



GORDON INSTITUTE
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**THE IMPACT OF THE FINANCIAL SECTOR CHARTER (FSC) IN IMPROVING
THE CREATION OF HOUSING STOCK IN THE LOW INCOME MARKET**

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ABSTRACT

Housing is one of the cornerstones of rebuilding our social structures and creating wealth in the economy of South Africa. The lack of access to finance in the low-income market has been viewed as a stumbling block in the delivery of affordable housing.

Several policies have been introduced in the past to meet the promise that the government made in the White Paper on Housing Policy and Strategy in 1994, where they promised to successfully eradicate the housing challenge by increasing the delivery of houses; none of the results inspire confidence.

The purpose of this exploratory research was to analyse the impact of the Financial Sector Charter in the creation of housing stock for the low-income market. The researcher interviewed seven passionate, experienced experts in low-income housing, using in-depth face-to-face interviews. These interviewees were secured using a snowball sampling technique.

The key findings from the study revealed that there has been an improvement in the access to finance within the low-income market. Banks have moved a step further from the traditional approach by coming up with innovative products. Although this is encouraging, there are a number of inhibiting factors that negatively impact the delivery of housing; these include the flawed legislative procedures in rezoning of land, the process for township establishment and inefficiencies that exist within government housing structures. New policies can continue to be introduced, but if these inhibiting factors are not addressed the results will remain disappointing.

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

.....

Makhosini Ndlovu

.....

Date

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CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

1.1 Introduction

Low-cost housing has been a major challenge of government post-apartheid South Africa, as the government attempts to address inequalities, poor municipal service provision and rapid urbanization. The White Paper on Housing of 1994 prioritised the needs of the poor and promised to deliver one million houses in five years. This was going to be done through community participation and the involvement of the private sector (Goebel, 2007).

The inherited housing backlog was largely a result of high levels of urbanisation, poverty, and high unemployment, together with the history of apartheid and separate development (Pillay and Naude, 2006).

The lack of housing delivery has however persisted despite South Africa's having a relatively sophisticated financial system compared with other countries in sub-Saharan Africa. It has also failed to improve end-user finance for the low-income market despite the introduction of a number of initiatives by the government. This has contributed to a slow delivery of housing stock (Karley, 2003).

Since it came into power in 1994, the government has tried a number of housing initiatives to help alleviate the housing problem. Some of the initiatives that the government have put in place are, the Housing White Paper (1995), the National Urban and Reconstruction Housing Agency (1995) and the Policy

on People's Housing Process (1990). It should be noted that despite these efforts the overwhelming housing backlog still exists (Kajimo-Shakantu and Evans, 2006).

Tomlinson (2005) also confirms that government further introduced legislations such as the Promotion of Equality and Prevention of Unfair Discrimination Act, 2000 and the Home Loan Mortgage Disclosure Act, 2000. However, they continued not to yield tangible results. The response of the government in 2003 to the ongoing lack of housing delivery and low levels of bank lending was the introduction of the Community Reinvestment (Housing) Act (CRA) in an attempt to compel banks to increase their lending. In response to this legislation, the banks realising the negative impact it would have on their businesses, voluntarily embarked on a Financial Sector Charter (FSC) process aimed at transforming the entire financial sector, including increasing investment and extension of lending into the low-income housing market.

This research paper aims to investigate the impact of the Financial Sector Charter (FSC) since its inception in improving the delivery of housing stock for the under-served market. The FSC defines this market as households with a monthly income between R1,500 and R7,500 in 2004, but these figures have been revised year on year in line with the consumer price inflation excluding mortgage interest rates (CPIX). The present 2008 range is between R1,700 and R9,670.

1.2 The Research Problem

The rate of urbanisation is considered to be one of the indicators of a country's economic development. The rate of urbanisation is directly related to the demand for houses in the urban areas. As the country becomes more urban, more houses will be needed to accommodate the increasing population in these areas. The practice however, does not support this in that the acceleration in urbanisation is not accompanied by the provision of housing. This is one of the reasons for the development of informal settlements, which provides housing for most low-income groups (Tesfaye, 2007).

The importance of the need for housing is amplified as the concept of accessibility is now entrenched in the South African Constitution; "Everyone has the right to have access to adequate housing" and that "the state must take reasonable legislative and other measures with its available resources, to achieve the progressive realisation of this right" (Pottie, 2004, p. 607).

Housing for many households around the world is both the largest expense and the most important asset. It is an important determinant of quality of life.

A well functioning housing market influences not only shelter people; it can improve public health by reducing the outbreaks of diseases, stimulate economic growth through own job creation and also be used as workplaces for home-based entrepreneurs. It can also have social consequences by influencing the reduction of crime (Warnock and Warnock, 2008).

Access to housing increases the number of bankable projects as houses can be used as collateral to access finance for business purposes. In addition, an efficient delivery of housing enhances social capital in a community. Social capital is very important for economic development as evidenced by the recent xenophobia attacks in early 2008 in several parts of South Africa; these attacks were sparked by the lack of adequate housing, among other reasons.

The Melzer (2006) study on housing supply highlights the shortage of housing stock in the low cost housing market. This shortage is partly a result of the persistent lack of housing finance and investment in the target market in the past. This has partly led to what is termed the “dysfunctional” nature of the low cost housing market in South Africa.

One third of the potential home buyers indicated that the complexity with regard to the process of obtaining finance, as well as the range of products, negatively impacted on their ability to purchase a house. Other barriers to access arise from poorly implemented product roll-out strategies within the lender’s branch network and low product awareness levels among customer-facing staff (National Housing Finance Corporation, 2003).

According to van Honschooten (2006) the banks are willing to fulfil their FSC promise of spending R42 billion in financing low-cost housing before the end of 2008. However, the shortage of low-cost housing stock and the dilemma on how to share the non-commercial risks, are standing in the way of banks.

Tesfaye (2007) concurs with the fact that the government's involvement is critical. He argues that the lack of genuine government will to address the issue in a fundamentally structured, sustainable and large-scale manner is the reason for the lack of housing delivery.

The research problem is therefore to assess whether the FSC has made any positive contribution in improving the low income housing creation by engaging all the stakeholders within the housing system. Should this be positive, it will ultimately lead to the alleviation of the housing backlog that has persisted for a long time in the low income market in South Africa.

1.3 Rationale for Conducting the Research

1.3.1 Slow Creation of Low Cost Housing Stock

The creation of housing stock affordable for the low-middle market, that is, the FSC market, has been on the decline and has failed to meet the demand for many of years, in both the subsidised market, which is the market that caters for households with income of R1,500 to R3,500, and in the affordable housing market, that is, R3,501 – R9,670 (Melzer, 2007).

According to Nell and Mokel (2005) the backlog of affordable housing in 2005 was 622 220 units while the total number of houses delivered was only 19 703. At the current delivery rate, it is projected that the backlog in this market will grow to about 730 000 units in 2010 or even more than this given the rapid urban migration currently taking place (see Table 1 under physical need).

Table 1: Estimated housing backlog in the affordable sector 2003/04 – 2009/10

| Number | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| No. households earning R2500 - R7500 pm | 2 465 873 | 2 525 050 | 2 580 605 | 2 632 210 | 2 682 216 | 2 710 009 | 2 737 109 |
| Housing stock needed | 2 509 946 | 2 572 494 | 2 629 723 | 2 683 237 | 2 734 629 | 2 763 681 | 2 791 318 |
| Existing units | 1 933 271 | 1 950 274 | 1 968 977 | 1 989 551 | 2 012 183 | 2 037 077 | 2 064 461 |
| Physical need | 576 675 | 622 220 | 660 746 | 693 686 | 722 446 | 726 604 | 726 857 |

Source: Finmark Trust

1.3.2 Lack of Financial Institutions' Involvement

Based on the writings of Tomlinson (1998) the availability and accessibility of credit for housing purposes has been identified by the South African Government as a key cornerstone to a sustainable housing delivery process.

Sisulu (2004) in her 2nd Annual National Symposium of the National Housing Finance Corporation address states that "...increased acute demand for housing finance had been evident throughout the four decade long history of apartheid. As a result, with the removal of formal restrictions for migration into urban areas after 1994 the challenge of housing finance manifested itself in the main as a latent demand in the form of the development of informal housing and informal settlements in parts of our towns and cities".

The banks however cite the high risk of loan non-repayment in this market as a reason for their lack of involvement. The main reason for this is that many township borrowers quickly become over-exposed when their economic circumstances worsen, as they are highly vulnerable to interest rates hikes. The banks further argue that there is no secondary market in the low-income housing sector that can enable defaulting mortgagors to sell their property prior

to a sale-in-execution. To extend the problem further regarding the secondary market, research has revealed that third parties are very reluctant to purchase township properties in possession (PIPs) due to the fact that communities often exert pressure against any person who attempts to buy the house of a defaulter (Tomlinson, 1999).

Some of the literature does not support the reasons mentioned by banks for their lack of involvement. Jorgensen, (2007) argues that financial arrangements are clearly the pivotal element of the argument in favour of housing the poor. Experience shows that poor people, particularly women, have good repayment records for housing loans. Much can be done to make repayment terms suited to the borrowers' ability to repay, e.g. through fixed interest loans or offering 'fixed annuity' loans which, by the virtue of increasing repayments of the principal, are much better suited to the income profile of poor families over time.

1.3.3 Lack of affordable housing stock within FSC target market

The supply of housing has been affected by the continuous growth in the price of houses, especially within the low income market which has been rising more than the other segments. The average nominal price growth as depicted in Figure 1 of affordable housing increased by 12.1% year-on-year to R283,000 in the second quarter of 2008 (14,5% in the previous quarter). A nominal price growth of 4.7% year on year in the middle-segment and 8.8% year on year in the luxury segment was recorded for the same period. The continuous growth

in housing prices over the years has resulted in a huge increase in the affordability of houses, particularly in the low income market (du Toit, 2008).

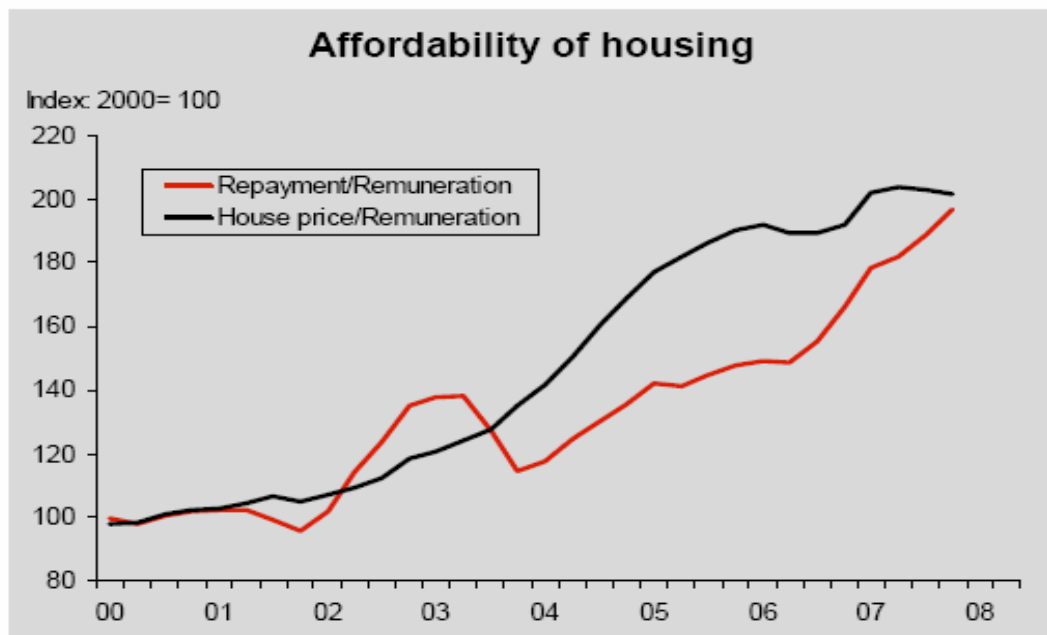
Figure 1: Nominal house price growth



Source: ABSA Housing Review: Third Quarter (2008)

In relation to Fig1, the house price-to-remuneration ratio which illustrates the ratio of mortgage repayments to remuneration in Figure 2, demonstrates that housing has in fact become less affordable in recent times owing to the fact that the prices have been increasing at a higher rate than salaries. This ratio has accelerated from the middle of 2006, to its highest level in the fourth quarter of 2007 since the beginning of 1990. This was also as a result of the rising interest rates over the past few years, which caused mortgage repayments to increase sharply (Du Toit, 2008).

Figure 2: Affordability of housing



Source: ABSA Housing Review: Third Quarter (2008)

1.3.4 Will the Financial Sector Charter Improve Housing Delivery?

In October 2003, the financial sector announced its commitment to a transformational FSC for the industry which would provide increased access to financial services for poor households and communities. The four big banks, that is, First National Bank (FNB), Nedcor, Standard Bank of South Africa and Amalgamated Banks of South Africa (ABSA) voluntarily committed R42 billion in housing finance to the low income market by 31st December 2008, through the Memorandum of Understanding signed in 2005 with the Minister of Housing and Banking Association of South Africa. It was also agreed that prior to the stipulated target date, a new target for 2014 should be discussed and agreed upon by all these key stakeholders.

The goal of this initiative is the increase in the creation of stock. However there are a number of concerns which have been expressed regarding the risks attached to this charter. The banks are willing to push for a cautious and balanced approach where they do not assume the non-commercial risk and they have asked the government to take care of this risk.

1.4 Research Aims and Objectives

The aim and objective of this research was to ascertain whether the FSC has brought improvements in the creation of housing stock within the low income market, which would alleviate the backlog that has remained a challenge in South Africa for decades. In assessing the impact of the FSC we also looked at the major factors that have resulted in the lack of housing delivery. The final objective was to analyse the progress that has been achieved to date since the inception of the charter.

1.5 Scope of the Research

The scope of this study focused on the analysis of the impact of the FSC in improving housing stock delivery. Other legislative issues that also seek to address the creation of housing stock for the low income market and eradication of housing backlog, but do not directly impact the FSC, fall outside the scope of this research. The assessment of the impact of the FSC was limited to the direct and indirect factors that affect the delivery of low cost housing.

The rest of the study is structured as follows. Chapter 2 reviews the theoretical and empirical literature relating to the impact of the FSC. Chapter 3 proposes the questions that help to answer the research aims and objectives. Chapter 4 looks at the research methodology that was used in the study. Chapter 5 presents the results from the expert interviews while Chapter 6 discusses these results. Chapter 7 provides a summary of and conclusion to the study.

CHAPTER 2: THEORY AND LITERATURE REVIEW

2.1 Introduction

The theory and literature review aims to assess the impact of the FSC in improving the creation of housing stock in the low income market and also to outline the main issues around the lack of housing delivery which has been a challenge in South Africa. Low cost houses are defined as houses available in the market at about R200,000 (in 2005 prices) or housing supply to low income households that is the FSC target market (Rust, 2006).

