight and management tool.

4.7.3 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.

5 Conclusions and Recommendations

This section sets out overall conclusions and key recommendations for the SH sector, based on the findings of the Evaluation. Critical recommendations to be implemented in the immediate and short to medium term are highlighted.

5.1 Overall Conclusions

Overall the finds from this evaluation indicate that the programme logic as set out in the ToC is valid and plausible. However, as noted below, the interpretation of key policy elements and overall implementation of the policy has undermined the programme. More specifically the lack of sound leadership on the part of the DHS as well the SHRA (facing its own internal organisational challenges) has contributed to these implementation weaknesses.

The evaluation concludes that in general terms, there continues to be a need for the SH programme and 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. 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, 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.

That being said the evaluation also found that the SH sector currently faces significant challenges, and there are strong indications that conditions in the sector are worsening. This evaluation outlined the status of SH delivery between 2008 and 2014, and has shown the recent slowdown in delivery and tightening of financial conditions in the sector.

The evaluation concludes that 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.

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). This is particularly critical because it undermines the ability of the sector to develop a sound equity base for growth and expansion and over-time reduce its reliance on public grant funding.

The evaluation found further that there is a limited and constrained SHI sector which very few (8) capacitated SHIs. There is a lack of an agreed SHI growth strategy i.e. many SHIs with a number of projects or few SHIs with a big portfolio. There is also limited and ad hoc institutional capacitation programme that does not recognise the complexity of the sector and heterogeneity of SHIs. This is compounded by an inflexible regulatory framework and approach that fails to effectively differentiate between SHIs and is insufficiently developmental. Most notably the current regulatory approach is producing highly inconsistent annual registration statuses of SHIs which undermine confidence in the sector and inhibit SHIs. SHIs are facing reducing financial sustainability due to marginal project viability and net operating deficits. Many SHIs are actively pursuing alternative project opportunities. If this is not reversed, the sector could lose the capacity and expertise built over the past 20 years.

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. 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. 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.

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 evaluation concludes that 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 crisis point.

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.

5.2 Recommendations

6. 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).

7. **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
8. **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.
9. **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.
10. **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 tenanting 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.

6 Appendices

6.1 Appendix A: Data Sets & Tables

Datasets developed and used in this evaluation include:

- An **RCG Project Administrative Database** of all Interim Social Housing Programme (ISHP) and Social Housing Investment Programme (SHIP) projects between 2008 and 2014/15, compiled from datasets from Social Housing Regulatory Authority (SHRA), the National Housing Finance Corporation (NHFC), the Gauteng Partnership Fund (GPF), National Association of Social Housing Organisations (NASHO) and the Housing Development Agency (HDA), as well as from original project documentation where required.
- **SHRA Social Housing Institution (SHI) Accreditation Data** compiled and consolidated from SHRA information and reports, including SHRA's annual accreditation reports and Quarterly Reports from SHIs.
- **SHRA Statistical Datasets, specifically RCG project data, SHI accreditation data and information from SHI quarterly reports submitted to SHRA.**
- **Analysis of StatsSA Census data**, using multivariate analysis, in order to contextualise the SH market in relation to South Africa's overall demographic profile, housing and tenure typologies. This analysis was used *inter alia* to define Counterfactuals for the Evaluation analysis.
- **Spatial Analysis** was undertaken based on the RCG Project Database and StatsSA data in order to interrogate locational questions posed in the evaluation.
- **Counterfactual Analysis and Definitions**, based on analysis and interpretations of regional statistical data (population, households, housing and tenure typologies and income target groups), was undertaken for three key geographic areas of analysis in which the majority of SH projects have been approved and developed, namely the City of Johannesburg, the City of Cape Town and Buffalo City.

The above data has been collated into a comprehensive **Dataset** in support of this evaluation.

6.2 Appendix B: Counterfactual Analysis

6.2.1 Defining Social Housing Counterfactuals

Based on the statistical analysis, the following *generalised* counterfactuals for Social Housing are identified. These are then correlated against the housing profiles of each pilot area, in order to define the statistical probability of that counterfactual in relation to a specific Case Study area. These are based on what effective demand exists for alternative accommodation, that is, where a household is able to access such accommodation, willing to occupy it, and able to afford the rental and related direct costs (e.g. service costs) and indirect costs (e.g. transport) of living in such accommodation. The Counterfactuals are (in order of proportionate allocation):

1. **House Rental:** Rental of township houses or subsidised (RDP) houses from owners.
2. **Backyard Rental**: Rental of backyard rooms (and to a lesser extent, backyard shacks) from private house owners in predominantly old township areas and newer subsidised housing areas.
3. **Inner City Affordable Rental**: This includes well-managed affordable units in high-rise or medium-rise buildings units owned by private landlords (predominantly bachelor, one-bedroom and two-bedroom flats).
4. **Multiple Household Occupancy**: Where insufficient, affordable accommodation exists, the analysis indicates households often sub-let or share existing detached housing (township or new subsidised houses) with family members or other households.

5. **Informal Settlement**: This is a valid, yet small proportion of the Counterfactual, and given the poor accommodation circumstances it includes, is excluded from the overall analysis.

Note that **new subsidised accommodation** is not included as a counterfactual, as this source of accommodation is highly supply-constrained depending on public delivery programmes, and is therefore not readily available to those who require it. In addition, the Counterfactual definition is based on the rental population, not on ownership.

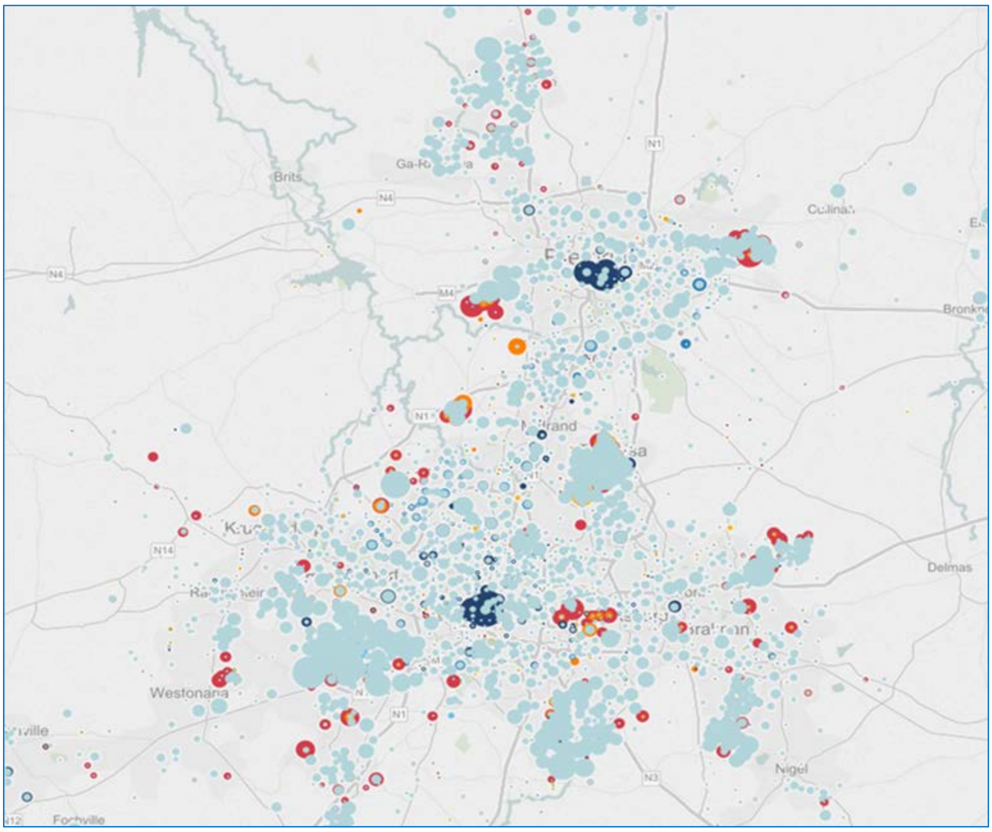
6.2.2 Identifying Counterfactuals

The 'Counterfactual' to social housing is defined as the situations in which occupants of Social Housing would find themselves if the Social Housing under analysis did not exist. In other words, ***"Where would occupants of SH be living if they were NOT living in SH?"***

In order to define the counterfactuals for SH, the following methodology was used:

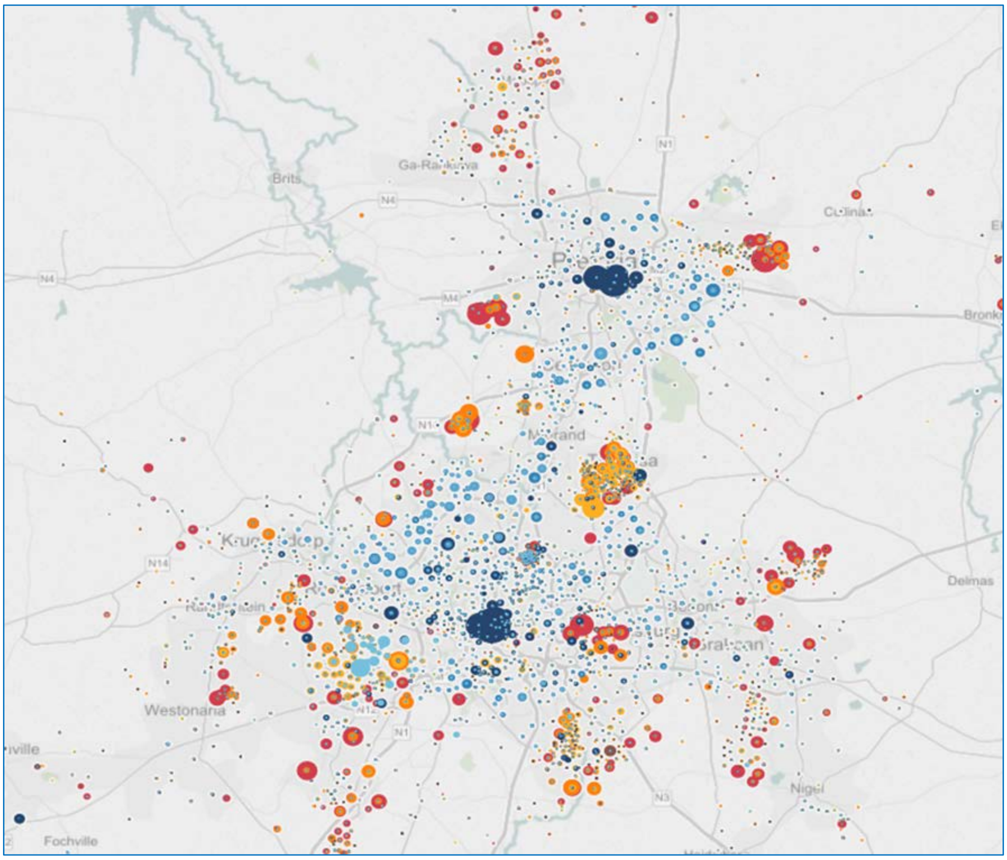
- **Geographic Location**: First, current housing conditions of households in areas where SH exists were identified and analysed. This step includes defining a geographic area of analysis, which was either a city (e.g. City of Johannesburg), or a smaller defined area. Figure 40 below indicates the distribution of households per accommodation type (houses – light blue, semi-detached units – royal blue, flats – dark blue, formal and informal backyard units – brown and orange, and informal settlements - red) across Gauteng.