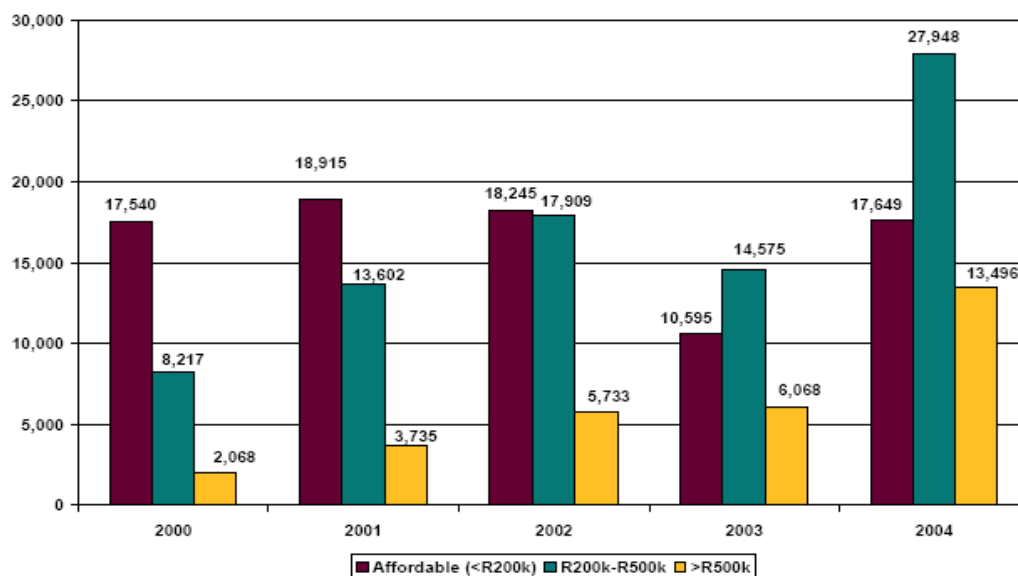
The review starts with looking at the delivery of housing stock in the low income market; it then highlights some of the discrepancies and challenges that exist in this market. It further seeks to understand the possible factors that cause the slow delivery of housing stock. A stakeholder analysis follows looking specifically at the role of two main stakeholders, that is, the financial institutions and the National Department of Housing (NDoH). It goes on to look at the Financial Sector Charter (FSC) specifically on the Memorandum of Understanding (MoU), how it originated and its objectives, followed by the measurements used in assessing the success of the charter. It concludes by looking at some of the projects that have delivered to date since its inception.

2.2 Delivery of Housing Stock

2.2.1 Housing Delivery

The availability of housing is governed by supply and demand factors amongst other factors. The National Home Builders Registration Council (NHBRC) documents that approximately 200 000 houses across South Africa were delivered in the private sector during the period of 2000 to 2004 (see Figure 3). On the total houses delivered, forty-two percent (42%), which equates to 82 944, fall within the affordable market as specified by the FSC. While this is a significant amount, the annual proportion of affordable housing delivery in the private sector has declined from 63% in 2000 to 30% in 2004, even though the number of units has remained almost constant (Rust, 2006).

Figure 3: New delivery: NHBRC enrolments 2000 – 2004



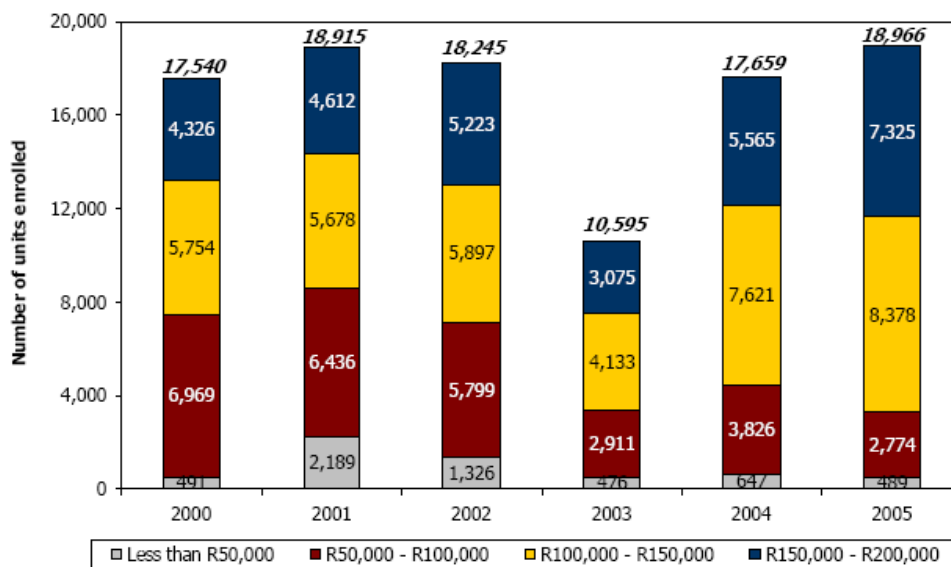
Source: Rust 2006

The proportion of housing delivery within the affordable market, that is a house up to R200,000 has been declining and the R200,000 market has been showing growth. This clearly demonstrates a shift in the delivery of houses from the affordable market to the middle and high income market.

Many developers have pulled out of the affordable market citing higher norms that need to be met while the subsidies have been constant and political interference has increased.

Melzer (2006) further analyses the delivery of houses within R200,000 and the delivery of houses costing between R100,000 and R200,000 and this has remained constant. However, those costing between R50,000 and R100,000 has declined by 50% since 2002 and those that are less than R50,000 are negligible, as shown in Figure 4.

Figure 4: NHBRC enrolments <200 000 from 2000 – 2005



Source: Melzer (2006)

This is a clear indication that the bottom end of this market within the FSC target market has been totally cut out of the housing market since there are no products being delivered that fall within their affordability range. This is demonstrated further in Figure 8, page 19.

Nell and Morkel (2005) as demonstrated earlier in Table 1, page 6, state that out of the shortage of 661 000 affordable houses within the 200,000 price range, with the greatest backlog experienced in Gauteng at 191 000 houses and Western Cape 128 000 houses. This implies that these are the two most affected provinces.

This would mean that the introduction of FSC so far has had an insignificant impact on the delivery of housing in the low income market. Unless efforts are made to increase the delivery of houses that match the affordability of this target market, these backlogs will persist.

2.2.2 Demand Analysis

Various efforts have been made to quantify the demand for housing in South Africa. It is usually expressed as demand that lies both within the subsidised and the affordable housing (Rust, 2006).

Gardener (2004), on the other hand, has identified eight 'sub-markets' as depicted in Figure 5 which looks at demand generated by a combination of households' income, subsidies and credit correlated against the practical ability

or inability to access available accommodation options. Each sub-market has specific affordability profile, problems and needs.

Figure 5: Housing demand sub-markets in South Africa

| | INCOME | | SOUTH AFRICAN HOUSEHOLDS (% of All Households - LFS Sept 2004) | AFFORDABILITY (% inc & R/Mnth) | ELIGIBILITY (R Total) | CONTRIB. (R min) | SAVINGS (R Total) | AFFORD (R Total) | PRICE (R Total) |
|-----|----------------|--|---|-----------------------------------|--------------------------|---------------------|----------------------|---------------------|--------------------|
| | (R/month) | | | | | | | | |
| 8 | V HIGH | | 10% | 25% / +R1875/m | NO | NO | | YES | |
| Max | >R 8001 | | | | | | | | |
| Min | R 7,500 | | | | | R 18,921 | R 170,286 | R 189,207 | |
| 7 | HIGH | | 4% | 25% / to R1874.75/m | NO | NO | | YES | |
| Max | R 7,499 | | | | | | | | |
| Min | R 5,500 | | | | | R 18,918 | R 170,264 | R 189,182 | |
| 6 | MID-HIGH | | 3% | 25% / to R1375/m | NO | NO | | YES | |
| Max | R 5,499 | | | | | | | | |
| Min | R 4,500 | | | | | R 13,875 | R 124,877 | R 138,752 | |
| 5 | MIDDLE | | 4% | 25% / to R1374.75/m | NO | NO | | YES | |
| Max | R 4,499 | | | | | | | | |
| Min | R 3,500 | | | | | R 10,669 | R 96,025 | R 106,694 | |
| 4 | MODERATE | | 6% | 25% / to R1124.75/m | YES | NO | | YES | |
| Max | R 3,499 | | | | | | | | |
| Min | R 2,500 | | | | | R 10,667 | R 96,003 | R 106,670 | |
| 3 | LOW INCOME | | 10% | 25% / to R875/m | YES | YES | | YES | |
| Max | R 2,499 | | | | | | | | |
| Min | R 1,500 | | | | | R 8,231 | R 72,451 | R 80,524 | |
| 2 | V. LOW INCOME | | 25% | 25% / to R874.75/m | YES | YES | | YES | |
| Max | R 1,499 | | | | | | | | |
| Min | R 1 | | | | | R 10,529 | R 72,451 | R 116,980 | |
| 1 | NO WAGE INCOME | | 38% | 25% / to R625/m | YES | NO | | NO | |
| Max | R 500 | | | | | | | | |
| Min | R 0 | | | | | R 8,231 | R 51,765 | R 93,996 | |
| | | | | | | R 2,479 | R 17,603 | R 54,082 | |
| | | | | | | R 2,479 | R 6,408 | R 44,887 | |
| | | | | | | R 2,479 | R 6,404 | R 44,883 | |
| | | | | | | R 0 | R 4 | R 38,483 | |
| | | | | | | R 0 | R 0 | R 36,000 | |
| | | | | | | R 0 | R 0 | R 36,000 | |

Loan finance terms: Unsecured loans: term: 2 yrs, int: 35%; dep: 0%. Min: R0, max: R10,000 / Guaranteed finance: term: 5 yrs, int: 19%; dep: 10%. Min: R5,000, max: R60,000 / Mortgage loans: term: 20 yrs; int: 12%; dep: 10%. Min: R20,000, max: none

Source: Gardner (2004)

The inequitable distribution of income in South Africa as demonstrated above clearly shows that 79% of all households fall within the subsidised housing market; these are households with an income of less than R3,500 per month. An additional 11% earn between R3,500 and R7,500; these fall within the affordable housing market. Of the 79% that fall within the subsidised market a full 38% earn no wage income at all.

This model demonstrates that affordability in housing is highly influenced by the availability of the housing subsidy, housing finance and the availability of housing stock to purchase these resources. The introduction of the FSC suggests that there has been an increase in availability of finance for the low income market. While this inspires confidence the level at which this investment

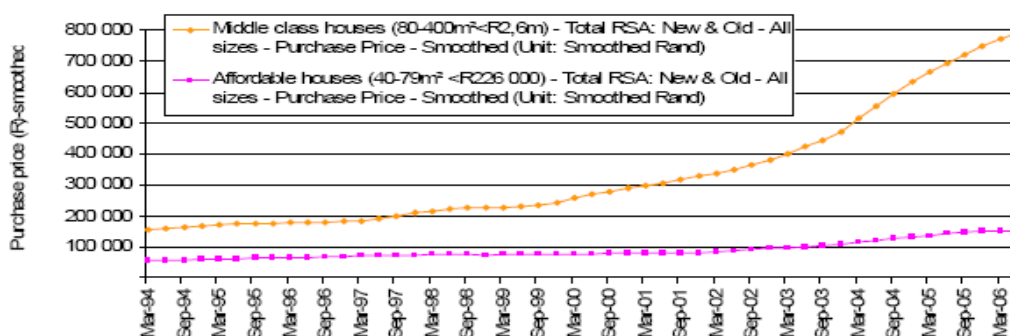
opportunity can be realised is dependent on the housing supply conditions relating to the delivery and affordability of product from developers. Evidence suggests that most households would not qualify to purchase an affordable house (also see Appendix 1, Table 2).

In this respect, while the FSC initiative is essential in stimulating housing demand, it will fall short of expectations unless efforts are made to increase the delivery of houses that will match the affordability of this target market.

2.2.3 House Prices and Affordability

ABSA House Price Index figures between 1994 and 2006 (below) demonstrate that the middle income market started showing constant appreciation as early as 1998 and in 2003 it increased sharply (Figure 6). Yet the affordable market really started appreciating in 2003 and at a much slower pace. The gap between the middle and low income housing has been widening at an alarming rate since 1994. This has had a huge impact on the mobility and the potential for housing in the affordable market. As the middle class houses move away from the affordable houses it means that the affordable market cannot move out or up in the housing market (du Toit, 2007).

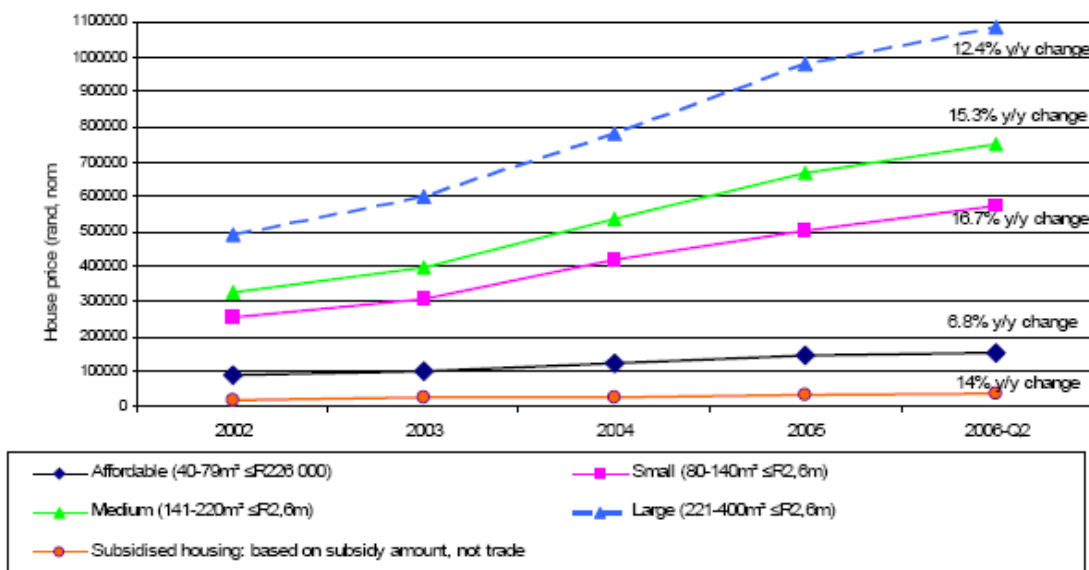
Figure 6: Average house price growth from 1994 – March 2006



Source: ABSA House Price Index (2007)

Figure 7 below further demonstrates that as the middle market moves away from the affordable market, the affordable housing market also creeps away from the subsidised housing market. This movement has resulted in a segregated housing market.

Figure 7: House Price Appreciation in South Africa



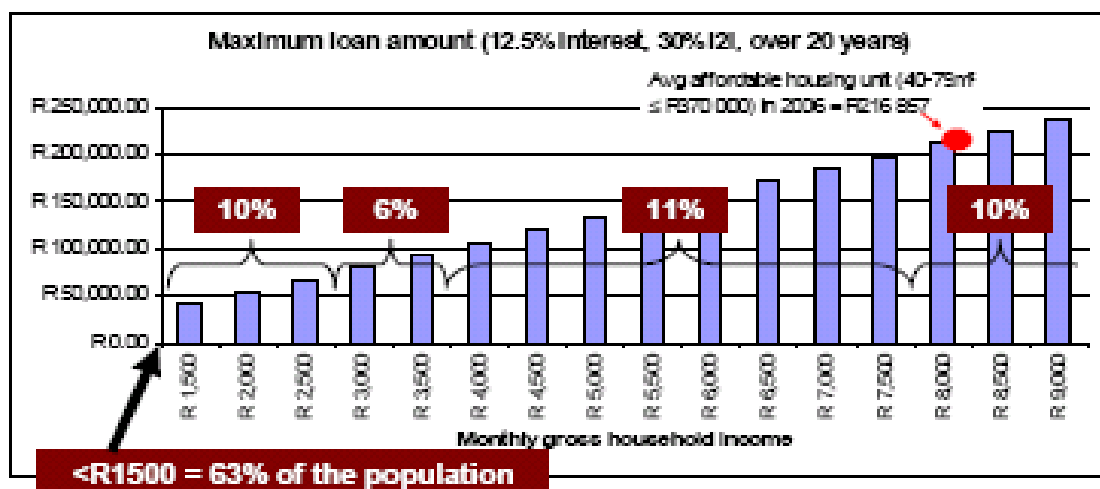
Source: Rust (2006)

The consequences of this are enormous. Those within the subsidised market will never move out of this market to the affordable housing market as the market is locked. In fact at current interest rates, only the very highest income households within the FSC market will be able to afford the average affordable house (about R200,000 in 2005). Less than 10% of South African households can afford the average affordable house today (Rust, 2006).

About 86% of South African households cannot afford the mortgage repayments that a R200,000 loan would require. Meanwhile the shortage of affordable stock has also increased the price of the stock which is available.

Du Toit (2007) estimates that the average affordable house in South Africa (defined as a property of 40 – 79 square metres and costing less than R370,000) was R216,000 on average in the second quarter of 2007. At the interest rates of 2006 a household would need to earn at least R10,000 per month to afford a loan of R216,000 as depicted in Figure 8 below.

Figure 8: Average affordable housing unit



Source: Rust (2007)

Watt (2008) also confirms that due to the widening gap between middle and low income houses, the affordable housing market continues to show a strong house price inflation growth. The rate of inflation in the second half of 2007 was 30% after having reached 34% in late 2006.

Du Toit (2007) further suggests that these increases in affordable housing prices have to do with a number of factors; one of these is the rising cost of land exacerbated by the holding costs resulting from administrative and technical delays in approvals and infrastructure installation and also building materials. Between December 2003 and June 2006, the cost of a stand

doubled and that of the top structure increased by about 20%. In both cases these increases have been greater than inflation, bringing the cost of a new house now just outside the affordability of the low income target market. The price of a second hand affordable home however, still sits within the FSC target market's affordability (see Table 3).

Table 3: Prices of affordable houses

Prices of affordable (40-79m²) houses – ABSA House price index, Rode Report 2004 & 2005, Building Cost Report 2006

| Product | Dec 2003 | Dec 2004 | Dec 2005 | June 2006 |
|----------------------------|----------|----------|----------|-----------|
| Stand | R46,000 | R57,000 | R80,000 | R93,000 |
| Top structure | R86,500 | R93,000 | R99,000 | R102,600 |
| New house (total) | R132,500 | R150,000 | R179,000 | R195,600 |
| 2 nd hand house | R102,500 | R122,600 | R140,900 | R151,500 |
| Prime interest rate | 11.5% | 11.0% | 10.5% | 11.0 |

This pressure on the land and construction input costs can no longer be absorbed by developers who are forced to pass them on directly to the home buyers in the form of increased house prices.

2.3 Possible Causes of the Slow Creation of Housing Stock

2.3.1 Lack of Access to Finance

Low income housing is hampered by the fact that most of low-income households cannot access finance which they can use to either build or improve houses or supplement housing subsidies to get better and bigger houses. The inability to meet the demand is further curtailed by the poor quality of most houses delivered and the prevailing high rate of unemployment (Kajimo-Shakantu and Evans, 2006).

Melzer (2005) supports the fact that there is lack of access to finance, indicating that the significant proportion of those targeted by the FSC have limited physical access to banks. A decentralised approach is required if the banks are to reach their target market, which has not been achieved by the banks for a number of years.

2.3.2 Wrong Type of Products Offered

The type of product that has been offered to this market has not been geared towards this market. The banks have been offering loan products and using servicing processes that have been successfully used in the traditional market, without modifying them in terms of the problems that were occurring in the township market. This led to formal banks servicing the low-income population poorly (Tomlinson, 2007).

According to Melzer (2003) banks already offer a range of home loan products in addition to mortgages such as loans secured by borrower's pension and provident fund, or unsecured loans. However, she argues that assessing the impact of the FSC, there needs to be a new "FSC" initiated home loan product similar to the Mzansi account which is a saving account for the low income market. In supporting the FSC initiatives, the various financial sector players need to seize the opportunity for a much broader engagement in the financing of low-income housing.

2.3.3 Non Commercial Risk

During 1980 -1990 many banks entered into the South African affordable housing market. However, interest rates during that period soared so high that many people defaulted on their loan agreements. As a result financial institutions concluded that this market poses a greater commercial risk. The political context in the late 1980s and early 1990s also affected the default rates; there were bond boycotts, group actions at both street and neighbourhood level which made it difficult for banks to foreclose and evict non-performing loans (Kajimo-Shakantu and Evans, 2006).

There has also been the issue of non-commercial risk, epitomised by communities being mobilised by their various leaders to stop paying their services and sometimes to stop paying their mortgage bonds as a form of political protest (Tomlinson, 1999).

While the banks are willing to carry the commercial risk on these mortgages, they prefer that the government should carry the non-commercial risk such as those discussed above, by underwriting the loss insurer, either with a guarantee or by putting up capital (Coovadia, 2006).

One of the views proposed is that the onus is on the government to manage that portion of the population which is unable to repay debt owing to politically related factors. This would instil confidence in the banking sector, therefore improving access to finance in the low income market (Kajimo-Shakantu and Evans, 2006).

2.3.4 Land Availability

Land is an important component of housing development and the lack of it has affected the delivery of houses. This is impeded by the severe shortage of serviced residential plots. The low supply of residential land in relation to demand has pushed prices of houses beyond the reach of the large majority of city dwellers (Tesfaye, 2007).

Glaeser and Gyourko (2002), concurs with this argument, they argue that the usual urban economics view of housing market suggests the lack of housing supply is influenced by the availability of land. This is due to the fact that land is inelastically supplied. He further argues that the rezoning processes that takes a long time has an impact on the construction costs and it slows the delivery of housing. This has a direct influence on the final price of a house being delivered.

Olander and Langille (2000) further argues that the unacceptably long requirements of planning can be used to prevent development process. The planning for housing is conducted within an administrative system that allows for a cascade of decisions from the national down to the local level. The process influences the availability of land and it slows the delivery of houses.

This is not unique to South Africa. The government intervention in the land market has been particularly ineffective in promoting property development. The failure to discard outdated land policies and develop more appropriate land tenure systems has been a major contributory factor in the underdevelopment of properties (Ebohon, Field and Mbuya, 2002).

2.3.5 Township Establishment Process

The serious delay in the township establishment and statutory approval process has resulted in the slow delivery of houses. The extended time duration and delays experienced in the land proclamation process due to the malfunctioning or inadequate or under-capacitated local authority administrators has affected the entire property market resulting in the low income market being the most affected (Nell and Morkel, 2005). As opposed to taking about 24 months from land procurement to house construction and handover which in itself is viewed as too long it now takes up to 75 months to complete this process (see Appendix 2).

2.4 Stakeholder Analysis

2.4.1 Role of National Department of Housing:

Nell and Morkel (2005) assert that the National Department of Housing (NDoH) has the responsibility of improving the delivery of houses in this market through its municipalities. The municipalities are responsible for setting aside land for housing development and planning, and for coordinating and facilitating the development of such housing within their boundaries.

Pottie, (2004) states that in the new political dispensation local authorities should become involved in direct housing delivery. However, other development issues essential for healthy residential areas such as water, electricity, roads, refuse removal and other local services, require more 'depth' of delivery through large-scale and capital-intensive infrastructure development. Building a well-functioning municipal framework to fulfil these roles has been a major concern, but the White Paper on Local Government seems to be silent on how to address these challenges. Further to this there is uneven capacity on the part of local authorities. Firstly, close to one third are almost insolvent; secondly, the structures that exist are ill-suited to the type of comprehensive planning envisioned by national government; and lastly, the lack of skill in the development of integrated development plans including the ability to negotiate long-term service provision contracts with the private sector is a significant hindrance.

According to the Department of Housing Comprehensive plan (2004) the key focus areas identified include:

- accelerating housing delivery as a strategy for alleviating poverty;
- using housing provision as a major job creation mechanism;
- ensuring that properties can be accessed by all as a wealth creation mechanism; and
- using housing development to break down barriers between the first economy residential property boom and second economy slump.

Moss (2005) states that the government has come up with six strategies for improving house delivery:

- a. Mobilising credit
- b. Supporting the people housing process
- c. Facilitating the speedy release and servicing of land
- d. Stabilising the housing environment
- e. Coordinating State Investment in Development
- f. Rationalising the institutional capacity

The efforts of the government are said to be inadequate in improving the current shortage of housing. The current bureaucracies that exist within the government housing system have been a major influence in the backlog.

2.4.2 Role of Financial Institutions

There have been a number of challenges in this market but the banks are finally committed to having a hands-on approach in this market. They have committed to collectively spending R42 billion in this industry and spreading the risk associated with lending in this market.

The banks are starting to show their commitment by the number of projects that are already underway. According to Marais (2007), there are a number of approaches and interventions that have been applied in addressing the lack of housing. FNB for example, has diversified its product portfolio and created a new product called SmartBond. It offers a 5 year fixed rate, affordable life insurance with no medical check required, and a full loan amount including bond costs.

Standard Bank launched its Low Income Housing (LIH) strategy. This takes a different approach from the traditional housing value chain and embraces both the supply and demand side. It firstly provides housing solutions to the purchase of a new or existing property. Creation of property stock is also part of the strategy, enabling the customers to create wealth by leveraging property equity.

2.5 The Financial Sector Charter

When the government realised that the Record of Understanding (ROU) (1994) was not going to provide the results expected, it looked for other methods to redress what it believes are the discriminatory practices used by the financial sector in their lending. Looking to the United States of America (US), it modelled its legislation on the Community Reinvestment Act. The SA Community Reinvestment (Housing) Bill (2003) was aimed at government being able to force the banks to meet certain targets in extending housing finance to low-income households. The financial sector, worried about the repercussions of this Bill, went on to propose its own Financial Sector Charter in October 2003 where they voluntarily set their own targets (Tomlinson, 2007).

2.5.1 Community Reinvestment Act (CRA)

The Community Reinvestment Act (CRA) involves pledges that the banking institutions make to extend levels of credit to targeted populations. It encourages the banking regulatory agencies to encourage banks to serve their entire service area, including low-income individuals. The CRA is implemented in two ways. Firstly, federal regulators periodically review the record of lenders in meeting their CRA and fair lending obligations. The assessment takes into account the institution's performance in serving its entire service area, including a review of the mortgage and small business lending. In addition the institution's record is considered as part of the review process when an institution submits an application for a merger or other structural changes (Bostic and Robinson, 2003).

According to Bostic and Robinson (2003) the impact of CRA agreements can reduce the amount of credit rationing in lending to low-income markets. It could also cause lenders to discover profitable lending prospects among borrowers previously believed to be not creditworthy. This could occur if agreements induce participating lenders to develop new and innovative products that use alternative methods for assessing credit risk that identify creditworthy of potential borrowers who were not viewed as creditworthy when using more traditional assessment approaches.

Diamond Jr (2002) however feels that the impact of the CRA-type approach alone would almost certainly fail to expand access to housing credit in the manner sought in South Africa. It is difficult to define the responsibility of specific institutions in specific areas, given that South African banks do not have community specific licenses. Also, if banks are pressurised into providing loans in an area, it could result in increased levels of defaults, even higher than those that they already face, rather than if banks were left to make their own decisions on where to lend.

This is supported by Tomlinson (2005). The United States has a reversed demographics situation where the lower-end of the market is the minority but in South Africa the opposite is true. The potential for systematic risk to the United States banking sector is much lower if its banks engage in unsound lending. However, the risk to South Africa is much higher because the numbers are so much larger.

2.5.2 Objectives of the Financial Sector Charter

The four big banks, which include Standard Bank, ABSA, NEDCOR and First National Bank, under the threat of more direct state intervention in the form of prescribed minimum lending targets, signed a Memorandum of Understanding (MoU) with the Minister of Housing and Banking Association of South Africa in 2005. In this MoU they committed to provide R42 billion of housing finance by 31st December 2008 to the low-income market. Further commitment was made prior to the stipulated target date that a new target for 2014 should be discussed and agreed upon by all the key stakeholders. This agreement emanates from the Financial Sector Charter signed in 2003 (BASA, 2005).

In the memorandum a number of objectives were clearly set out, of which all relate to the improvement of access to finance. The banks are meant to educate and support the end-users in relation to mortgage bonds. The discrimination in the granting of finance on a number of reasons not related to creditworthiness of the customers was meant to be eliminated.

Supporting the economic empowerment of the greater population through homeownership is also critical. This meant that the banks should play a role in the creation of new housing stock and fully support the functioning of the housing market which will develop innovative financing solutions for this specific target market.

Below is a summary of the key objectives of the FSC as per the MoU (2005, p. 2); they plan to:

- develop and support consumer education initiatives within the sector;
- eliminate the refusal of granting home loans on the basis of geographical area, sometimes known as red-lining;
- support wealth generation and economic empowerment through equitable access to home ownership;
- stimulate the creation of new housing stock;
- support fully functioning housing markets;
- ensure support and facilitate, in conjunction with the insurance industry, equitable access to affordable insurance products for the target market, which would protect a borrower's dependants in the event of death, and the borrower in the event of disability and unemployment;
- ensure the delivery of a minimum of R42bn in targeted investment for new affordable housing finance in the R1,500 to R7,500 income households by 31 December 2008, as per the Financial Sector Charter, and prior to this date determine a target for 2014 in conjunction with the Financial Sector Charter Council; and
- support the financing of emerging Black Economic Empowerment (BEE) entrepreneurs participating in housing construction, housing finance and human settlement infrastructure through the other elements of the Financial Sector Charter targets.

According to Tomlinson (2005) the banks are aware of their obligation to both shareholders and depositors. They are keen to push for a cautious and sound approach to low-income housing funding in extending their commercial risk

beyond the conventional mortgage market where they currently operate. In doing this they need government support in absorbing the risk attached to this market. In addition, there is a commitment to normalise the under-performing markets whereby the government and the financial sector develop a common approach to select pilot areas where it is still difficult for banks to realise their security.

The FSC target market includes household earning R1,700 to R9,670 but the cheapest affordable housing cannot be afforded by the majority of this market. So, the question being asked is, “who exactly will benefit from the banks’ commitment?” It is clear that expectations have been raised and promises made by both the government and the financial sector, but who benefits is yet to be seen (Tomlinson, 2007).