Figure 18: All Accommodation Types and Distribution: City of Johannesburg



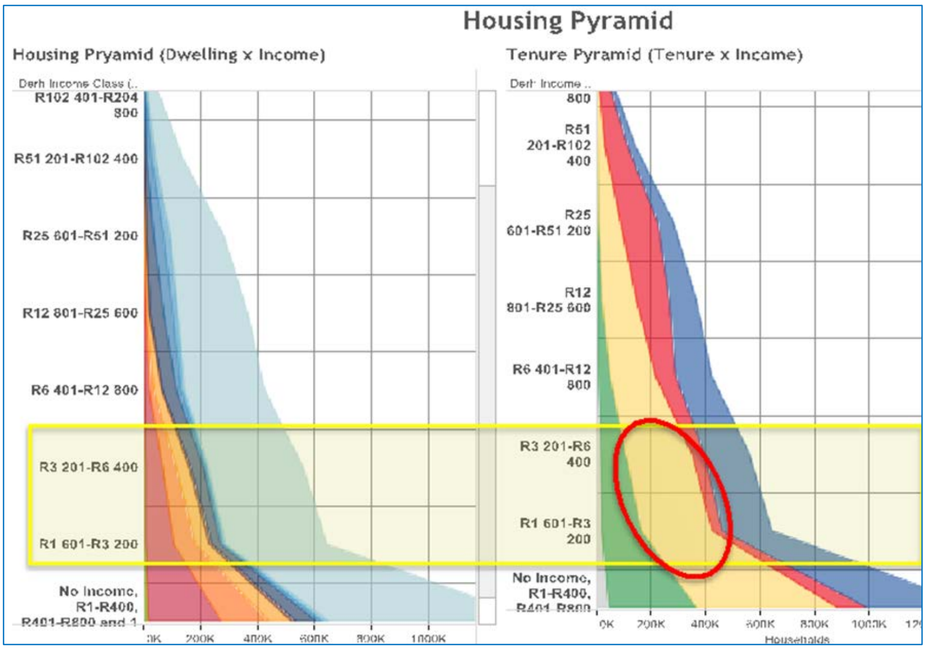
The figure below further analyses these house types for renters in Gauteng, indicating the greater number of renters in accommodation other than free standing houses (light blue).

Figure 19: Accommodation Type and Distribution: City of Johannesburg



- **Accommodation Sub-Market & Income Group**: Second, a ‘control group’ represented by the red circle is isolated, approximating the target group for SH, and extracted from this overall population. This is illustrated in the income pyramids in the figure below, and includes:
  - Households renting accommodation - yellow, and
  - Households with incomes within the target income bands for SH – inside the yellow box.

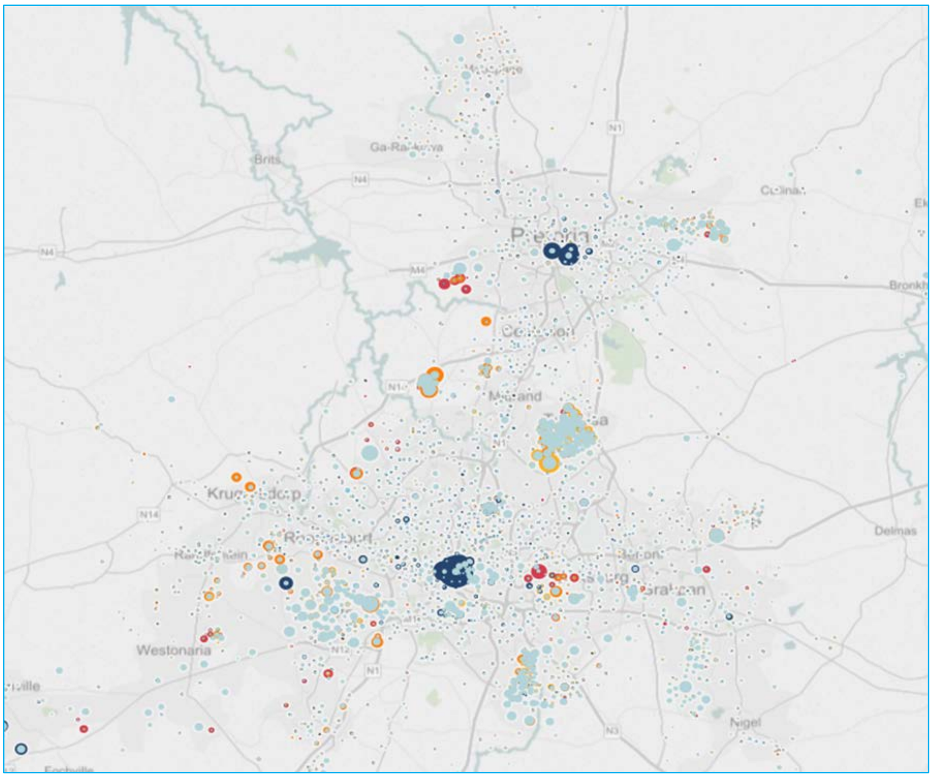
Figure 20: SH Target Market: Income Groups and Rental Tenure (City of Johannesburg)



These households inside this control group (households that rent, within the SH income band) are plotted geographically in the figure below.

This clearly illustrates the spatial clustering of these different types of accommodation within Gauteng.

Figure 21: SH Counterfactuals: Distribution of Renters by Accommodation Type in SH Income Band (City of Johannesburg)

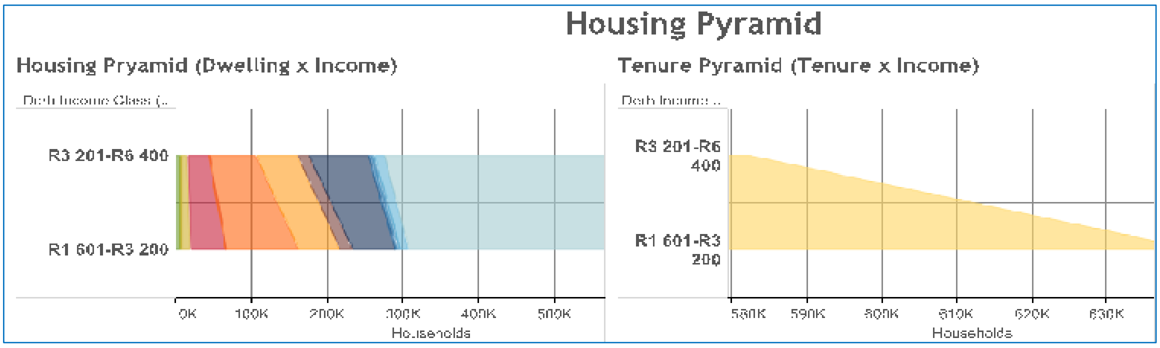


- **Targeted Counterfactuals:** Third, this control group, in the identified geographic area, is extracted and analysed in respect of the specific housing situations in which the average households are residing. These identify the Counterfactuals as households renting houses (mostly in townships), households renting inner city flats, and households renting backyard rooms and shacks. To a lesser extent, there are also households in this control group living in informal settlements.

Statistical analysis of three key areas in which the Case Studies were located for this study, namely the City of Johannesburg, the City of Cape Town and Buffalo City were undertaken to define these counterfactuals.

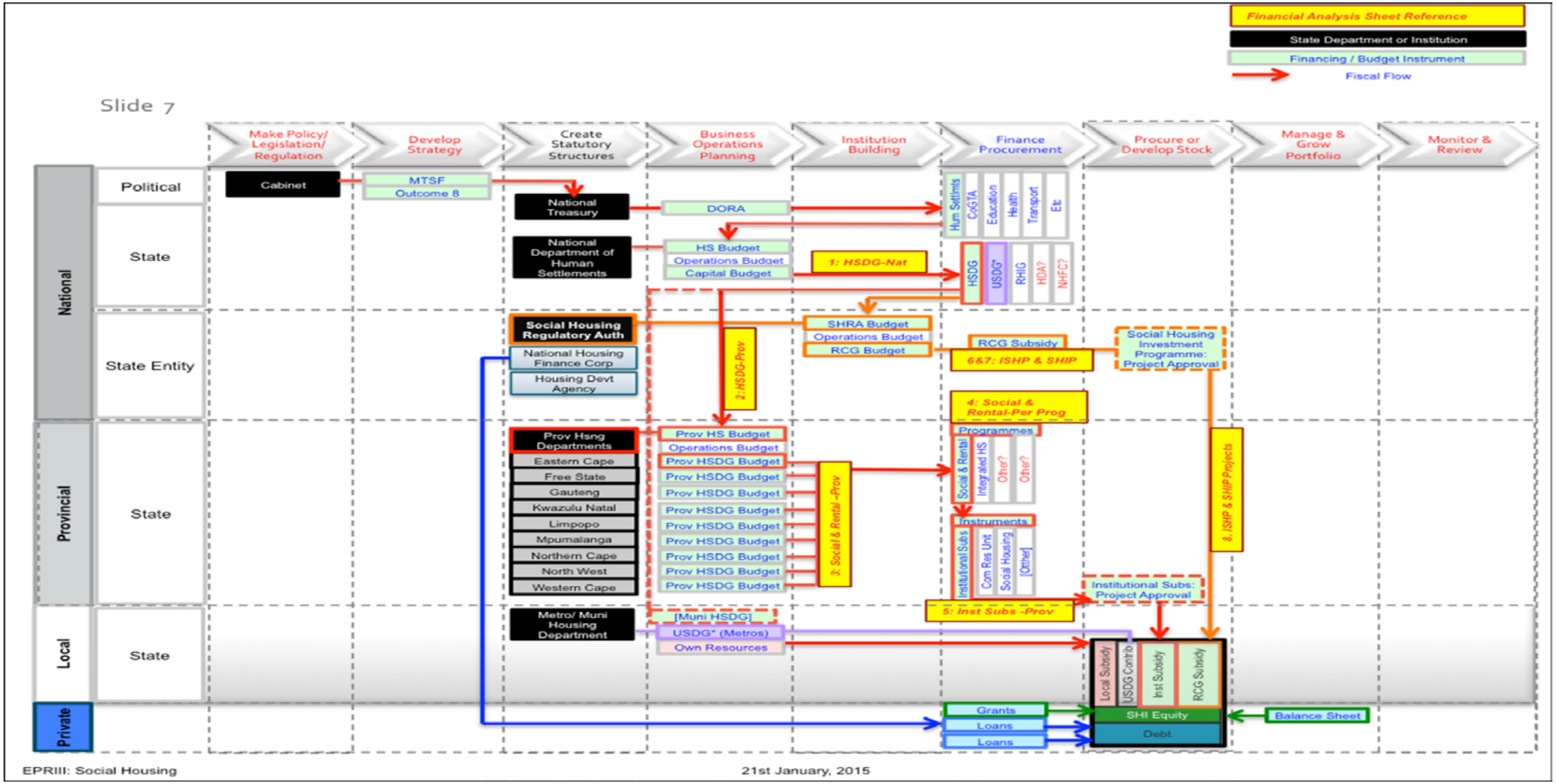
These analyses indicate that to a large extent these counterfactual groups are relevant, albeit to different extents in the different geographic areas. For instance, the proportion of households renting inner city flats was less in both Cape Town and Buffalo City, while proportions of households renting backyard units was greater in Cape Town, and rental of houses was greater in Buffalo City.