Melzer (2005), states that the monitoring of the FSC is unlikely to be effective because of the various sub-segments that exist within the target market. Households with an income of R7,000 are very different from those that earn R2,000. Therefore, the MoU should be refined to incorporate more specific targets based on sub-segment size, to ensure that the poorest in the target market also get their fair share of allocated capital. This is especially important given that a higher percentage of the population is at the bottom end.

2.5.3 Economic and Social Perspective

Home ownership can be a powerful weapon in the fight against poverty as for many households their home is their only asset. In an appreciating housing market, growth in value of this asset can result in wealth accumulation that, in turn, can finance increased spending or additional income-generating activities such as new businesses (Melzer, 2005).

2.6 Measurement of Success

The measurement of the FSC looks at the value and number of loans originated as well as targeted investments achievement. Each financial institution will report annually to the Charter Council via the Banking Association of South Africa on its progress in implementing the provisions of the charter using the Scorecard (see Appendix 3). Banks can earn up to 17 points for what the FSC calls “targeted investment” (BASA, 2005).

2.7 FSC Projects Delivered to date

According to Rust (2008), new figures for housing lending in the FSC space have been obtained from the Banking Association, although they have not yet been audited by the FSC Council. These figures provide insights into the past four years of activity and offer a basis for projecting forwards to the end of this phase of the Charter which is on 31 December 2008.

Between January 2004 and 31 December 2007, lenders have made R37.99 billion worth of mortgage, fully guaranteed (pension-backed), unsecured, developer and wholesale loans as depicted on Table 9. This value is not far from the R42 billion target being sought by the end of 2008.

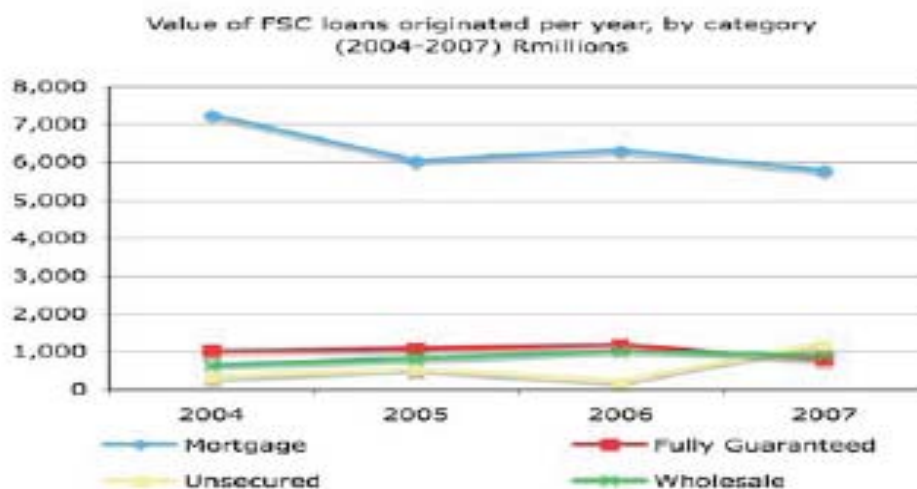
Table 9: Unaudited Banking Association figures of FSC bank lending for housing

| Unaudited Banking Association figures of FSC bank lending for housing | | | | |
|---|--------------------------------------|------------|-------------------|------------|
| Product | Number originated (Jan 04-31 Dec 07) | % | Value (R million) | % |
| Mortgage | 209 491 | 26% | 25 401 | 67% |
| Fully Guaranteed | 212 740 | 26% | 4 072 | 11% |
| Unsecured | 219 906 | 27% | 2 327 | 6% |
| Wholesale | 167 797 | 21% | 3 408 | 9% |
| Development loans | 274 | n/a | 2 782 | 7% |
| Total | 810 209 | 100 | 37 990 | 100 |

Source: Banking Association of South Africa (2008)

The mortgage loan product continues to dominate the FSC market from the perspective of value. Interestingly however, this value has been decreasing over time, as seen in Figure 10.

Figure 10: Value of FSC loans originated per year



Source: Rust (2008)

These downturns notwithstanding, origination levels have been much higher than originally forecast. While the banks expected to reach a targeted investment value of R30bn by the end of the FSC period in December 2008, they now expect to reach R47,9bn. From the financial institutions' viewpoint the investment in housing in the low-income market has been and continues to be significant. This investment may not have happened without the instrument of the FSC.

According to Melzer (2007) banks have begun to identify and fund low-cost housing developments in order to generate mortgage-able affordable housing units. ABSA, through its development company, has begun to purchase land specifically for affordable developments. They launched the R400 million Olievenhoutbosch Minister Project and they are also the primary financier in the R1.8 billion Albert Luthuli Housing Project.

FNB have invested in various developments including the 3035 unit Glen Ridge development near Soweto, 1 014 units at Cosmo City and 2 242 units at Rieger Park. In addition deals under discussion could yield a further 20 000 units within the next five years. Standard Bank is also active in the market and has earmarked R700 million for the 4 000-unit Hlanganani Village development.

2.8 Conclusion of Literature Review

The literature review has shown that there is a definite need for an increased delivery of housing within the low-income target market. However, there is a huge disconnection between the efforts of the private sector and the government. For an improvement in housing delivery to take place these

stakeholders should work together in coming up with innovative methods of delivering houses that are affordable to the greater population of the country.

It is for this reason that the research was conducted, namely, in order to assess whether the delivery of housing has improved since the inception of the Financial Sector Charter.

CHAPTER 3: RESEARCH QUESTIONS

The purpose of this study was to analyse the impact of the FSC in the creation of housing stock within the low-income target market. This research was exploratory; in understanding the impact of the FSC in the delivery of housing it was guided by interview schedule. (see Appendix 4 for detailed interview schedule).

Research Question 1:

- What quantity of housing stock has been created outside the Breaking New Ground or RDP process?

Research Question 2:

- What are the possible causes for the slow creation of housing stock?

Research Question 3:

- Has the FSC contributed to housing stock creation? If so how?

Research Question 4:

- What changes could be made to the FSC to improve the creation of housing stock?

Research Question 5:

- What other changes in the housing system are needed to support housing stock creation?

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Unit of Analysis

The unit of analysis for this study consist of a body of experts who are directly involved in the creation of housing stock within the low-income market. The aim of this research is to assess the impact of the FSC in the creation of housing stock in the low-income market. The research methodology consists of in-depth interviews with a body of experts from three of the four big banks (ABSA, Standard Bank, and First National Bank), the National Department of Housing and two well-experienced developers. The interviews were done using open-ended questions where the respondent was given the opportunity to give a personal response or opinion in his own words.

4.1 Research Design

Research design can be defined as “the science (and art) of planning procedures for conducting studies so as to get the most valid findings” (Collins and Hussey, 2003, pg 113). The method chosen for this research has been exploratory in nature; it involved both secondary data and qualitative in-depth face-to-face interviews with experts in housing that mainly focus on the low-income market. The method was chosen because it involves examining both verbal and non-verbal communication, with the aim of obtaining insights, and reflecting on the perceptions of the respondents in order to gain a clear understanding of the impact of the FSC, including the challenges in the creation of housing stock for the low-income market in South Africa (Zikmund, 2003).

The banking sector is viewed as hampering the creation of housing stock by a number of organisations such as the labour movements, due to the fact that there is lack of access to finance in the low-income market. The open-ended questions gave the interviewer the opportunity to dig deep with the intention of unearthing the thoughts and insights from experts in this market hence the methodology chosen.

All the interviews were held at the interviewees' offices, most of them during working hours. The duration of all the interviews was between 40 and 75 minutes. They were all recorded and later transcribed into written text.

4.1.1 Secondary Data

A review of the literature provided the researcher with a comprehensive understanding of the topic. It also encouraged new ideas and served as a background for future research (Zikmund, 2003).

Secondary data was obtained through scrutiny of the stakeholders' relevant reports in their websites. This was supplemented by critical perusal of property magazines, newspaper articles, theses and journals on the topics under discussion.

4.1.2 Qualitative Research

The focus of such a qualitative research is not on numbers but on words and observations: stories, visual portrayals, meaningful characteristics, interpretations and other expressive descriptions (Zikmund, 2003). An in-depth interview provided greater understanding of the intended objectives of the FSC in the creation of housing in the low-income market.

4.2 Population

A population, or universe, refers to a body of people or to any other collection of items under consideration for this research purpose (Collis and Hussey, 2003). The population suitable for this study included experts from three of the four big banks that have extensive knowledge in the delivery of housing stock within the low-income market. All the members are directly involved with affordable housing projects at strategic level. They all seek to fulfil the objectives of the FSC as set out in the MoU and they all occupy senior management level positions in their respective organisations.

The population further included an individual from the National Department of Housing who is also directly involved with strategic issues relating to the FSC and he works closely with the National Treasury. Part of the National Treasury's mandate is to allocate the subsidies to all the municipalities.

A senior manager of the Dairing Association of South Africa who is the FSC coordinator was also part of the population. The property developers that have the majority of their business focusing in affordable housing were also included.

4.2.1 Population Selection Criteria

The experts chosen for the study had to possess the following qualities:

- Experience: The respondents selected have accumulated extensive experience in housing. This was very important because it meant that they understand the dynamics of the housing industry in South Africa prior and post the FSC inception.
- Senior Managers: They all occupy senior positions in their organisations. This is important given the subject of this research. These individuals, by virtue of being seniors in their organisations, formulate strategies that seek to meet the FSC objectives. They also have a deeper understanding of the challenges that this market is faced with in trying to fulfil the FSC set goals.

The majority of these members have written papers on low-income housing and have also presented in local and international conferences. They are also passionate about making a change to the bottom end of the pyramid by delivering houses.



4.3 Sampling Size

According to Gill and Johnson (2002) it is often impractical to involve all members of this population, therefore making a selection of the participants to be involved in a survey is a crucial issue. When selecting the sample size the aim was to ensure that those who participated were a representative sub-set of the research population and thus any findings could be generalised or extrapolated to that target population with confidence. The sample used was properly chosen in that it enabled an accurate portrayal of the research population while avoiding the prohibitive costs of surveying the entire population.

Zikmund (2003) confirms that a sample of five to twenty is considered adequate for a study of this nature. The researcher interviewed 7 experts (see Appendix 5 and Table 5) who met the criteria of selection.

Table 5: Respondents Breakdown

| Source | Number of candidates |
|------------------------------------|----------------------|
| Banks | 3 |
| Baking Association of South Africa | 1 |
| National Department of Housing | 1 |
| Affordable Housing Developers | 2 |



4.5 Sampling Method

The method used was snowball sampling. According to Vogt (1999), this is a method for finding research subjects. One subject gives the researcher the name of another subject, who in turn provides the name of a third, and so on.

The snowball sampling method was appropriate for this study owing to the difficulty of finding these experts. It enabled the researcher to take advantage of the networks of identified respondents and provided an ever-expanding set of potential contacts.

This type of sampling method can be applied in two primary purposes. Firstly it can be used in conducting a qualitative research mainly through interviews, and secondly, it may be applied for making inferences about a population of individuals who have been difficult to numerate through the use of descending methods such as household surveys (Faugier and Sergeant, 1997). In this study the snowball sampling method was used for the first purpose, which is conducting a qualitative research using in-depth interviews.

4.6 Data Collection

The data collection for this research project was conducted through in-depth, face-to-face, open-ended interviews using the interview schedule guide (see Appendix 4). The interview schedule had four themes and each had a set of questions which covered that particular area.

The delivery of housing in the low-income market is a sensitive issue in South Africa due to its challenges. The researcher did not distribute any questions to the interviewees prior to the interview sessions. This was done to ensure that the respondents did not form opinions or have modelled answers on the subject because this subject affects all of them directly as they all belong to organisations that are stakeholders in the charter.

With almost all the interviews held the respondents were able to refer the researcher to the next potential candidate. When the researcher contacted most of those potential candidates they were all excited about the topic and they made themselves available to be interviewed. The researcher however, struggled securing the interviews with government officials; numerous phone calls and emails were sent to a number of senior managers from the National, Provincial and Local housing without success. Through perseverance and constant follow-ups the researcher was lucky to secure one candidate from the National Department of Housing.

All the interviews were recorded using a recording device and the researcher also took notes of key and interesting points raised during the discussion including issues which did not form part of the questionnaire but were of relevance to this study (Atkinson and Flint, 2005). The non-verbal expressions were also noted. Most of these were observed when the respondents were discussing the inhibiting factors in the delivery of low-income housing such as the land rezoning process, infrastructure, process for township establishment and so on.

4.5 Data Analysis

Qualitative data is non-standard and complex in nature. The raw data of the research only provides a descriptive record of the research but does not provide explanations. The high quality analysis depends on the researcher's skill, vision and integrity (Zikmund, 2003).

Once the interviews had been conducted, the recorded information was transcribed. The data had then to be analysed using the three concurrent flows of activity which consist of data reduction, data display and conclusion-drawing.

In data reduction the information went through a process of selecting, focusing, simplifying and abstraction. During the second flow of analyses which is the data display, it entailed assembling of data into meaningful information that permits conclusion-drawing. Lastly, in conclusion-drawing a reduction of data was done and regularities, patterns and critical explanations were noted (Miles and Huberman, 1994). The key themes which emerged from this exercise are reported in detail in Chapter 5.

4.6 Potential Research Limitations

4.6.1 Sample Bias

The quality of the data and in particular a selection bias which limits the validity of the sample, is the primary concern of snowball sampling research. The fact that the respondents were not randomly selected but were mostly dependent on the subjective choices of the respondents first accessed, limits the

researcher to make claims to generality from a particular sample. The aim is a rich understanding rather than generalisability of the results from the study.

4.6.2 Respondent Bias

The respondents interviewed are experts who are directly involved in the fulfilment of the objectives set out in the MoU. Their organisations are stakeholders responsible for the success or failure of this initiative. This could bring some bias to their answers since they will want to protect the reputation of their images, including those of organisations that they work for. The fact that the interview schedule was not given upfront and the experts work for different organisations that consists of stakeholders in the MoU, minimised this possible bias.

CHAPTER 5: RESEARCH RESULTS

5.1 Introduction

Chapter 5 will look at the sample description and the results of the research from the in-depth interviews held as stated in the research methodology in Chapter 4 and in line with the research questions in Chapter 3.

5.2 Sample Description

A total of seven of the targeted eight in-depth expert interviews were conducted. All the respondents are experts in the housing industry including the FSC related matters. They have been involved in the areas that relate to the delivery of housing for the low-income marketing particular, for a number of years (see Appendix 5).

The interviews helped the researcher dig deeper into the impact of the FSC and also enabled the researcher to gain valuable insights into the achievements that have taken place and challenges that are affecting the affordable housing in South Africa, as well as the entire housing industry.

All the experts interviewed were based in Gauteng Province, were all male and in terms of their race profiles, five were white and two black. Three of them came from three of the four big banks. These respondents occupy executive level positions within the housing business units of these banks and they have

a wealth of experience of more than 10 years, specifically in the field of housing. All of them are also highly qualified.

The other two experts are affordable housing developers who have been involved in this market for a more than 10 years. Over the past years they have delivered a number of huge projects within the FSC market, such as the famous Cosmo City and they also have a number of them lined up for the future, Pennyville Extension 1, Fleurhof Extension 2 which is one of the largest integrated residential housing developments planned for Gauteng, promising to deliver in excess of 6000 units before 2013.

The last two respondents are from the Banking Association of South Africa and the National Department of Housing. Their core functions entail dealing with issues pertaining to the FSC and they also occupy senior positions in their respective organisations.

All the participants were in agreement that the role of the FSC in trying to improve the creation of housing stock is critical in the alleviation of the current backlogs. However concerns were raised regarding the commitment of all the stakeholders in making the charter a success.

In discussion with all the experts, it was clear that they are all passionate about improving the lives of the majority population of this country through the delivery of housing, which ultimately leads to wealth creation.

They were all asked four questions relating to the impact of the FSC in the creation of housing stock for the low income market; the sections that follow below will cover the results of all the research questions.

5.3 Research Question 1: What quantity of housing stock has been created outside the Breaking New Ground (BNG) or RDP process?

5.3.1 The Creation of FSC Housing Stock

All of the seven experts commented that over the entire housing industry the delivery of housing has improved but there has not been a significant change for those that fall within the FSC market. The comments that were expressed include the following:

All the experts from the banks had full knowledge of the number of houses being created and one of them mentioned that, *“Our latest research indicates that in terms of the Breaking New Ground (BNG) housing segment 2,4 million houses are to be built and in terms of the affordable housing, there is a national shortfall of about 660 000 houses. We should be building about 180 000 houses per annum on the affordable segment and the industry is only providing 17 000 to 18 000 houses”*.

The developers knew the statistics that were published on the number of units but one of them was not convinced that all those units had been physically delivered. *“It is very difficult to provide an affordable house within the R270 000 bracket. I don’t think many FSC houses have been delivered. We have delivered 1 000 houses now but that is all three-storey sectional title and due to*

that, your pricing can come in within 10 markets. But we are one of the very few players playing in that space. So I must be honest, FSC units that have been handed over and delivered – I cannot see many. The latest statistics we heard from ABSA Bank, the backlog is something like 190 000 units per annum to be built, and that is affordable housing, so we are looking at R300 000 downwards, and I believe that only 17 000 have been delivered, which is still difficult for me to believe, if you take the few big players that exist in this market”.

5.3.2 Current Affordable Housing Backlog

All the respondents believe that there are huge affordable housing backlogs dating back a number of years. They keep on increasing each and every year due to factors such as urbanisation and legacy of the past. This is also the case with the BNG housing. Their views were that the FSC Policy on its own will find difficult in eradicating these backlogs. A selection of some of their comments is set out below:

“The backlog is just massive and it gets more and more every month as we go by, this due to the fact that we are not creating the stock in the country that we should be. It is very difficult, if not impossible, for the FSC policy to address these backlogs”.

One of the bankers went to the extent of emphasising that the backlogs are not due to lack of access to finance:

“Prior to the formation of the FSC, the view was that there was a need for finance and that the biggest problem was the unwillingness to finance. As the FSC got unpacked, it became very clear that the problem was not finance but lack of stock”.

“Let me first of all start off with what real advantages we have: we have got what I call an ‘institutional fabric’ which is a legal and practical system which permits home ownership and services to be provided with the full backing of law; never underestimate its value. It is a real challenge north of our borders because they have the same kind of housing critical shortage – it is a real asset that we have. Now notwithstanding that ‘institutional fabric’, we just have such a shortage of houses. Shortages of houses in broad terms are for two reasons: 1) the legacy of apartheid and 2) urbanisation and I think the latter is fast overtaking the former. In other words you are always going to have in a developing country, a huge number of people like a magnet drawn to the city centre where there are industrial and work opportunities”.

5.3.3 Affordability

All the participants cited affordability as a challenging factor in the low income market owing to the fact that the income bands prescribed by the FSC are far lower than the product that gets delivered in the market. Some of their comments are set out below:

The developers are finding it difficult creating stock that fall within the low income market; one of them states; *“The banks do not gain any charter points for affordable housing which is outside the FSC bracket. So the banks are pushing us into the FSC market and like I say it is difficult, it is very difficult to get a product within that price range. One of the options is densification, that is, high density of 120 to 160 units per hectare and to go up high rise, 3 or 4 storeys, so that is really the only way that we can really address the FSC market”.*

“The maximum for the affordable segment, as we sit here today is just less than R10 000 earnings per month from a household. They argue that this should be the maximum but we are saying that the affordability is now a major issue. Nobody at this level can technically afford to buy a house anymore, so unless we lift the levels of affordability to a more market-related level, there is a major challenge for servicing and providing houses for this market”

“I think the issue that we face is an increasing gap in the housing ladder: what I mean by this is - you have got your BNG units which Government are providing to households earning up to R3 500. Then if you look at what the cost is of an affordable housing unit that is being built in these developments, we are finding that the price tag has now goes to about R250 000 on average. Now for a family to be able to afford to buy one of those units, they need to earn somewhere in the region of R12 000 a month. So you now have a gap between a BNG unit and R12 000 and you have most of our population sitting in that gap in our country”. All the respondents commented that this gap is resulting in

the immobility in this market. Households can not migrate from a BNG house to an affordable unit.

5.4 Research Question 2: What are the possible causes for the slow creation of stock?

All the seven experts confirmed that the delivery of housing is being affected by a number of inhibiting factors. They mentioned that there are a number of developers passionate about the delivery of housing in this market but because of these challenges some of them are now opting to pull out. In the discussion they all showed signs of frustration. In presenting these challenges you find that most of them revolve around government inefficiencies. The causes for the slow delivery of low-cost housing are set out below:

5.4.1 Land

Land is a major problem in this market. It was raised by all respondents many times throughout the discussion specifically in relation to sourcing of good, well-located land and at a fairly reasonable price. The rezoning process from agricultural or farm land to residential land is also a burning issue.

One of the developers had this to say regarding the price of the land; *“Look, if for the affordable market you buy the land from the private sector, the land price would be too expensive and this is prohibitive for building the houses within the FSC target market, as negotiated within the Charter”*.

“I think the whole market is full of challenges. Challenges to deliver housing in the first place is influenced by – suitable land, to find land that is suitable, well located, and at good prices is a huge challenge”

Rezoning has also been viewed as a challenge, one of the respondent states; *“The affordability is influenced by a number of factors. And I don’t think it is the interest rate that is the major driver of the cost - it is the land or stand rezoning process which I think it adds about 30% to the cost of the end product”.*

“If you take five years from land to stand, why would the guys remain in this industry? The guys have exited from this market because this has huge impact on the margins as well”.

The lack of capacity within the government structures affects the rezoning process. The government officials state; *“The biggest inhibiting factor is availability of land at the right price; secondly the efficient processes and the incapacity in the regulators, whether they be provincial or municipal. The time it takes to get approvals, those are the biggest inhibitors in the supply side”.*

“I think the further challenges that are coming through are around suitable land - land is a scarcer resource and what we need to do around this is we need to involve the biggest owner of well-located land and that is Government. We need to get that land from Government into the market so that it can be developed for affordable residential housing”.

5.4.2 Process for Township Establishment

All respondents mentioned that the township establishment takes a very long time; the impact of this on the low-income market is two fold – firstly there are delays in the creation of housing stock, and secondly the holding cost increases the prices of these units beyond the affordable market.

“You get hold of a piece of land today and because of the inefficiencies in taking that land from a piece of farm land through to getting all the rights that you need to develop it into residential, takes not six months, but 60 months. In the interim you have got all the holding costs, the rates, whatever you have got to do to spend on getting the rezoning, environmental approvals, township layout plan, conditions of establishment, proclamation of township and so on. By the time you have actually got that land with no visible improvements on it but with legal permission to develop, you have increased the cost by almost 50% or you might have doubled the cost of it. Now that becomes the input cost, which straight away takes it out of the affordability range of the market which you are trying to deal with”.

One of the developers had this to say regarding one of his developments which was affected by the process for township establishment; *“When we started in one of our developments we were prepared to break ground 2000 but we only managed to do so in 2005. Township establishment has naturally been slowly happening, but up until recently it has been very poorly managed, in my opinion anyway”.*



5.4.3 Infrastructure

The unavailability and slow delivery of infrastructure is affected mainly by budget constraints. It was mentioned several times as an inhibiting factor in the delivery of stock.

“The municipalities do not have money to put the bulk in, so we have got to go in and put the bulk in ourselves and pay for it. But first we have got to go and borrow money which carries interest and we only get it offset at a much later stage. So there has got to be a more collaboration between municipalities, banks, government and the private sector – a united view on projects if we are going to make a difference”.

“The infrastructure of sewerage, electricity, water, roads and so on are currently in many of the areas where we would like to build so stressed that they cannot even service the current people in those places. Since 1994, you have got an additional 10 million people or so, which are the poorest of the poor and they now have access to these basic services. The difficulty with the local authority is that whilst they have delivered these basic services to them, in a lot of cases they are actually unable to pay for these services so they get them free. That puts constraints on the local authority because two things happen - firstly of their capacity has been gobbled up to supply these additional basic services and then secondly, because they are not getting money for them”. All respondents mentioned that expansion of urban areas also affect the infrastructure as expressed above.

The maintenance and availability of electricity is also a huge challenge; one of the bank expert states: *“Maintenance does not take place and electricity is a problem because of the whole misalignment between Eskom and the government. So consequently we find that even if a township itself would be economically feasible and bankable, we cannot link the infrastructure because the current infrastructure of the local government is not up to standard. So unless we apply more attention to getting the infrastructure constraints resolved it is going to be an inhibiting factor for providing affordable houses in virgin developments or new developments”*.

5.4.4 Building Material Prices

The continuous escalation of material prices which is way above the CPI rate was also viewed as an inhibiting factor. The majority of the respondents mentioned material costs several times during our discussion.

“One thing we would really like to see which is basically impossible is some government watchdog over the material supplies. Building material escalations has been ridiculously high these last few years and the majority are based on unrealistic factors. Every time petrol goes up cement and everything goes up, and three months later petrol goes down but the material prices stay up”.

“Major, major impact - if you look at the materials price increases over the last two or three years it is ridiculous you know, it is not inflation linked at all, we are looking sometimes at 200% or 300% increases on certain materials. Steel is

not being regulated, the state suppliers just do whatever they want; they put up the price and everybody has to adjust it”.

5.4.5 Capacity of the Government Departments

The capacity, lack of skilled personnel and high staff turnover within the National, Provincial and Local government were mentioned by the respondents as a challenge that is impacting the creation of housing stock.

“The main reason for the industry not providing the 180 000 is that there is no capacity in local governments to assist the private sector in getting from land to stand. So we are taking 5 years as a minimum to get from land to stand; we believe there is a major capacity problem in local governments and somewhat in provincial governments, in order to enable the private sector to provide the houses that are required in this market segment”.

“They need to upgrade the level of skills within local governments. Let me give you an example; Partners for Housing is a company owned by the four big banks with some other shareholders likes the NHBRC, the NHFC, Development Banks of South Africa, and we are doing work free of charge for Tswane; we managed to reduce time by 50% on some of the functions”.

The staff turnover within the government housing departments was said to be one of the main challenges to all these blockages. One of the respondents commented that, *“People in government and local council positions move a lot - so you do not get the thread continuing through. Every time somebody leaves or gets promoted or resigns, that thread gets broken then you have got*

to start almost again to rebuild a new one. The other thing too, is that there is no incentive for government or council officials to overcome these problems”.

5.4.6 Government Intervention and Department of Housing Structure

The majority of the experts expressed concerns in the structure of the entire housing departments. They believe that there is a lot of duplication of functions within the National, Provincial and Local government, and also that the strategies of all these divisions are not aligned. The government intervention in this market is also viewed as a challenge which affects the delivery of housing.

A selection of some of their comments is set out below:

“The National Department of Housing has got no line function with regard to housing that falls under the departments of the provinces and local municipalities and the synergies in the government departments are not what they should be to work effectively”.

“Each province has its own housing departments - I am not quite sure whether it is actually working in the sense that to me it is duplication of resources, duplication of processes. I believe that housing should be run from one central point, so that there are no conflicts”.

“It is highly politicised, it had to be because of our legacy where we came from. You know yourself that people of colour were not allowed to live in certain areas, so the struggle said housing is a right, therefore there is an expectation that I will be given a house. So due to the politicisation of housing, the affordability challenge because of unemployment all compound to the problem

in housing. For those reasons most developers have actually withdrawn or not gone into the lower end of the housing spectrum, because it is just very complex, very political and the returns are too low”.

5.4.7 Housing Policy

The housing policy in relation to subsidy allocation mechanisms and system of BNG housing is also viewed as one of the inhibiting factors. The amount of subsidy provided by the government is ridiculously low, which results in a lot of cross subsidisation where a developer needs to increase the price of bonded houses in order to cater for the deficit in the cost of building a BNG house. This leads to the continuous increases in the prices of affordable bonded units to cover the shortfalls in the BNG housing.

The developers are finding it difficult to function in this market due to cross-subsidisation; one of the developers said the following: *“We can hardly make it work at the present moment, it costs you exactly the same to service a stand in the RDP, the finance linked and the bonded housing; you cannot do an RDP house or a finance linked house, without having bonded housing to cross subsidise. It is such a sensitive market, it really is”.*

“I think the aspiration base for giving free housing and assisting the poor has also got out of hand. I do not think we can sustain a 40 square (sq.) metre free house. For the next five years, if we do that in terms of the current policy, we need about R100 billion and then for the five years thereafter I guess it is about R285 billion, and the government cannot sustain that. So it is the ability of the

current BNG process that is being questioned by many in the industry and that needs to be resolved”.

The bankers feel that some of their customers that buy the affordable houses feel cheated due to the BNG Policy. One of the bankers powerfully described the situation as follows: *“Where I have to take the house as security, fund you and you are earning income and your affordability level can only afford to have a loan of R150 000. For R150 000 you can buy a house which is 50 sq. metres, but a little way down the road from you there is somebody who has a free house of 45 sq. metres yet you have to pay each month for 20 years your mortgage bond. I meet you in the street and say ‘How much are you paying on your house?’ and you say ‘Well I am not paying for my house, it was given to me’, then I have to reflect and say ‘Well why should I pay, because there is no real difference between your house and my house’. This says to me that the BNG policy or process distorts the market”.*

Another respondent from the bank also states: *“The government says if you earn less than say R3 500 you get an RDP house, but they are saying it costs R43 000. If you take everything into consideration those houses in my own opinion are actually worth more than that - if you look at the actual value, especially the ones that they are building now, they are probably worth over R120 000 or R140 000. Then also you look at the size of those units, they are now sitting at +/- 40 sq. metres and then you look at what we as the banks or the developers provide at 40 sq. metres, you pay something in excess of R240 000, somewhere there. And now you start asking yourself, the BNG house, what is it doing to the market?”*

5.5 Research Question 3: Has the Financial Sector Charter contributed to housing stock creation? If so how?

5.5.1 Drivers of the Financial Sector Charter

All the members indicated that when analysing the FSC, one has to understand the history behind it. They mentioned that it was driven by the lack of access to finance within the low income bracket which would enable this market to create wealth.