Figure 22: SH Counterfactuals: Renters by Accommodation Type in SH Income Band (City of Johannesburg)



6.3 Appendix C: Social Housing Funding Flows

(RebelGroup Advisory Southern Africa (RGSA) 2015b)



6.4 Appendix D: Locational Aspects of Social Housing

6.4.1 Scale of Social Housing Provision: Spatial Impact

Figure 23: Indicative scale of Social Housing Developed and Under Development (2008 to 2014) in relation to Inner City Johannesburg

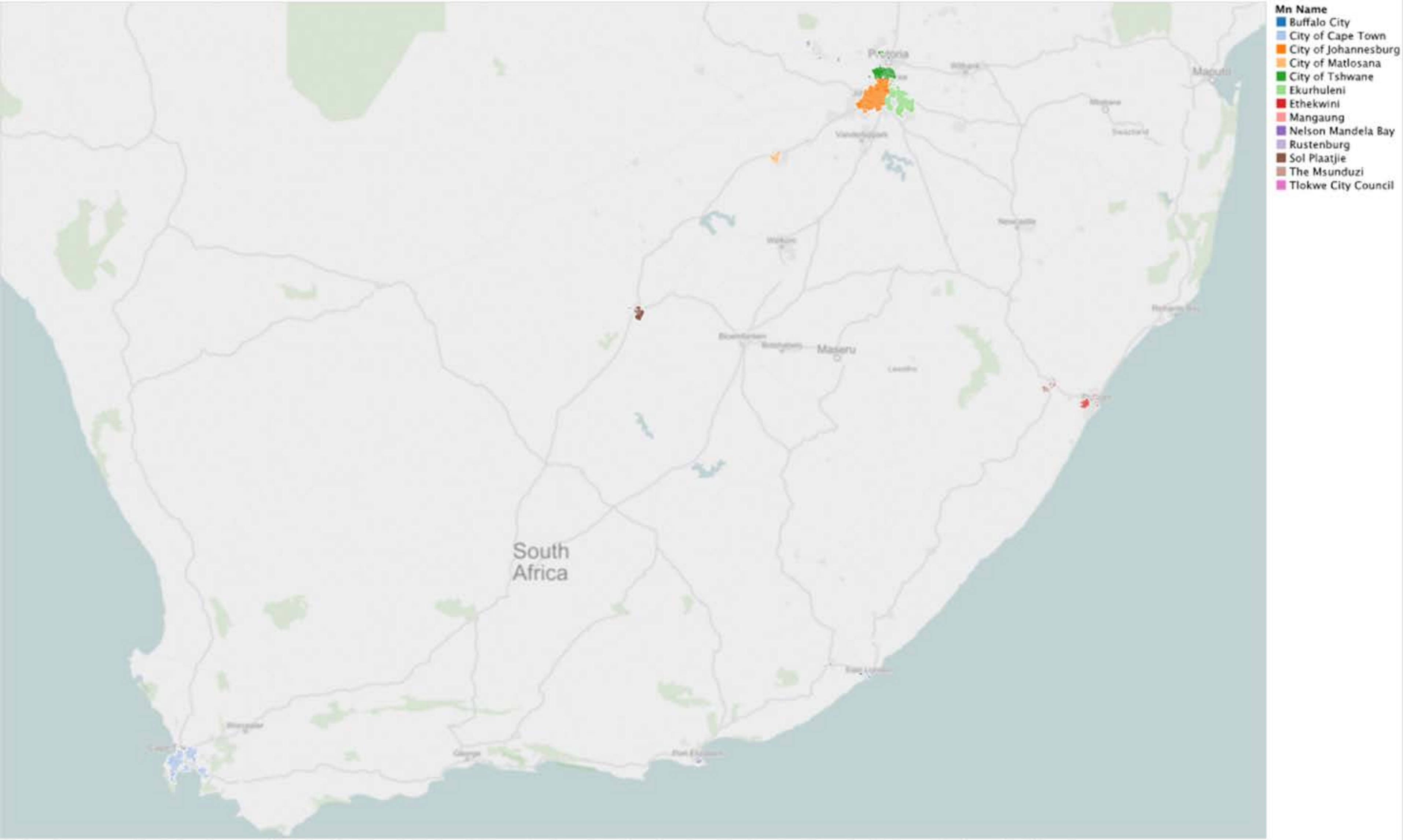
Notes: Indicative calculation using an average SH density of 60 units per hectare. Area shown equals 315 Ha in extent.

6.4.2 Restructuring Zones and Project Locations

Set out in the figures overleaf are the Restructuring Zones and project locations in the major urban areas.

Figure 24: Restructuring Zones and Project Locations: South Africa

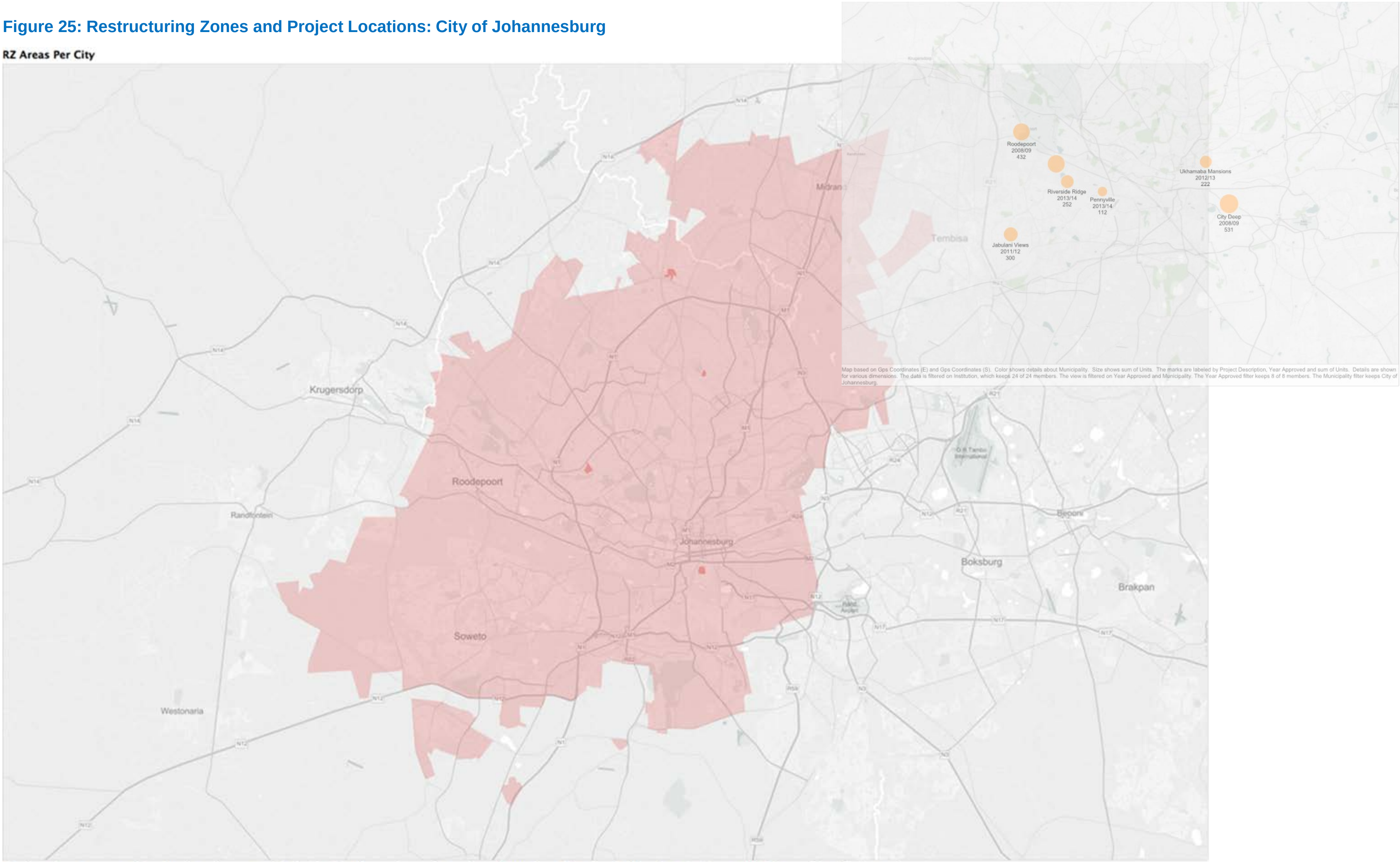
RZ Polygons SA



Map based on average of Longitude and average of Latitude. Color shows details about Mn Name. Details are shown for various dimensions. The view is filtered on Mn Name, which keeps 13 of 13 members.

Figure 25: Restructuring Zones and Project Locations: City of Johannesburg

RZ Areas Per City



Map based on average of Longitude and average of Latitude. Details are shown for various dimensions. The view is filtered on Mn Name, which keeps City of Johannesburg.