One of the experts from the bank gave a very interesting history of the FSC; he described it as follows: *“Let me be somewhat realistic: somewhere in 1996/97 to about 2000 there were a lot of arguments going on in government circles saying that we should create a Community Reinvestment Bill. That would imply that all the financial institutions would be forced to provide a fixed quantum every year in the funding and creation of housing stock in affordable and social housing. The banking leadership did not agree with this philosophy – nowhere in the world has a government ever been successful if they have become the so-called driver of something that should be happening in the private sector. The banks then came up and said lets have the Charter by which we as banks will commit to provide a quantum of money in the housing sector, via non-compulsory action. We did not think the legislation would be prudent. The banks’ leadership, the banking council then made the recommendation to Treasury and the Ministers and Cabinet that we should go for a Charter. At that stage the Mining Charter had just been concluded and that was the start of the Charter, in 2002”.*

Lack of access to finance was mentioned as the main reason for the introduction of the charter: *“The low-income market was not being addressed for a long time: banks were reluctant to loan money into the low income market because they saw the people in that income group as a high risk. So the FSC to the best of my knowledge, was to force financial institutions to support this income group, because there was nothing, no houses, all that the people could do was rent because the bank would think a little person earning R5 000 was risky, he sort of has a job that is less secure than someone earning R10 000”.*

“Well I think you need to look at the FSC in totality, which is if you look at labour, labour was the one that actually forced government to initiate this. I think the starting point was that the very same communities that are investing their monies in the bank which are not actually benefiting from the banks, in terms of housing mainly”.

5.5.2 FSC Contribution in the creation of housing stock

The majority of the participants believe that the FSC has played a major role in getting banks involved in the low-income market in a number of ways. A selection of their observations is set out below:

This is a very powerful and interesting comment from one of the respondents regarding the FSC contribution; *“It is quite easy to sit here and talk about challenges and what the issues are but I think you must not forget the success we have achieved. I think looking at Africa, there is not one country that has been able to achieve what we have achieved. Our success since 1994, 2.4 million houses delivered within this segment, this is a huge achievement. I think*

what the banks have achieved under the challenge is a huge achievement and I think we need to be proud of these successes; we have actually got to celebrate them. I know we can improve and I know we have a lot of challenges but I think there has also been a lot of success and I think we need to actually boost those successes and actually talk ourselves up as a nation”.

A majority of the respondents mentioned that it moved the banking industry from focusing on traditional banking by coming up with innovative products to try to improve the delivery of housing. *“I think it has forced the banks to be innovative in the sense that previously we were just looking at traditional banking, where I will just finance you for the house. If you look at it now we have started a trend of creating stock, for example, we are delivering in areas such as Glen Ridge in Soweto about 3 033, Cosmo City we are to deliver 1 000 units and approximately 800 units have been completed and so on. Now you realize all the banks are now moving in the same direction and creating additional stock. I do not think the banks would have moved into this arena, if it was not for the FSC; it would just have been just business as usual”.*

All the experts from the banks confirmed that they have created separate business units to cater for this market; here is what one of them had to say: *“I think the biggest decision that our Bank actually took was to have a separate business unit that addresses this market. We have got a product as we speak right now where a guy can buy for up to 15% more than what he qualifies for; this is great in the sense that it basically means owning a home or not owning a home. I don’t think if we were still in the same place as the traditional market*

we would actually have thought of that because the emphasis was on the higher loans”.

“We have created a company which will buy rental stock in this market segment and own the rental stock in a development for instance or convert office blocks into rental stock. That investment is also going into the Charter space so there are many cases where the banks are doing things differently”.

The respondents from the bank confirmed that they have reached the set targets for 31st December 2008: *“I think the fact that the banks have been able to get to the R42 billion rand, that says there has been a contribution”.*

All the respondents confirmed that consumer education is now visible in the low income market: *“The banks have gone out of their way in terms of developing their part; we have gone into what is called Consumer Education to a large extent to mitigate risk, the banks have all gone into training estate agents in this market segment, to help in the secondary market for this”.*

Developers are also coming up with innovative ways; one of the developers states: *“We are going one step further in creating energy efficient projects, solar powered geysers, even in the BNG houses, good insulation in ceilings and floors, good insulation of windows with rubber seals, gas installations. Hopefully our next project will be the first zero-carbon emission project”.*

5.5.3 Risk Associated with the FSC

As indicated previously the majority of the respondents are excited about the role that the FSC has played in the delivery of housing within the low-income market, but they all confirmed that there are various risks attached to the charter, such as the increase in the default rates or the charter being used as a platform to pursue political agendas by different parties; project feasibility is due to tight margins experienced in this market. Some of the comments were:

“The biggest risk would be from the financial institutions, we are finding that banks are coming in on a regular basis to our site because the people are not paying their bonds, they are battling to pay them. It is just very, very tough - it is the increase in interest rates that is squeezing people”. This was highlighted by all the respondents interviewed; the defaults are becoming more and more visible with the recent interest rate hikes.

The developers are exposed to the risk of cross-subsidisation which might result in some projects not being feasible. One developer states: *“The risk from our side as a developer is we cross subsidise from bonded to finance linked and BNG. On average we almost have to build two bonded houses in order to cross subsidise to one finance linked and BNG. So from a project management perspective we need to get ahead on the bonded before we can start with the finance linked and BNG, and this also pushes the price of the bonded house beyond the FSC market and the margins are too tight”.* This view was shared by all the respondents and it forms the basis for the developers pulling out of this market.

“Well you know my view is a bit cautious. I think the FSC has done its job, the FSC has got institutions that previously were not involved in this segment of the market to be involved. I think the risk now is that it can be used for political purposes and give platforms to constituencies who would not otherwise have had a platform, or who in their own political groupings are not getting their policies right and therefore have got another platform to exercise”. This risk was repeated by most of the respondents; a number of affordable housing projects have been invaded by scatters because of the wrong message being sent out by politicians such as the famous N2 Gateway in Cape Town.

“I think if we get it wrong in the negotiation with the community because they really want more and more for less and less money this exposes the banks to risk, but banks have got shareholders therefore they have to make sure that they are sustainable and are making reasonable returns”. The banks also act as developers; with the delays in the project delivery some of these projects might make losses, hence placing the banks at risk.

5.6 Research Question 4: What changes could be made to the FSC to improve the creation of housing stock?

All the respondents spoke at length about the changes that need to be made specifically to the FSC, to improve the delivery of affordable housing. Some of the suggestions were:

“In terms of the banks as well, I think the banks now need to rise and come with new solutions to the market. We have always been looking at just saying we are creating the stock and financing the end users, but we have never come

up with an innovation where we could get funding to actually facilitate the price at which we are giving out the loans so that it is actually affordable. In fact you will find that a guy who buys for a million gets a better interest rate than the guys who buy in our market, which to me should actually have been the other way round". All respondents spoke about cheaper funding, one of the reasons why they focused on this point is because of the recent interest rates hikes.

All the respondents from the bank suggested that getting a cheaper or special wholesale rate from National Treasury below the repo rate will have a positive impact in funding these projects. One respondent says: *"There have always been some suggestions, but it does not look like the National Treasury is actually interested; there should now be a special lending rate for housing especially for affordable housing. If a bank wants to lend in this market then there should actually be a better rate from treasury to incentivise banks to continue lending in this market".*

"The Charter is a voluntary action by different stakeholders – this on its own makes it weak in terms of fulfilling its mandate. The charter needs to be regulated just like the BEE Act to make it more effective; however this does not say that it has not played a role, but formalising it will make it more effective in the delivering of housing". Most of the respondents commented that formalising the charter would improve the accountability of all the key stakeholders. In view of the fact that it was voluntary action from the banks, most of the respondents seem to suggest that all the responsibility lies with the financial institutions.

5.7 Research Question 3: What other changes in housing system are needed to support the creation of housing stock?

The changes suggested by the respondents are wide-ranging and some of them focus on the changes that should take place in the inhibiting factors. A selection of their suggestions is set out below:

All the respondents mentioned alternative building materials a number of times during the discussion. *“We need to introduce alternative building technology. For an alternative technology you have to move away from, say, a government that will only approve certain standards because of their own codes (if it is brick and mortar, it has to have this type of roof or that type of pathway). For alternative technologies we need to go for another approach, which is called ‘Rational Design’. Rational design is when a professional engineer would sign off that design confirming that it will last for more than 20 years; it will be effective, it will not crack and so on, so that a bank could take that as security for a home loan”.*

Standardisation of building materials was viewed to be a solution; here are comments from one of the respondents: *“The opportunity is that what we are trying to deliver in terms of housing in this country certainly for the lower income market is not sustainable, the product is too expensive. We need to look at trying to improve construction processes by improving the standardization of materials. In other words what I am trying to say is that you get economies of scale, so if you build a window it has to be this ‘this size’ rather than having different styles of window”.*

Comments were made by all the respondents that the government should start releasing their land. *“Those government institutions like Transnet and so on own quite a number of pieces of land that are just sitting and idling, which in my opinion should actually be released. When they release these pieces of land for development, they should release them having been re-zoned”.*

The training, increasing capacity and staff retention of housing officials was recommended strongly by all the respondents. The respondents’ views suggest that the improvement of staffing within the government will address a number of challenges. Here are some of their comments:

“If you look at government I think the most critical thing they need to address is their tendering process. With these pieces of land, they put out to tender, people tender and then there is very little delivery”.

“I think what needs change is the official process for converting a piece of raw land through to a developable site. I actually think the charter has done its job, I do not think messing around with the charter is going to change anything. You could double the charter targets or you can halve them – it is not going to change anything. What is going to change things is how this land is going to be made available, who has got the ability to convert the piece of farm land into a development site and where can you actually get the skills that work in the municipality”.

“I think the first thing is to get the money to spend and management must improve rapidly. This needs to be done efficiently and I think the private sector can assist. I think government should accept the need for the private sector involvement in that. Preventing that right now will not solve all the issues around the Public Finance Management Act (PFMA) and incapacity of government”.

Most of the respondents commented that the provision of free housing is not sustainable and suggested that the government should perhaps start looking at providing a serviced site only: *“There needs to be a change in Housing Policy: as long as you have got a housing policy that promises a house to people and it can be politically abused, we are not going to get more funding into that bottom end of the market. So we have to have a site which has got water, sewage and electricity and then the actual construction of the top structure should be the individual or household responsibility”.*

“There needs to be more than just an ownership option - there needs to be more efforts into the type of housing which is not solely ownership but which starts off maybe as social housing then moves to rental housing and maybe finally to rent to buy”. The gradual ownership of housing was suggested by all respondents from the banks.

The comments from the respondents suggest that there is lack of involvement from the government. Here is one of the comments from the respondents: *“The banks are now geared towards creation business units that focus on ensuring that they actually meet the FSC Charter, but also the government must actually play a very, very big role in this. At this point in time it is being left to the bank”.*

5.8 Conclusion

The results of the research show that FSC initiatives have been introduced to stimulate the access to finance and also fulfil some of the key objectives, which ultimately leads to an improvement in the creation of stock. However the inhibiting factors that exist within the housing system affect this progress. The chapter that follows presents the discussion and interpretation of these results.

CHAPTER 6: DISCUSSION OF RESULTS

6.1 Introduction

The aim of this study is to analyse the impact of the FSC in the creation of housing stock within the low-income market. The study seeks to find out if there has been an improvement in the delivery of housing within the low income market. It will further look at the factors that could affect creation of stock and lastly the new ideas that could be implemented to improve the delivery of housing.

6.2 Research Question 1: What quantity of housing stock has been created outside the Breaking New Ground (BNG) process?

6.2.1 The Creation of FSC Housing Stock

The delivery of housing stock that meets the FSC market has been a challenge for many years in South Africa. The findings of this study concurred with Warnock and Warnock (2008) that across African countries the housing supply tends to be a challenge, primarily because of the housing sector's regulatory environment, especially the land use policies and building regulations.

The analysis revealed that the introduction of the FSC has not had a huge impact in the creation of stock that meets this market. A number of developers have also opted to exit this market due to a number of negative factors that relate to the regulatory environment and the inefficiencies that exist within the government housing institutions, which lead to thin margins.

The few developers that are left find it difficult to deliver the number of units that are required every year to meet the demand. According to the statistics it stands at about 180 000 houses to be delivered yearly, however the industry is only producing about 17 000. The delivery of stock in the entire housing market has however increased. This means that more stock is being delivered for the middle and upper end of the market where the returns are reasonable.

In conclusion this means that the FSC as a policy without the support of other policies which will create an enabling environment for the creation of stock, will find it difficult to make a meaningful impact or eradicate the backlogs that exist in this market.

6.2.2 Current Affordable Housing Backlog

The literature and the research findings suggest that the current backlogs within the BNG housing are estimated to be 2.4 million houses and in the affordable market about 660 000. According to the Banking Association of South Africa (2005) if the delivery stays constant it is expected to increase to about 730 000 by 2010.

In Chapter 5 it is stated that these backlogs have been the result of a number of factors, amongst them being the rapid urbanisation that took place post 1994 and the legacy of apartheid. Pillay and Naude (2006) concurred that the inherited housing backlog was largely a result of high levels of urbanisation, poverty, high unemployment together with the history of apartheid. The results suggest that it is impossible for the FSC to eradicate these backlogs that have existed for more than four decades and which keep on increasing yearly. This

also calls for the support of other stakeholders that could create an enabling environment which will facilitate speedy delivery of houses and at the same time attract new developers to re-enter this market.

Opinions of the respondents suggests that when the FSC was introduced the government felt that the financial institutions were not coming to the party in terms of lending to the low-income market but it has been proven that access to finance is not the main issue, but rather the availability of stock.

6.2.3 Affordability

The analysis revealed that there has been an increase in the number of houses delivered in the entire housing industry but those that fall within the low-income market have decreased relative to the increase in the delivery of stock.

A basic principle of economics states that the price of any goods is influenced by supply and demand. If there is a shortage of particular goods in the market the price of that commodity will go up. This principle has is visible in the low-income market, where the lack of stock has been one of the contributors in pushing the average price of an affordable unit to about R270,000. The monthly bond instalment of this unit is translates into about R3,700, using the current Prime rate of 15.5% over 240 months. If one applies the basic credit lending principle which states that the instalment should be 30% of the gross earnings, (this has however been changed due to the current stress in the market) it means that the household gross earnings should be about R11,000. This automatically excludes the entire income bands prescribed by the FSC.

This has created a huge gap between the BNG and affordable market housing. It means that those who are in the BNG market and also the greater population that fall within the FSC income bands as their income increases will find it difficult to upgrade to an affordable house.

6.3 Research Question 2: What are the possible causes for the slow creation of stock?

6.3.1 Land Availability

The literature and the results of the study confirm that land is one of the major factors that impacts, both the delivery and the prices of stock within the low income market. Tesfaye (2007) suggests that the low supply of residential land in relation to the demand has pushed prices of residential units beyond the reach of the large majority of city dwellers.

This is also consistent with, Glaeser and Gyourko (2002), they further argue that the slow process of rezoning of land to residential has a negative influence in the delivery of housing; it results in an increase in the construction costs which leads to an increase in the prices of houses being delivered.

The developers are struggling to find suitable, well-located and fairly-priced land which is near the city centre. This has led to most of these developments being located in the urban peripheries far from jobs and services. Goebel (2007) concurs with the fact that new houses and townships continue placing

the poor and low income blacks in the ghettos on urban peripheries far from the jobs and services.

The land that is available is mostly within the urban edge of most townships. Developers have no option but to purchase such land which in most cases it will be zoned farm land. The rezoning process of these pieces of land from farm land to residential is a huge undertaking for most of the developers; in Chapter 5 we saw that it takes up to two years for land to be rezoned.

This has a huge impact on the price of the final product due to holding cost. Some developers say that the cost added to the price is about 30% if not more. These costs are transferred to the final product therefore this automatically pushes up the price of units being delivered outside the low-income market. The results further confirm that most of the developers do not want to operate in this market because the margins are too low or non-existent.

In Chapter 5 all the respondents indicated that the Government through its parastals such as Transnet is the owner of the well-located land. The general sense is that if the government is committed to the delivery of housing for the low-income market this presents an opportunity for them to start putting this land into effective use.

They can start by taking all this land through the rezoning process then invite a number of well-experienced developers to take this land at nil consideration. They will be able to deliver appropriate products to the market more quickly and can share the proceeds with these government bodies when the units have

been sold. This will also attract new developers in this market given that most of them shy away from it due to the cumbersome processes and the low margins. Developers are also in business to make money like any other business. Should they realise that all the risks do not lie with them, they will be encouraged to come into this market.

6.3.2 Process for Township Establishment

The township establishment process is one of the inhibiting factors in the speedy delivery of houses in the FSC market and, in fact the entire industry. The findings in Chapter 5 revealed that it takes on average 60 months (5 years) from land procurement to installation of services. Under normal circumstances it should take 18 months (1,5 years).

The FSC was introduced to facilitate the speedy delivery of reasonable-priced affordable houses. This lengthy process impacts the FSC objectives in two ways: first, the holding cost results in an increase in the price of the end product. Liquidity is a challenge for most developers due to the nature of their business, as their funds sit in the number of projects that they are developing. Therefore, they will need to borrow from the bank the funds to purchase land. This in turn carries an interest component. This means that on a monthly basis interest will either get paid or capitalised on the capital amount. If the interest is capitalised, the land might double in cost as mentioned in Chapter 5 (depending with the period it takes to complete the process for township establishment). For a developer to make a profit or breakeven, these costs will be passed to the end user.

Secondly, the fact that the township establishment takes five years, it means that the through-put of any development is too long depending on the number of units being developed. Also, the eighteen months that it takes from house design and building plan approval to house construction and handover per the findings in Chapter 5, this clearly demonstrates that the backlogs will continue if no drastic measures are introduced to address these inhibiting factors.

A reduction in the period it takes for the process for township establishment will reduce the holding cost of land. This will reduce the price of the end product and also create housing stock at a much quicker pace.

6.3.3 Infrastructure

According to Goebel (2007), low cost housing delivery has been a major focus of the post-apartheid government in the urban areas of South Africa. While there is some success, there are growing concerns regarding the social and environmental sustainability of housing programs, which impacts the surrounding environment and human health. The infrastructure for new houses such as sewerage services are of poor quality and are deteriorating rapidly.

The findings of the study mentioned that the availability of infrastructure such as sewerage, electricity, water, and roads is impacting the delivery of housing to the low-income market. The budget constraints and inefficiencies that exist within government structures are leading to delays in the installation of infrastructure. Infrastructure for existing houses is of poor quality and the government is failing to maintain it.

As mentioned earlier, most of the land that developers buy lies on the urban peripheries where there is no infrastructure or if any, is inadequate in most cases. Local municipalities have to start the installation of infrastructure from scratch; however, given the challenges that exist, this has a bearing on the delivery of houses. Coupled with this, rapid urbanisation causes further strains.

The results also suggest that when installing the infrastructure, local municipalities prescribe the same standards to be used, be it in an affluent, medium or poor suburb. In an interview, one of the experts stated that the same size roads should to be constructed, but given the fact that the number of cars in low-income suburbs are limited compared to affluent suburbs, they should allow reasonably small roads to be built, arguing that these communities are more worried about owning a home than the size of the roads.

Lack of finance has resulted in local municipalities asking the developers to fund infrastructure upfront and refunding them when they receive their funding from the treasury. This is not sustainable for developers; it creates additional costs that lead to an increase in the price of the units that get delivered.

On the other hand if the developers fail to source the funding this means that there will be delays in the projects up to a point when the municipality has received its allocation of funds from the treasury.

6.3.4 Building Material Prices

The boom in the property market that took place in early and mid 2000 led to a number of developments taking place; coupled with this there are currently huge infrastructure projects taking place, as mentioned earlier.

All this activity triggered the continual increases in the building material prices above the inflationary rate. The study done by Du Toit (2007) from December 2003 to June 2006 demonstrates that the price of a new affordable house (40 – 79 sq. metres) costs more than a second hand house; in fact the cost of the top structure during that period increased by 20%.

Indeed the respondents confirm that this has had a huge impact on the achievement of the FSC objectives. In trying to solve this problem the stakeholders in the industry, such as the developers, in conjunction with some of the financial institutions are seeking alternative building methods. The challenges remain of whether these will be accepted by the government building codes, due to the current poor operational processes and also whether all the banks will equally accept these houses as security for the mortgage bonds granted.

6.3.5 Capacity of the Government Departments

One of the most significant findings of this study is the lack of capacity and skills that exist within the government structures. This results in frustrations

relating to land rezoning, processes for township establishment, provision of infrastructure, poor tendering processes and so on.

The findings of this study concurred with Pottie (2004) who indicates that there is uneven capacity on the part of local authorities to deliver owing to the fact that a third are bordering on insolvency. The structures are ill-suited to the type of planning envisioned by the national government, and finally do not have the necessary skills to perform the functions that will improve the delivery of housing.

The FSC policy on its own without the joint efforts of some of the other major stakeholders, especially the government, will struggle to achieve the desired results. There is a need to have a champion that can coordinate the efforts of the stakeholders and align them with the objectives of the charter.

6.3.6 Government Intervention and Organisational Structure of Housing

The National Department of Housing is responsible for developing policies and strategies that determine the delivery of housing. The Provincial government promotes, coordinates and implements these strategies, and finally the municipalities play an important role in the development of integrated sustainable housing settlements and the planning of the housing needs.

In Chapter 5 the majority of the respondents mentioned that there are too many departments in the Ministry of Housing which leads to a duplication of roles. When a township is being established, approvals from all these departments

are required. This tedious process causes a lot of frustrations for developers and the banks (because they also formed development companies when the FSC was introduced in order to fulfil the goals set). Further frustrations are experienced due to the fact that some municipalities do not see the delivery of housing as one of their core functions; hence there is lack of focus in this area.

The results also suggest that each province has its own housing departments with totally different processes, rules and regulations relating to the housing delivery. The developers that operate nationwide have difficulties trying to align their strategies to the different municipalities. With all these challenges it is difficult for the FSC objectives to be achieved, the delivery of houses will definitely not be as effective as expected.

As a result of discussions with the developers and through industry experience, developers are exiting this market because it is said to be too politicised. In some cases when politicians campaign and speak of providing free houses to the community, there has been a situation where invasion of houses in the developments have taken place; for example, the disputes that have been going on for some time on the development already mentioned called N2 Gateway in Cape Town, and there are some houses in Gugulethu in Cape Town that were also invaded early this year. The developers and the banks who are funders of these developments get exposed to huge risks. Hence the call from the banks for the government to cover the non-commercial risk, but the government is unwilling to assume this risk.

According to Tomlinson (1999) and Rajon-Graciano and Evans (2006) the low-income market can be mobilised by political leaders having bond boycotts and also group action which makes it difficult to foreclose on defaulters. This seems to suggest that the government is waiting for results without taking any action. Currently there is brewing tension in the famous integrated development known as Cosmo City.

Chapter 5 states that this is a challenge for the banks who have been champions in the fulfilment of the charter. Should such patterns occur in a number of developments or communities for affordable housing the banks' history might repeat itself where banks will end up pulling out of this market completely.

6.3.7 Housing Policy

The housing policy in respect to Breaking New Ground (BNG) seeks to provide a housing subsidy to beneficiaries with a household income of between R1 501 and R3 500 per month. The individual subsidy mechanism is available to these individual households who want purchase an existing house to purchase a vacant stand and enter into a building contract for the construction of a house. The latter subsidy option may only be awarded to those households who have entered into a loan agreement with a financial institution. The maximum subsidy that can be paid as per 2008/2009 data on Appendix 6 is R43 506.

When building affordable units, developers are required to have a portion of the land being utilised for BNG houses. The experts are convinced that this causes a lot of distortion in the market in a number of ways. Firstly the amount granted

by the government as a subsidy totaling R45,000 is not adequate to finance a completed unit of 40 sq. metres. Developers believe that if you take all the costs (land costs, infrastructure, top structure construction costs and all indirect costs) this unit costs about R120 000. In order to meet the requirements of the government the developers cross-subsidise the BNG units with affordable units. In fact all these costs get passed on to the final price of affordable units resulting in the price being pushed beyond the low-income market.

Secondly, the developers also produce almost the same unit size for the affordable bonded market with almost the same specifications, for example, in terms of tiles which are sold for about R250 000. The results noted in Chapter 5 suggest that individual households that buy these units and have to pay bonds for 20 years feel cheated. This also causes a lot of confusion in the market.

Thirdly, the sustainability of this policy is questionable given the government budget constraints. It costs the government billions to cater for the BNG market. This is also a contributor to the lack of funding for projects such as infrastructure provision which could improve the delivery of housing to a wider population. The results from the study revealed that the lack of skills and capacity within the government results in a failure in managing these subsidies.

The government subsidy can only be paid out towards a completed unit or house. This means that developers have to fund the construction these units upfront and the results show that there is a huge challenge to be reimbursed. Over and above the fact that these funds are insufficient, this system puts a

further strain on the housing delivery. From an economic point of view it does not make sense for any developer to try to operate in this non-lucrative market.

All these constraints impact on the developers' cash flows and erode their margins. The banks in the fulfilment of the FSC mandate might try to come up with innovative funding structures but as these obstacles are not eliminated or dealt with. The creation of stock within the low-income market will remain limited.

The cross subsidisation creates a gap in the market because as cost of building materials increase they get passed on to the bonded units which ultimately means an increase in the price of these units. The widening of the gap between the BNG and affordable units means that those that start in the affordable market will find it difficult to migrate to an affordable unit, due to high prices which are out of reach of most South Africans.

6.4 Research question 3: Has the Financial Sector Charter contributed to housing stock creation?

6.4.1 Drivers of the FSC

One of the interesting descriptions of the drivers of the FSC from one of the experts is “transformation, just one word, transformation of the banking industry, both from inside and outside and being relevant to the majority of our people”.

The analysis of the results revealed that the driver of FSC was mainly the access to finance. This is consistent with literature, and Tomlinson (2007) argued that the commitment of South Africa's banks has been repeatedly questioned since 1994 with regard to lack of access to finance for the low-income market. This is believed to have led to the lack of low-cost housing delivery, hence the backlogs that exist.

All expert interviews mentioned that the introduction of the FSC has to be understood by looking at the history. Since 1994 the government has endeavoured to try to address the shortage of housing that affects the majority of the South African population. In the past they introduced a number of initiatives but the results were less than satisfactory. The financial institutions were viewed as one of the key contributors of these poor results. The government had to come up with a bold stance of forcefully getting the banks involved so that they could meet the commitment they had made to the greater population of this country in the 'White Paper on Housing'. They stated that they would prioritise the needs of the poor and promised speedy delivery of housing. Realising the implications of this stance from a risk perspective the banks came together in 2002 and decided to volunteer in pumping a certain portion of funding into the low-income market amounting to R42 billion over a period of five years which ends on 31st December 2008.

6.4.2 FSC Contribution

The literature and findings of the study suggest that there has been a significant improvement in the involvement of the banks in this market. The most significant finding of the study is that the banks have embraced change and they are now fully committed to the low income market.

A number of innovative ideas in addressing this market have been implemented by some of the banks, such as the following:

A. They formed new divisions or business units which will enable them to focus on addressing the needs of this market by coming up with new products; for example, ABSA introduced a home loan product called MyHome, FNB introduced a product called Pay Less or Buy More and lastly Standard Bank, with Dream Start. Some have even gone to the extent of owning rental companies that facilitate the creation of rental stock and then rent it out.

B. Some banks have moved away from the traditional banking a step further by forming development companies that are involved in the creation of housing stock solely for the low-income market. These results are consistent with the Melzer (2006) findings that the banks have begun identifying and buying suitable land, taking it through the rezoning processes and then inviting their known developers that play in this market to partner with them in the creation or delivery of housing stock.

C. Innovation hubs have been formed which seek to come up with alternative building technology as opposed to the traditional methods of using bricks and mortar.

D. All the big four banks are also involved in consumer education in helping the clients understand the dynamics of the mortgage lending. This is critical because it is one reason that led to a huge number of bond defaults in the 80s and early 90s. Tomlinson (1999) also argued that the defaults were due to the fact that mortgage bonds were viewed as complicated instruments difficult to understand for the low-income market. Given the limited education and experience and also lack of borrower education, many borrowers ended up defaulting.

E. Most developers are also improving the delivery by densification of a number of their developments that are currently under way, such as, Pennyville where they are building double-storey affordable units. This results in cost savings which makes the final price far cheaper than stand alone affordable house. One of the interesting findings is that they are also delivering energy-efficient projects – this also addresses the environment issues which is a brilliant idea of the developers.

The findings in Chapter 5 also reveal that the set target of R42 billion funding in affordable housing has been achieved; this is encouraging given the fact that the lack of access to finance has always been a challenge.

With all these excellent ideas in place the FSC will be able to improve the delivery of housing; however, the inhibiting factors are a stumbling block in making the charter a success.

6.4.3 Risk Associated with the FSC

In assessing the risk associated with the FSC the focus was on the analysis of the risks that might affect only the key stakeholders that are directly involved in the delivery of the charter objectives with respect to housing (banks, government and developers). The literature and study suggest that banks are the ones that are highly exposed to the risk of the FSC due to defaults that might occur.

All respondents mentioned that current economic conditions such as the increase in the interest rate, huge cuts in jobs, continuous increases in inflation and so on, have negatively impacted on household cash flow. Signs of households struggling to meet their monthly obligations especially bond instalments, is currently being experienced by the banks. In the past year or so a number of homes have been repossessed due to default. This phenomenon is also visible in the USA economy which is currently going through what is termed the “sub-prime” problem owing to a number of reasons, one of them being the community reinvestment act which forced community banks to finance the low-income market.

The cross-subsidisation that is taking place in this market is also viewed to be a challenge. The margins in this market naturally are thin; the subsidisation

coupled with other problems such as holding costs, erode margins of developers even further so that they end up making losses in some developments or they just break even. As mentioned a number of times earlier developers increasingly choose not to play in this market.

In spite of the FSC will all its good intentions, the results suggest that government has to come in and assist the banks and the developers in mitigating these risks to which they are exposed. Failure to do this the delivery of houses will remain a challenge South Africa.