Figure 26: Restructuring Zones and Project Locations: City of Tshwane

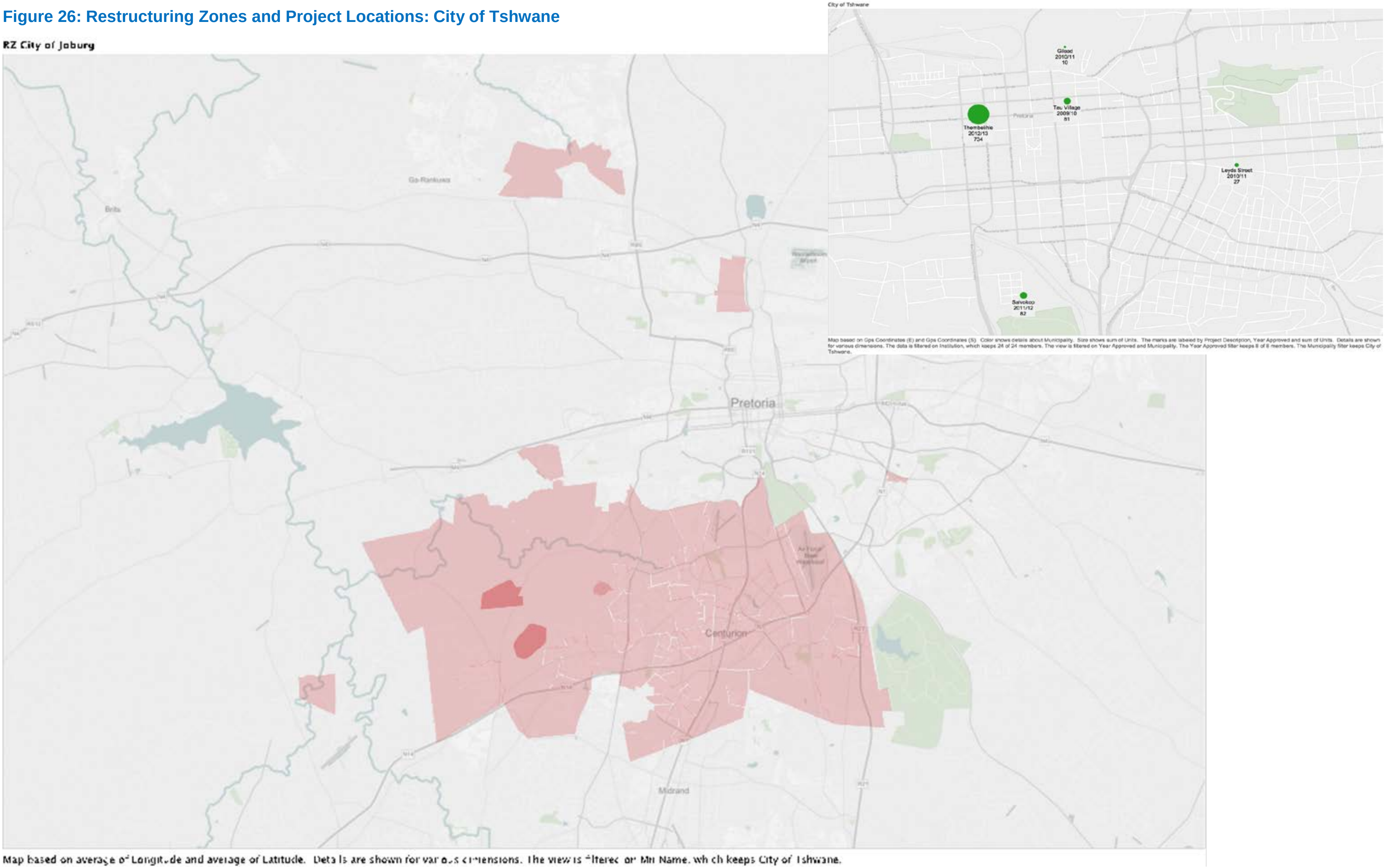
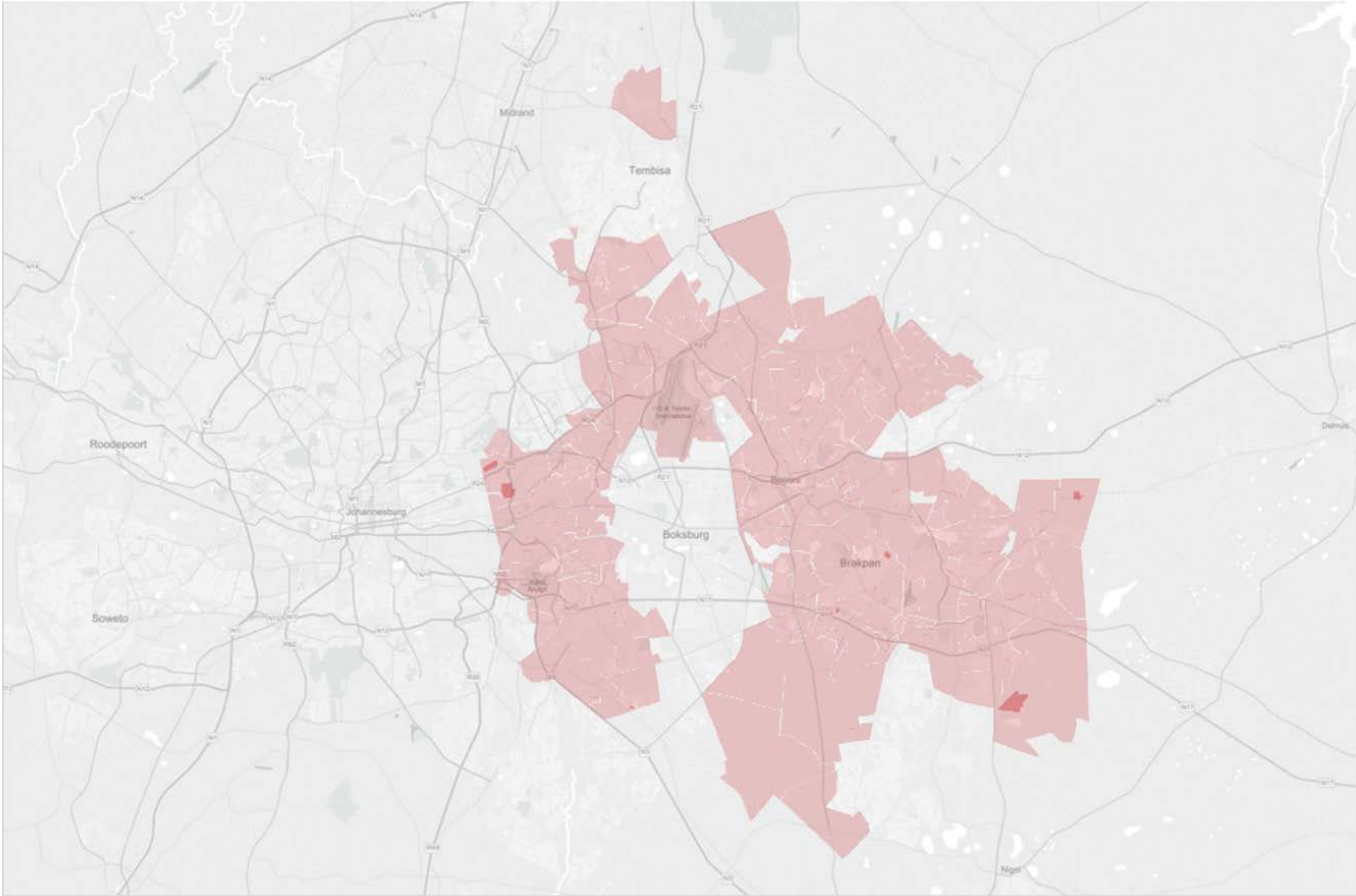


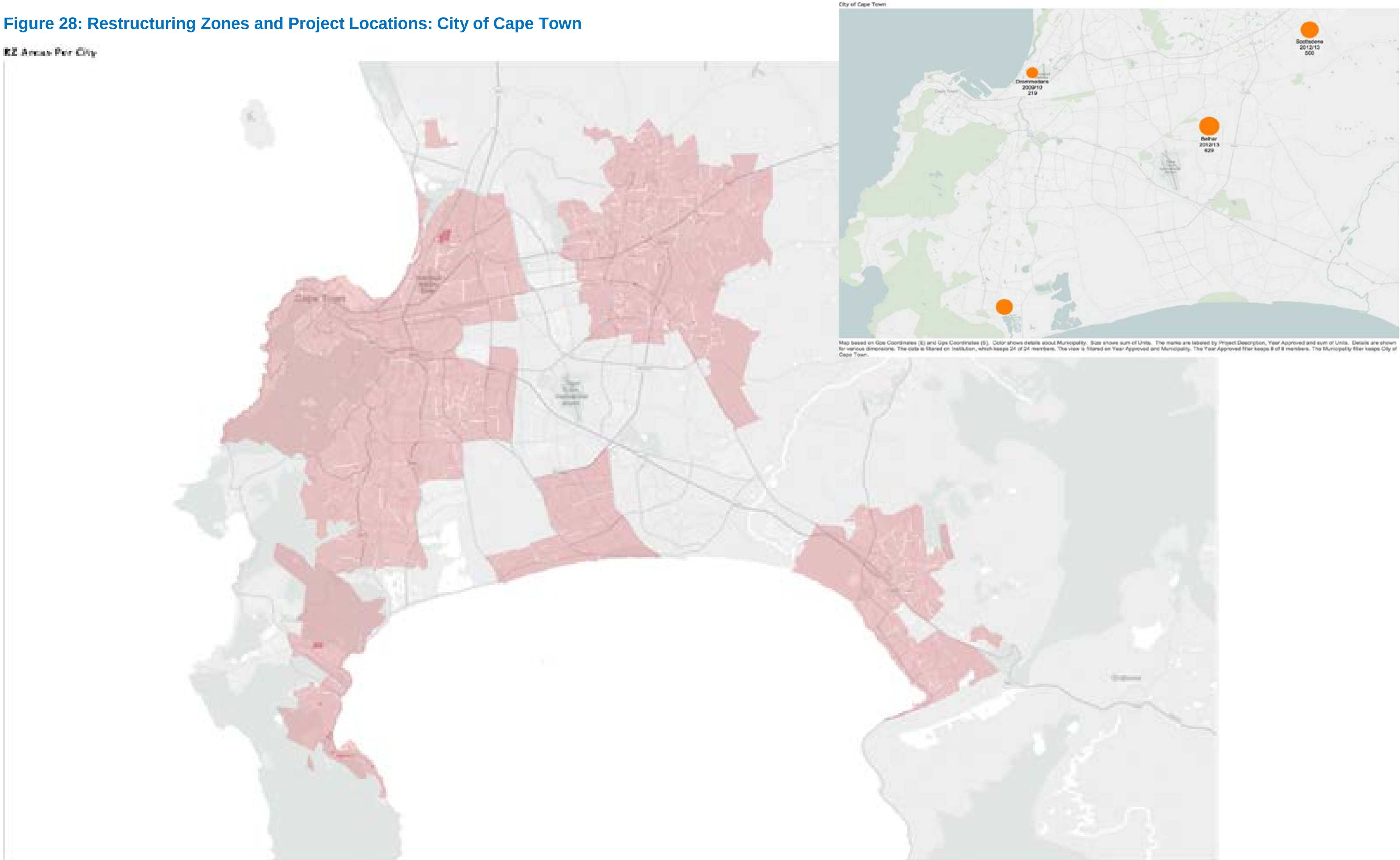
Figure 27: Restructuring Zones and Project Locations: City of Ekurhuleni

RZ Areas Per City



Map based on average of Longitude and average of Latitude. Details are shown for various dimensions. The view is filtered on Mn Name, which keeps Ekurhuleni.

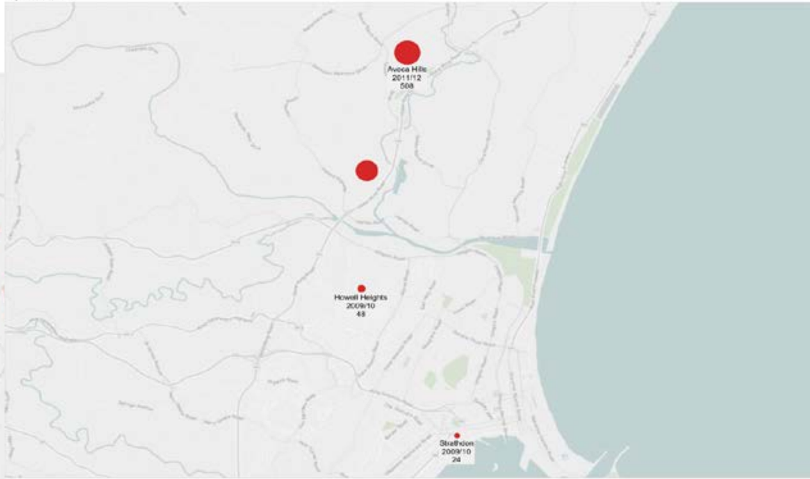
Figure 28: Restructuring Zones and Project Locations: City of Cape Town



Map based on average of Longitude and average of Latitude. Details are shown for various dimensions. The view is filtered on Mn Name, which keeps City of Cape Town.

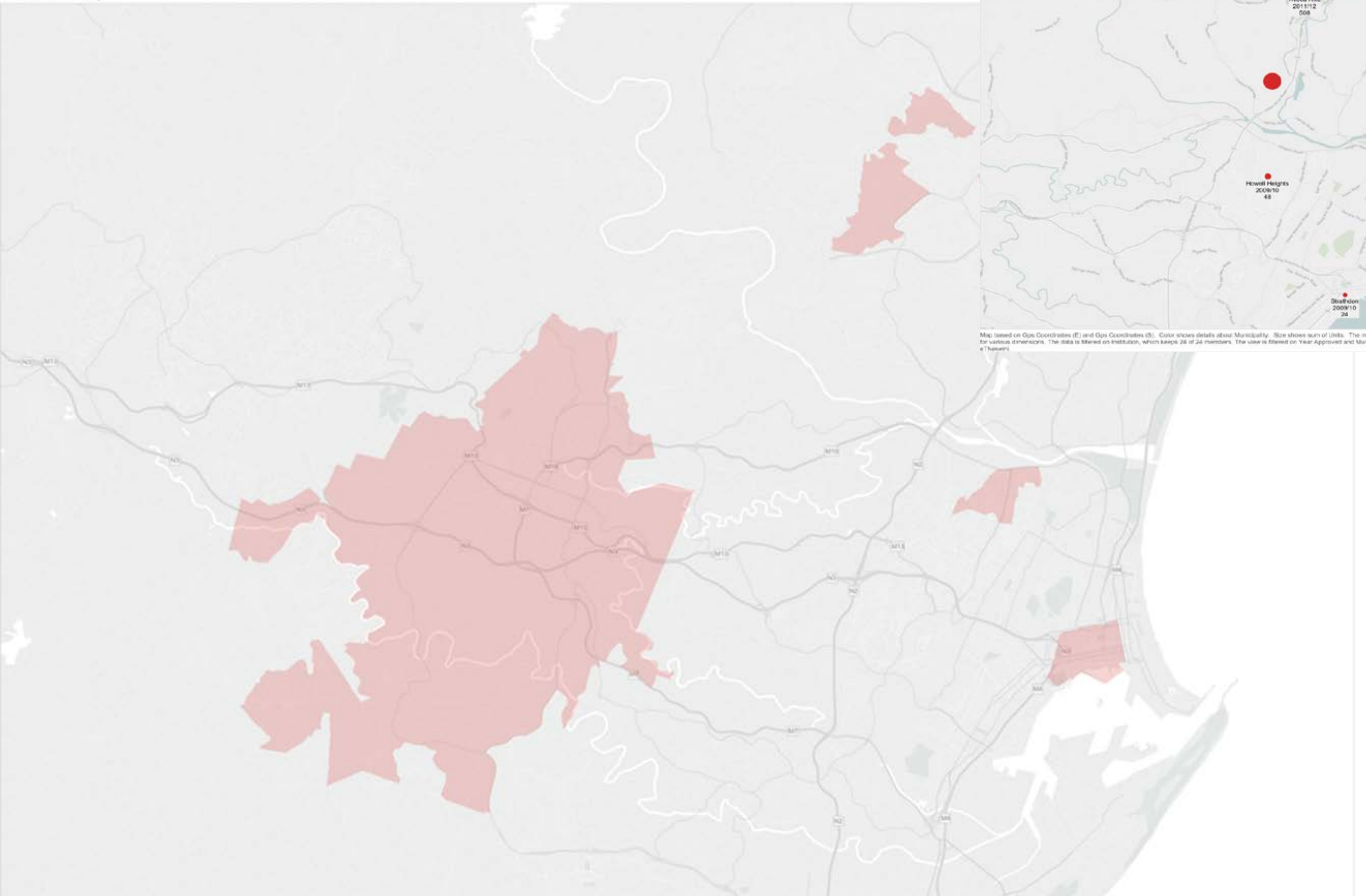
Figure 29: Restructuring Zones and Project Locations: City of eThekwini

City of eThekwini



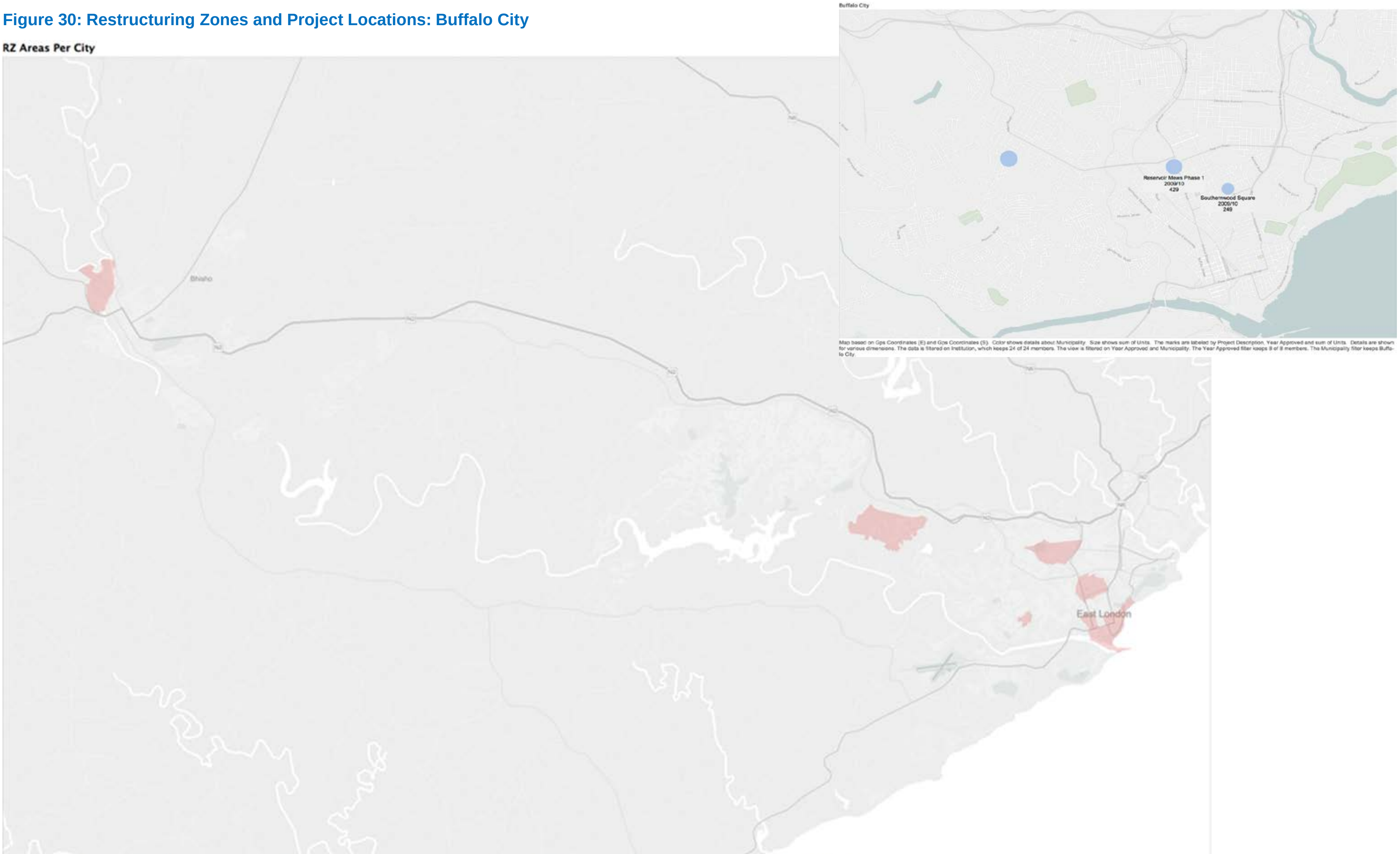
Map based on Gps Coordinates (E) and Gps Coordinates (S). Color shows details about Municipality. Size shows sum of Units. The marks are labeled by Project Description, Year Approved and sum of Units. Details are shown for various dimensions. The data is filtered on Institution, which keeps 24 of 24 members. The view is filtered on Year Approved and Municipality. The Year Approved filter keeps 8 of 8 members. The Municipality filter keeps eThekwini

RZ Areas Per City



Map based on average of Longitude and average of Latitude. Details are shown for various dimensions. The view is filtered on Mn Name, which keeps Ethekwini.

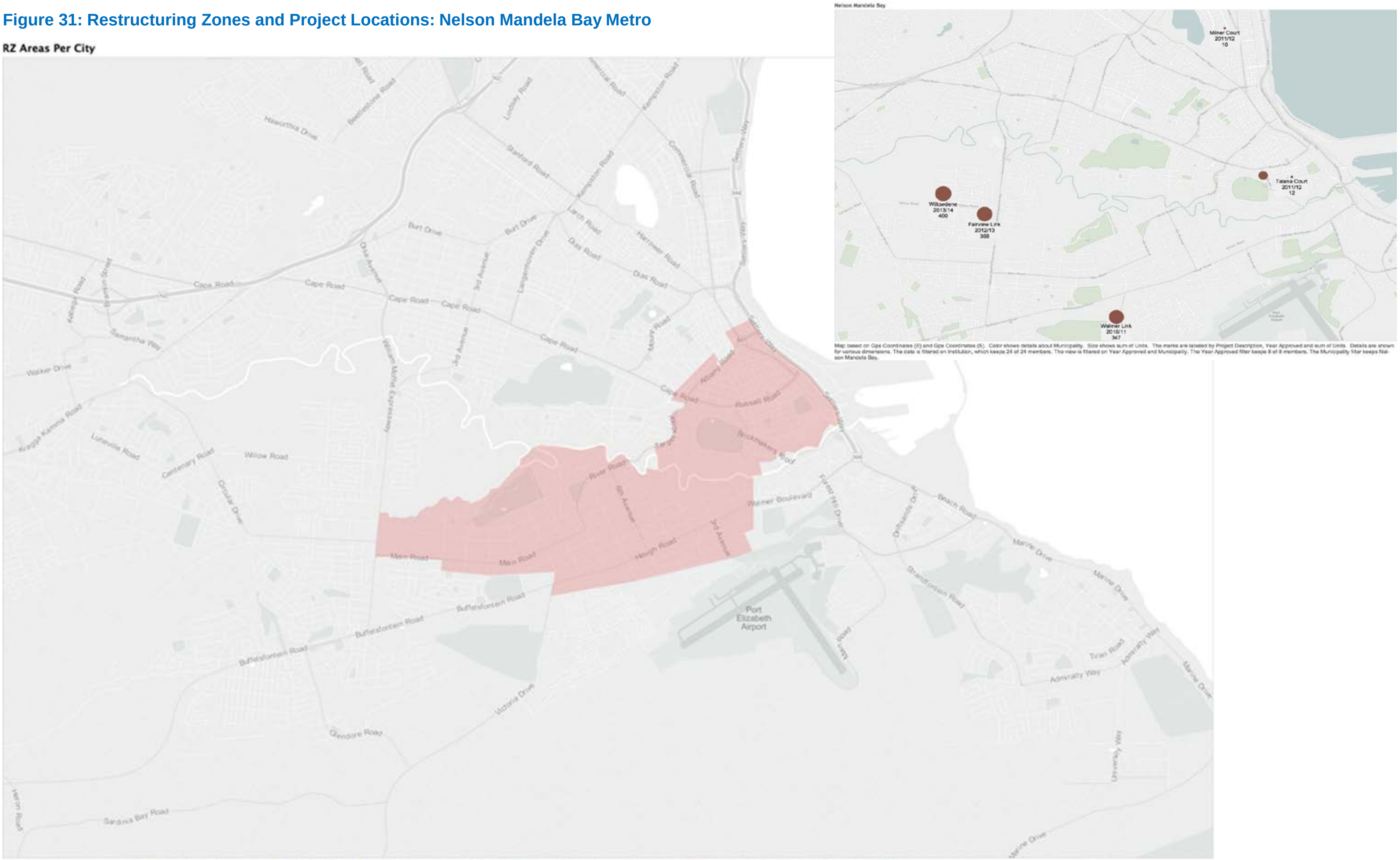
Figure 30: Restructuring Zones and Project Locations: Buffalo City



Map based on average of Longitude and average of Latitude. Details are shown for various dimensions. The view is filtered on Mn Name, which keeps Buffalo City.

Figure 31: Restructuring Zones and Project Locations: Nelson Mandela Bay Metro

RZ Areas Per City

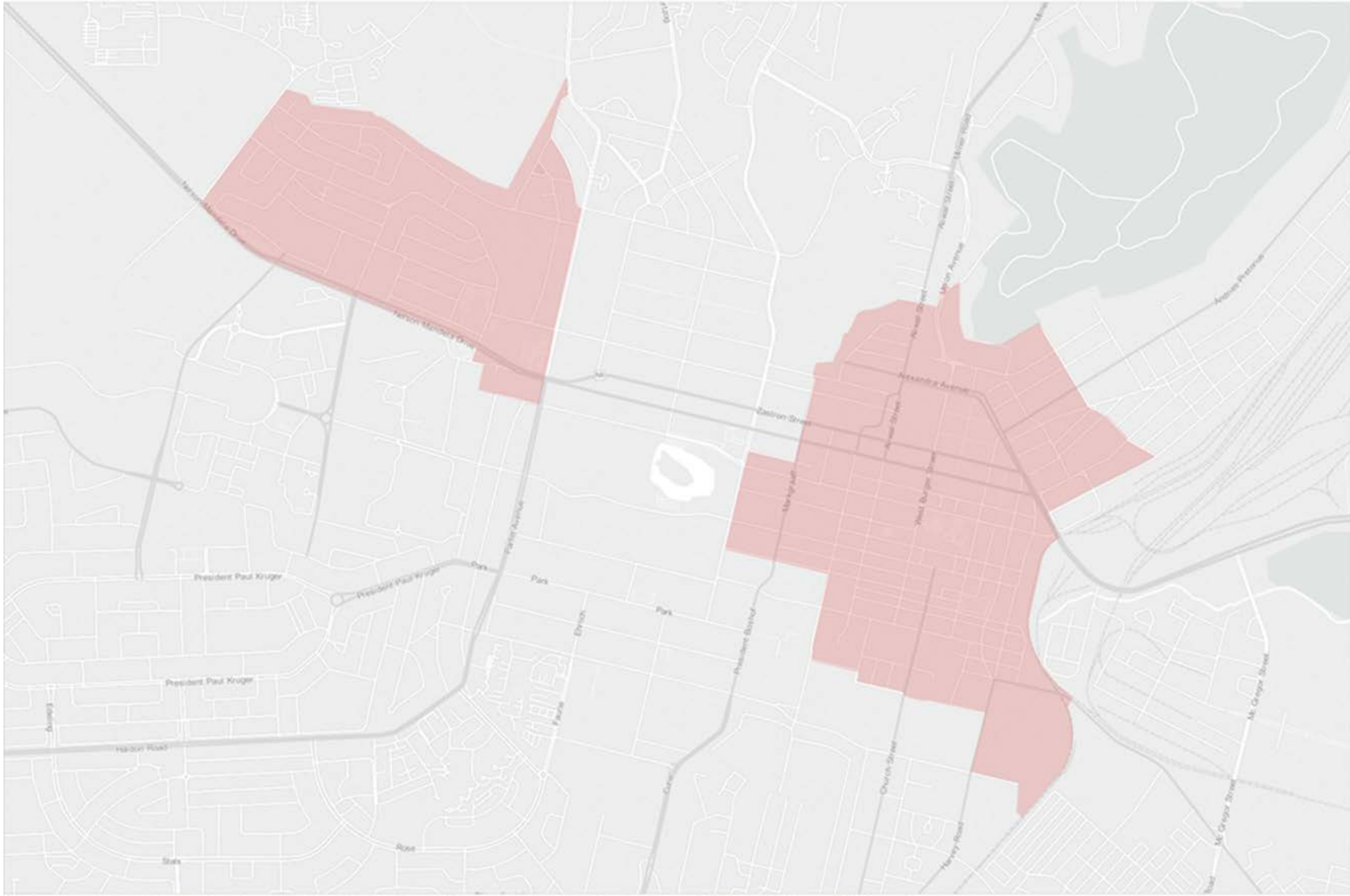


Map based on average of Longitude and average of Latitude. Details are shown for various dimensions. The view is filtered on Mn Name, which keeps Nelson Mandela Bay.

Map based on Gps Coordinates (E) and Gps Coordinates (S). Color shows details about Municipality. Size shows sum of Units. The marks are labeled by Project Description, Year Approved and sum of Units. Details are shown for various dimensions. The data is filtered on Institution, which keeps 24 of 24 members. The view is filtered on Year Approved and Municipality. The Year Approved filter keeps 8 of 8 members. The Municipality filter keeps Nelson Mandela Bay.

Figure 32: Restructuring Zones and Project Locations: Mangaung

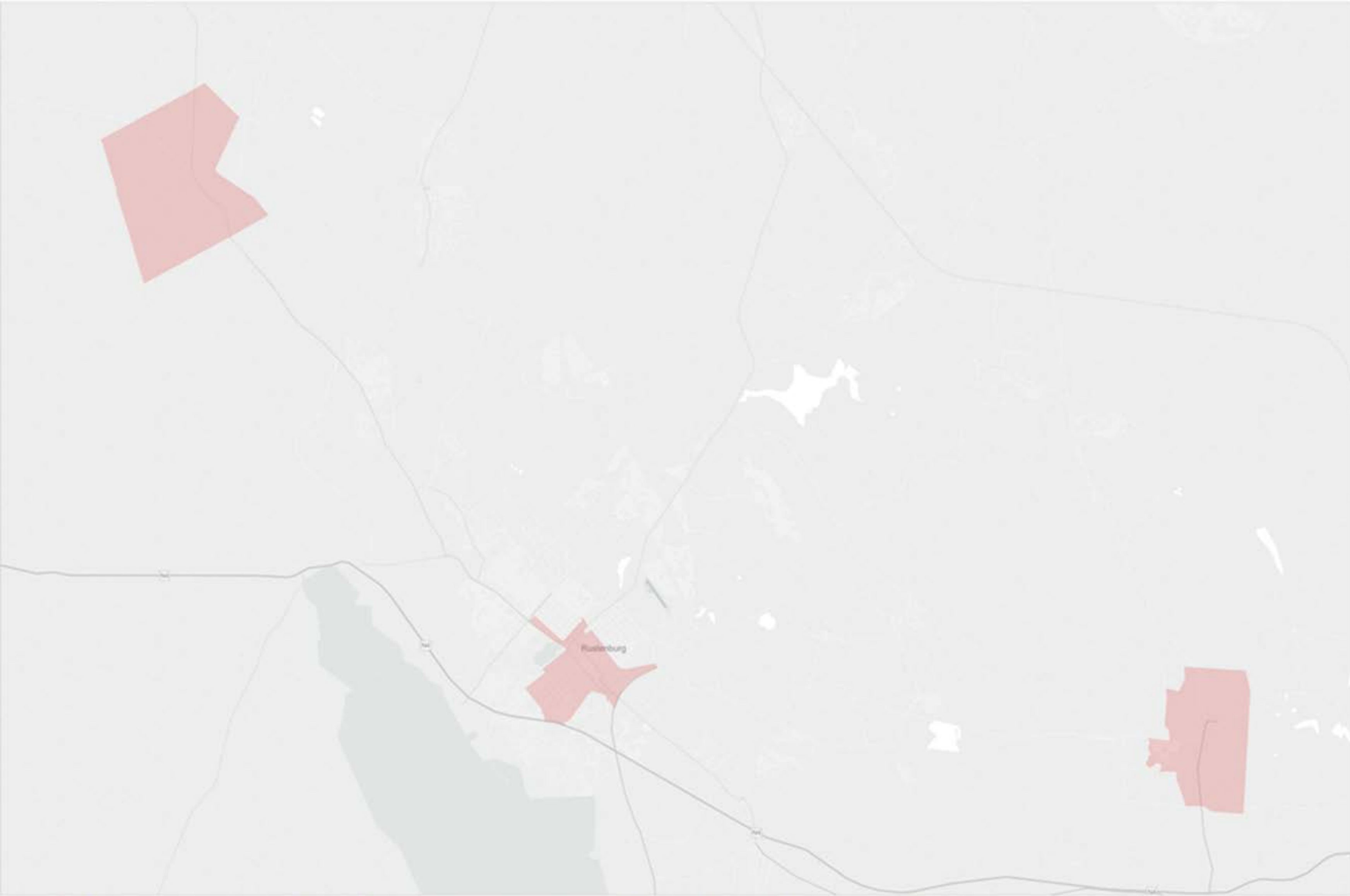
RZ Areas Per City



Map based on average of Longitude and average of Latitude. Details are shown for various dimensions. The view is filtered on Mn Name, which keeps Mangaung.

Figure 33: Restructuring Zones and Project Locations: Rustenburg

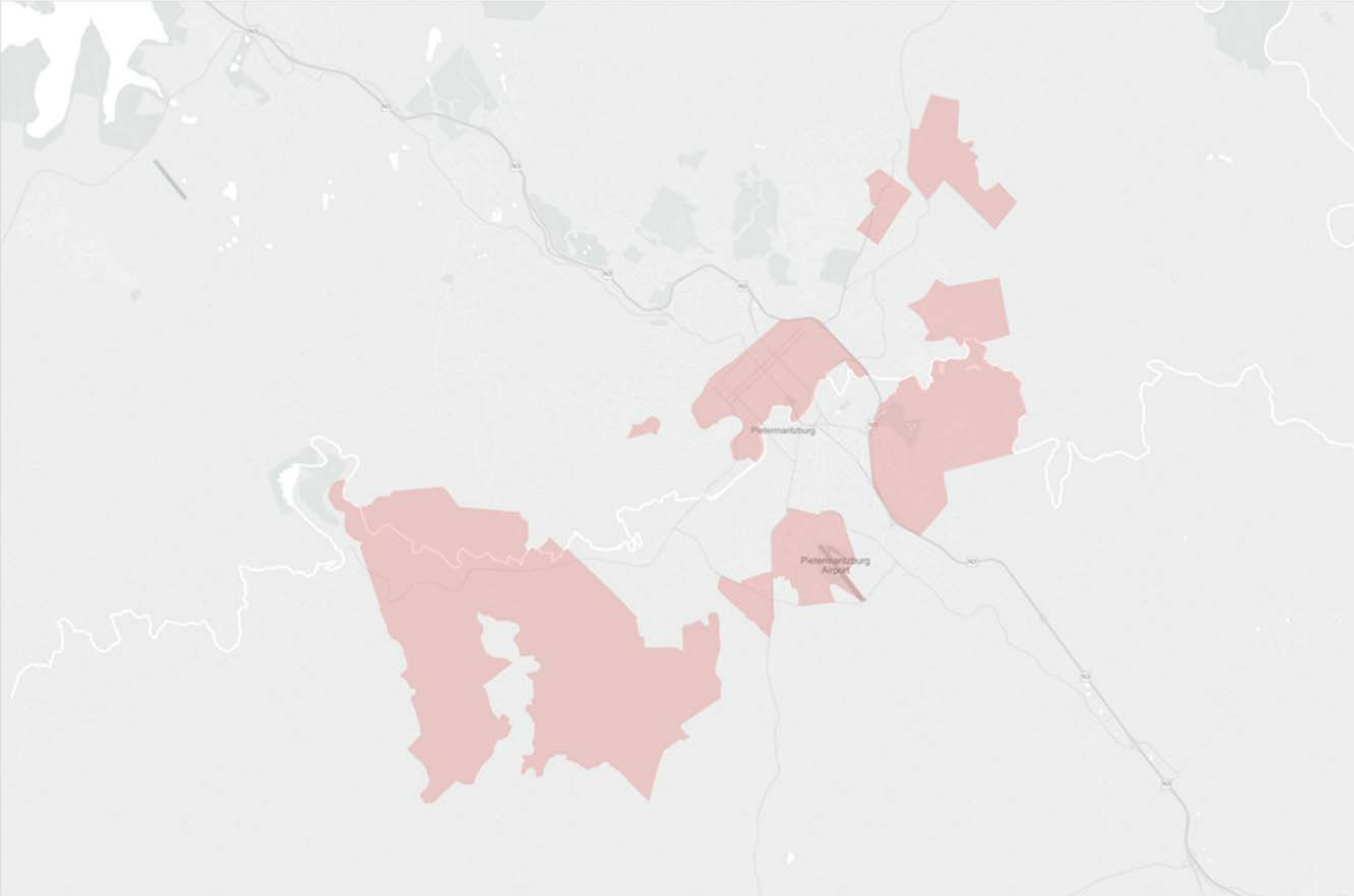
RZ Areas Per City



Map based on average of Longitude and average of Latitude. Details are shown for various dimensions. The view is filtered on Mn Name, which keeps Rustenburg.

Figure 34: Restructuring Zones and Project Locations: Msunduzi

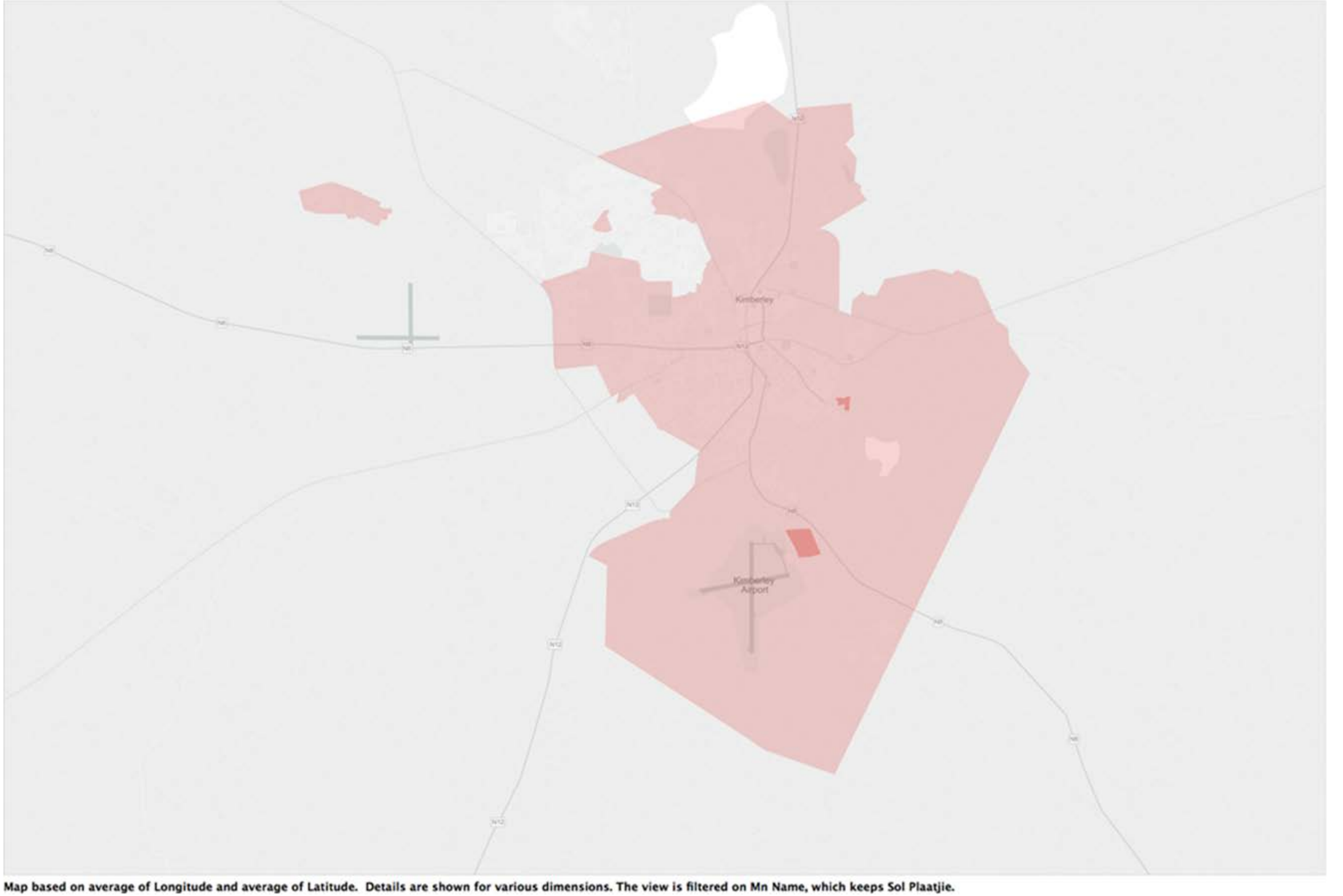
RZ Areas Per City



Map based on average of Longitude and average of Latitude. Details are shown for various dimensions. The view is filtered on Mn Name, which keeps The Msunduzi.

Figure 35: Restructuring Zones and Project Locations: Sol Plaatje

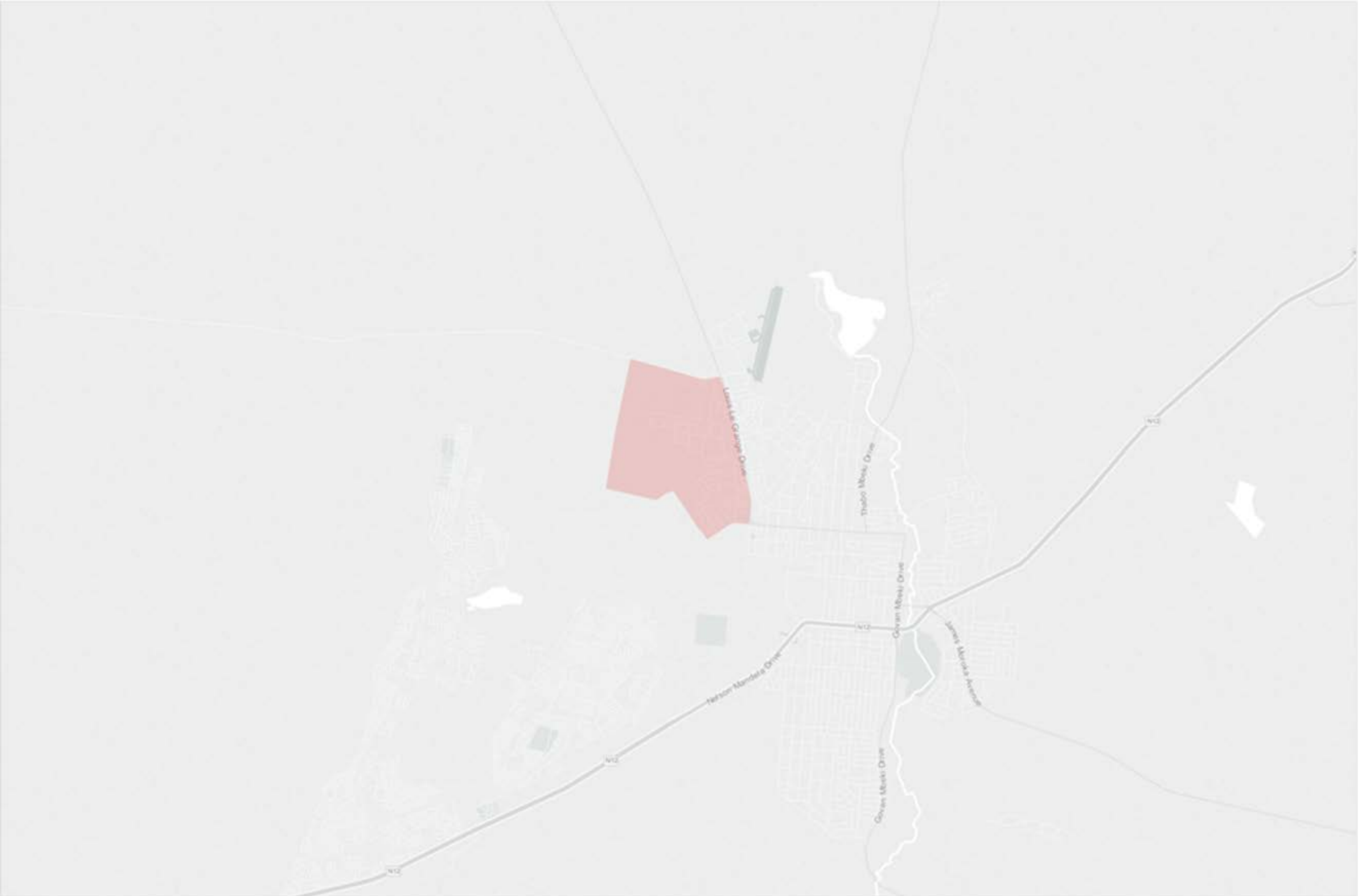
RZ Areas Per City



Map based on average of Longitude and average of Latitude. Details are shown for various dimensions. The view is filtered on Mn Name, which keeps Sol Plaatjie.

Figure 36: Restructuring Zones and Project Locations: Tlokwe

RZ Areas Per City

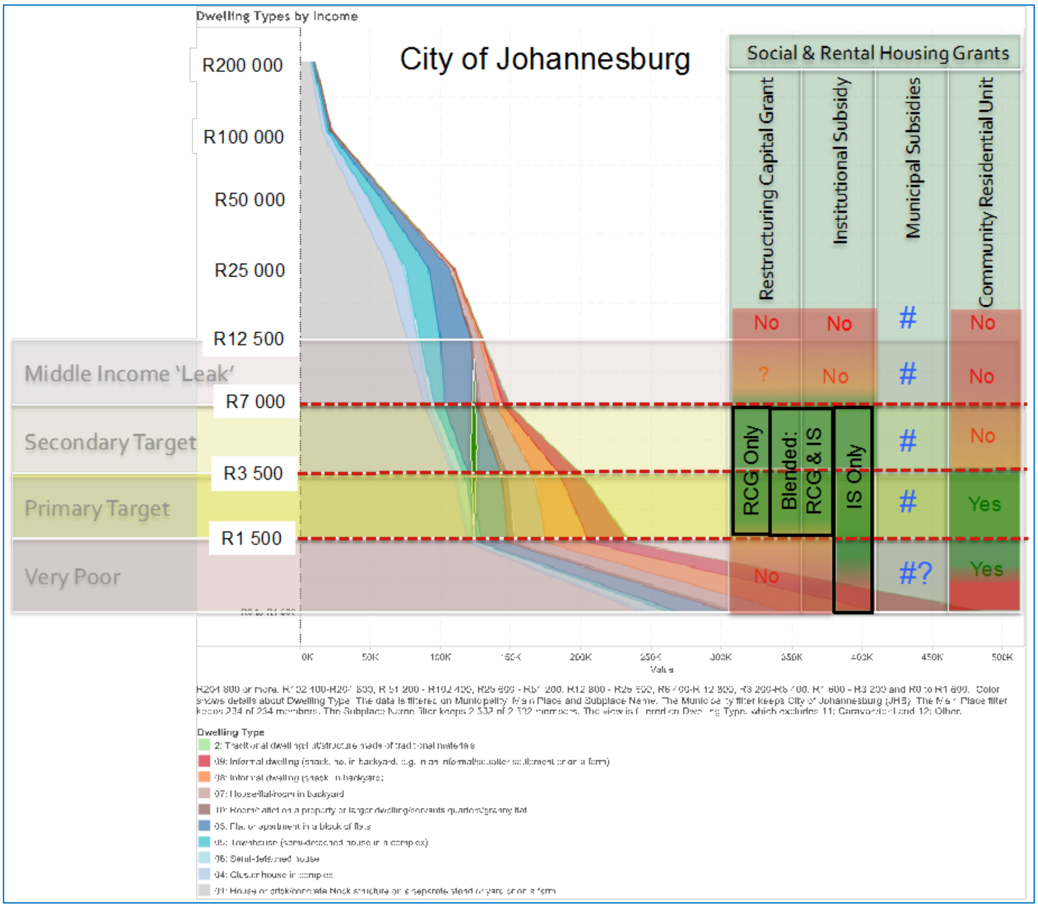


Map based on average of Longitude and average of Latitude. Details are shown for various dimensions. The view is filtered on Mn Name, which keeps Tlokwe City Council.

6.5 Appendix E: Alignment of Subsidy Instruments for Rental Housing

The figure below illustrates the target income groups of the different subsidy instruments for rental accommodation in South Africa. This diagram uses the 'income pyramid' for the City of Johannesburg as an indicative overview of the proportions of households in each income band, and hence targeted by each subsidy instrument. This Figure shows that the Social Housing programme is intended to target specifically households with stable incomes between R1,500 and R7,000 per month. In addition, the requirement to blend the specific subsidy mechanisms, namely the RCG subsidy from SHRA and the IS from Provinces is the primary financing mechanisms (subsidies) through which Social Housing is financed. Coupled to this are potential contributions (capital or in kind such as land allocations) from municipalities. Hence, Social Housing is generally funded via subsidies or contributions from national (RCG) and provincial (IS) and municipal (capital, land, etc.) mechanisms.

Figure 37: Rental Subsidy Programmes and Relationship to Target Income Groups



Source: (RebelGroup Southern Africa (RGSA) 2014a)

In addition to the public sector financial flows, Social Housing often requires loan finance from State Owned Companies or the private sector, as well as in some cases equity from the participating SHIs. This has resulted in a uniquely complex housing funding model in South Africa, requiring synchronisation of viable project applications submitted to SHRA for funding with Provincial IS approvals, municipal contributions and approvals, the availability of own equity from institutions (at times), and access to approved debt finance from one or more State Owned Companies and/or private sector financial institutions.

There are a few SHIs (such as the Johannesburg Housing Company) and some private developers that are not accessing grant-funding on many of their projects, but are mainly funding projects using grants, equity and loan finance only. These entities generally have either benefited from substantial prior grants to strengthen their balance sheets; and/or may be targeting a higher income group; and/or have a mix of higher income tenants within their buildings (Centre for Affordable Housing Finance in Africa 2012).

6.6 Appendix F: List of Interviews

Outlined below are the list of face-to-face interviews undertaken, and references consulted during this project.

Table 13: List of Interviews

Stakeholder sector	Person interviewed
SHRA	Chair (Zohra Ebrahim)
	Acting CEO (Sindisiwe Ngxongo)
	COO (Khulile Boqwana)
	Stakeholder Support Manager (Dewalt Koekemoer)
Financial institutions	NHFC (Dave Waugh)
	GPF (Shiraaz Lorgat)
	DIGH (Erik Beijer)
	Intervolve (Tjeerd Grimmius)
	TUHF (Paul Jackson)
	ABSA
	Nedbank
	Standard
	FNB
Government	Presidency (Ahmedi Vawda)
	NDHS (Louis VD Walt)
	PROVINCES
	KZN (Luzuko Tapula)
	Western Cape (Kahmielah August)
	EC (Mzikazi Koyana)
	FS (Poppy Madibane)
	Gauteng (Shriaaz Lorgat, Mpumi Khubeka)
	MUNICIPALITIES
	City of Cape Town (Pogiso Molapo, Norah Walker, Dr Bromfield)
	Ethikwini (Smangele Moloi and Yunus Sacoor)
	Buffalo City Metro (Mr Jacque Toerien and Thembelani Mjanqeka. Raymond Foster, Xolani Payi)
	Nelson Mandela Bay (Mr Jobela, Mr Shaik)
	Mangaung (Malefetsane Mokoena)
	City of Johannesburg (Manny Sotomi / Simon Mayson)
Sector experts	NASHO (Malcolm McCarthy)
	NDHS (Arie Diephout)
	ShiFT (Tariq Tofa /Alison Wilson)
	Harmen Oostra
Private sector developers and property managers	Calgro M3
	Motheo (Thandie Ndlovu/Chris)
	Stefanutti Stocks
	Basil Read
	Group 5
	AFHCO (Renney Plit)
	Trafalgar (Andrew Schaefer)
Municipal Representative Bodies	Salga (Alison Tshangana)
Social Housing Institutions	Communicare (Gavin Wiseman &Andre Waters)
	Imizi (Anthony Ngcezula)
	First Metro (Ismael Khatib)
	Freshco (Mr P.K. Mangoejane)
	Joshco (Rory Gallocher)
	Madulammoho (Renier Erasmus)
	Sohco (Heather Maxwell)

6.7 Appendix G: References

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