6.5 Research Question 4: What changes could be made to the FSC to improve the creation of housing stock?

The most significant findings of this study point to the fact the focus should be on trying to solve or eliminate the inhibiting factors such as rezoning of land, township establishment and so on. One of the interesting responses that came out was that we can try all methods in trying to change the charter; even go to the extent of coming up with new policies to try to address the affordable housing challenges, but if the inhibiting factors that were discussed earlier are never addressed it will make no difference; these efforts will not bring about significant results.

In the analysis of the entire study however there are a number of findings that came out which did not focus on the inhibiting factors. The results suggest that the rate that the treasury uses to lend banks the funds related to affordable housing projects (be it funding at wholesale level to developer or individually to end users) should be reduced to lower than the repo rate. One of the reasons for the lack of delivery is the knock-on effect of the cash flows of the

developers, resulting mainly from the holding cost, this suggestion might attract new developers into the low-income housing market who will probably increase the number of units produced.

The analysis also revealed that the FSC is a voluntary system thus the participation of the government has been limited. The results suggest that to make it more effective it should be gazetted just like the other codes such as the BEE Act.

6.6 Research Question 5: What other changes in the housing systems are needed to support housing stock creation?

From the findings of the study and the literature it is clear that changes need to be implemented in the housing industry to improve the delivery of housing specifically for the low-income market and this can be achieved if there are combined efforts from all the stakeholders in the industry.

The banks cannot achieve the desired results on their own without engaging the structures of the government and at the same time involving the experienced developers. The study outlines a number of key changes that need to take place to improve the delivery of houses in the low-income market including the entire housing industry.

6.6.1 Alternative Building Technology

The results in Chapter 5 suggest that the introduction of alternative building technology was viewed by all the experts as a method of improving the delivery

of housing in this country. Some respondents spoke of the 'Rational Design' this is where a professional engineer would sign off a design confirming that it will last for 20 years; it will be effective, and it would not crack.

This presents a huge opportunity in improving the delivery of low-income housing. An interesting example was given by some experts when they spoke about countries like the USA which uses timber to build some of their houses.

The frequent escalations in the price of building materials due to high demand has a negative influence on the prices of affordable houses. The introduction of alternative building materials which is cheaper will lead to a reduction in the prices of the houses being delivered. Also with a reduction in the demand of building materials because of substitute building materials might stabilise the prices of these building materials.

Experts also spoke about standardisation of building materials. This presents an opportunity for economies of scale which will improve the prices of these materials. One of the experts confirmed that pilot studies have been done where it has been proven that standardised processes and materials reduces the price of the end product by about 20%.

6.6.2 Densification

The process of densification by building up to 120 units per hectare or by going up two or three storeys was suggested to be the solution in improving the affordability of housing because this technically creates economies of scale;

the cost of land and the installation of infrastructure becomes less due to the number of units per hectare.

This is evident in the development project called Pennyville done by Calgro M3, the units being delivered are fairly priced compared to some of the developments.

6.6.3 Government Solutions

All respondents indicated that the government is the holder of most of the land as mentioned earlier in the discussion; rather than letting this land sit idle they need to start putting it into use. If the government's priority still remains the provision of housing to the majority of this country, then they need to start releasing this land for the creation of stock for the low-income market.

Recommendations were made stating that this land could be released through the utilisation of government institutions like the National Housing Finance Corporation (NHFC), NURCHA to its advantage. These institutions also are sitting with funds that are allocated to them but they do not actually use them to the benefit of the communities. This can be done in such a way that these institutions will fund accredited builders or experienced developers to develop the state-owned land at a fee or share the profits when the projects are complete.

In eliminating the duplications the experts suggest that; it will be economic to consolidate all these departments under one body as opposed to having the National, Provincial and Local municipalities. The consolidation will improve

strategic planning, implementation of these strategies because will be done from one focused point and the synergies amongst the teams will.

There is an opportunity to create smooth working relation with developers and the banking institutions, who have complained of different processes that exist at each and every housing department.

The Government housing policies need to be reviewed in respect of the BNG housing; experts suggest that as opposed to giving out free houses those funds should be channelled into the installation of infrastructure; this will enable the market to correct itself in terms of the house prices and the gap that exist might start closing.

The opportunity for Public Private Partnerships (PPPs) which is the arrangement for procuring services, specialised skills, goods and infrastructure through the involvement or joint venture with the private sector; should also be considered by the government. Experts suggest that this will improve the turnaround time of processes in the government departments such as rezoning, process for township establishment. Skills and capacity which are also currently a challenge will also be enhanced. One of the experts mentioned that; Partners for Housing managed to reduce time of some processes in Tshwane Municipality by 50%. Partners for Housing is a company owned by four big banks with some other shareholders likes NHBRC, NHFC, Development Banks of South Africa, and they are doing work free of charge. As the efficiencies within the PPPs improve they might even start looking at huge project such as the installation of infrastructure.

With all the inhibiting pointing towards the government, they need to start considering the recommendations coming from the industry so that they can start dealing with these stumbling blocks effectively.

CHAPTER 7: CONCLUSION

7.1 Introduction

This chapter details the main findings and conclusions drawn from the research, and provides recommendations to the key stakeholders such as the Ministry of Housing, the big four banks and key developers. The chapter finally looks at some recommendations for future research.

7.2 Main Findings and Conclusions

The purpose of the study was to unearth the impact of the FSC in the creation of housing stock for the low-income market. From the literature and findings it became clear that the delivery of housing in the low-income market will remain a challenge for South Africa unless the inhibiting factors are eliminated. The relevance of the government, more specifically the housing departments, is highlighted as one factor impacting the successful creation of affordable housing.

7.2.1 FSC Success in the Delivery of Housing

All the respondents believed that the FSC with respect to the MoU has been successful in achieving its set objectives. When it was introduced, access to finance in the low-income market was viewed as the main stumbling block in the delivery of affordable housing. The banks have revolutionised this industry since the introduction of the FSC and brought a lot of activity into this market which was never there. They even went a step further in coming up with

innovative ideas in trying to improve the delivery of housing by creating separate business units that go out and buy suitable land which they can facilitate to be developed. This is unheard of in any banking sector in Africa. Having said this, the efforts of the banking industry will be more successful if all the stakeholders, especially the government, were fully committed to this cause.

In conclusion the FSC or any other policy will not be able to address the current backlog crisis unless the government tries to solve the inhibiting factor that affects the supply side of affordable housing.

7.2.2 The Role of the Housing Department in the FSC

The role of the government is to create an enabling environment and also partner with all the other stakeholders in the creation of stock. The most significant findings of the study confirmed that there is a lack of capacity due to staff turnover and an overwhelming skills shortage within the most, if not all, government housing business units. The literature and findings from all the respondents cited this aspect as a stumbling block.

The inefficiencies that exist also are due to the fact that there is lack of accountability within the personnel of these business units. The creation of an enabling environment for the delivery of housing has never been seen as a key performance area for some the government departments, especially at local municipal level. This is derived from the lack of a focused balance score card and their strategies, which are misaligned.

7.2.3 Overcoming Inhibiting Factors

All experts believe that the continuous introduction of policies without taking a deep look at the inhibiting factors and trying to come up with new ways of overcoming these obstacles; will not bear any results. A fresh look and analysis of the entire value chain in the delivery of housing and refining these cumbersome processes will be a step in the right direction.

The introduction of incentives that will attract and retain staff in all these business units related to housing will assist in creating an enabling environment that will improve the success of the FSC in the creation of low-income housing stock. The training of staff is key to the performance of any organisation be it private or public, therefore, the introduction of training that will specifically focus on coming up with innovative methods of eradicating these constraints will be key in improving the efficiency of these business units.

Assuming a step in the direction as recommended above becomes a reality, this will eliminate delays in the rezoning of land, process for township establishment, provision of adequate infrastructure, allocation and management of subsidies and so on which are the main determiners of the final prices of the end product. This will mean that the prices of units will probably fall within the affordable range of the low-income market.

7.2.4 Financial Sector Charter

The FSC comprises voluntary action by the big four banks in the provision of mainly funding mainly to the low-income market, totalling R42 billion until the end of December 2008 with the hope of renewing this until 2014.

The results show that the FSC as a transformation charter is too liberal. It can not be fully enforced and binding to both the banks and government or any public entities, because it is voluntary. To make matters worse, the true definition of an affordable house differs from one bank to another. The range is between R200 000 and R400 000; with the current funding methods and interest rates this excludes the greater population of the target market.

For those banks that include units with higher prices as part of their affordable units, it will be easy to achieve the set targets. Consistent with the findings Patel (2008), also questioned the validity and sustainability of the charter. Indications were made that the charter will only become binding on the State if it is gazetted as a sector code by the Minister of Trade and Industry. This can only happen if the Minister receives a written application from the representative body of the sector seeking such a gazette.

In conclusion, should these issues around the charter not be resolved and if it falls away, this will mean throwing away six years of hard work, hence losing all the benefits accruing to the low-income market which includes the greater population of this country. These benefits include wealth creation derived from the capital appreciation of their houses, job creation during construction and afterwards through Spaza shops and backyard businesses.



7.3 Recommendations

The success and sustainability of the FSC in the creation of housing stock for the low-income market requires the coordination of efforts by all the key stakeholders including communities. While it is understandable that the current backlogs cannot be eliminated in a very short space of time given that they date back many years, and also on account of the ill happenings of the past, this does not mean we should sit back. The stakeholders need to start coming up with solutions and working collectively. The following are recommendations to key stakeholders based on the literature and research findings:

7.3.1 Minister of Housing

The Minister of Housing through its various departments is one of the main stakeholders that signed the MoU. They should be given the opportunity to read this report including the Minister of Housing so that she can:

- investigate further whether the inhibiting factors stated have a bearing on the lack of housing delivery and affordability for the low income market;
- come up with pragmatic strategies within their structures which can be implemented to eliminate the blockages in the delivery of houses;
- review the current housing structures and synergies that exist in all these departments of housing (National, Provincial and local municipalities); and
- in future start engaging all the stakeholders responsible for the delivery of housing before drafting and finalising the housing strategies. This will

7.3.2 Financial Institutions

This research is important to the banking institutions in terms of gaining a deeper understanding the challenges that exist in the low end of the market.

The report can be used as a tool to:

- investigate and also rethink whether they want the charter to remain a voluntary action or want it gazetted due to the lack of engagement from the government;
- investigate methods of further mitigating the risk that they are exposed to because should the economy turn they might find themselves in financial crisis; and
- come up with further innovative products more suited to this market.

7.4 Future Research

The areas identified for future research are as follows:

- Study needs to be done on looking at the amount of land held by government institutions, how it can be made available and also the impact it will have in the creation of housing specifically in the low income housing. This can be done by specifically looking at the government institutions as the champions in this exercise;

- Investigate the participation of the government bodies if the should the FSC be gazetted as a sector code;
- Looking at other funding mechanism from the bank perceptive so that they can improve the affordability of this market; and
- Study needs to be done on looking at the amount of land held by government institutions, how it can be made available and also the impact it will have in the creation of housing specifically in the low income housing.

7.5 Final Conclusion

The research explored the impact of the FSC in the delivery of low-income housing. The findings of the research identified a number of innovative ideas and inhibiting factors which are consistent with the literature.

The introduction of the FSC has made an effort in eliminating the lack of access to finance in the low-income market. This means that this is a step in right direction in creating an enabling environment for creation of housing stock. A continuous collaboration of efforts from all the stakeholders will result in positive results and the promises made on the White Paper will be fulfilled.

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APPENDICES

Appendix 1: Economic Indicators

Table 2: Average Nominal House Prices

| Average nominal house prices | | | | | | | | | | | |
|--|--------------|--------------|--------------|--------------|------------|------------|------------|------------|-----------|---------|---------|
| | 2004 Rand | 2005 Rand | 2006 Rand | 2007 Rand | 2007 | | | 2008 | | | |
| | | | | | Q2 Rand | Q3 Rand | Q4 Rand | Q1 Rand | Q2 | | |
| | | | | | | | | | Rand | q/q % Δ | y/y % Δ |
| National | | | | | | | | | | | |
| Middle segment (80m²-400m², ≤R2,9m) | 573 795 | 704 045 | 811 417 | 929 776 | 921 355 | 945 340 | 960 877 | 964 677 | 965 047 | 0,0 | 4,7 |
| Small (80m ² -140m ² , ≤R2,9m) | 418 638 | 501 852 | 580 567 | 647 830 | 638 665 | 656 913 | 672 281 | 680 004 | 683 088 | 0,5 | 7,0 |
| Medium (141m ² -220m ² , ≤R2,9m) | 536 262 | 664 373 | 772 147 | 907 901 | 896 682 | 928 560 | 946 247 | 947 133 | 933 649 | -1,4 | 4,1 |
| Large (221m ² -400m ² , ≤R2,9m) | 779 257 | 976 928 | 1 120 918 | 1 318 935 | 1 299 245 | 1 350 704 | 1 381 413 | 1 394 511 | 1 397 905 | 0,2 | 7,6 |
| New (80m ² -400m ² , ≤R2,9m) | 673 388 | 742 921 | 824 709 | 934 742 | 920 816 | 929 307 | 983 773 | 1 051 212 | 1 074 621 | 2,2 | 16,7 |
| Existing (80m ² -400m ² , ≤R2,9m) | 553 188 | 696 287 | 810 794 | 931 656 | 925 029 | 951 151 | 958 461 | 955 077 | 954 835 | 0,0 | 3,2 |
| Affordable (40m²-79m², ≤R400 000) | 150 808 | 188 693 | 216 839 | 257 289 | 252 662 | 264 949 | 272 323 | 278 182 | 283 168 | 1,8 | 12,1 |
| Luxury (>R2,9m-R10,7m) | 3 158 311 | 3 407 764 | 3 780 074 | 4 082 489 | 4 065 539 | 4 135 986 | 4 187 582 | 4 295 108 | 4 421 473 | 2,9 | 8,8 |
| Provinces | | | | | | | | | | | |
| Eastern Cape | 516 014 | 645 742 | 749 556 | 848 876 | 839 870 | 865 147 | 875 079 | 857 560 | 843 964 | -1,6 | 0,5 |
| Free State | 408 634 | 491 781 | 569 895 | 688 330 | 672 224 | 738 506 | 746 326 | 735 567 | 728 973 | -0,9 | 8,4 |
| Gauteng | 611 055 | 733 834 | 848 162 | 972 025 | 967 423 | 978 794 | 1 006 386 | 1 016 352 | 999 150 | -1,7 | 3,3 |
| KwaZulu-Natal | 553 175 | 684 292 | 817 882 | 882 658 | 893 851 | 902 804 | 887 596 | 856 856 | 814 364 | -5,0 | -8,9 |
| Limpopo | 438 627 | 566 912 | 712 748 | 822 872 | 836 526 | 828 482 | 813 315 | 803 008 | 791 186 | -1,5 | -5,4 |
| Mpumalanga | 407 339 | 527 449 | 663 723 | 755 900 | 740 170 | 755 865 | 798 356 | 821 787 | 827 376 | 0,7 | 11,8 |
| North West | 418 152 | 528 502 | 622 559 | 716 034 | 705 576 | 729 021 | 754 170 | 784 788 | 791 512 | 0,9 | 12,2 |
| Northern Cape | 369 433 | 438 123 | 550 725 | 625 988 | 604 579 | 631 727 | 655 877 | 664 689 | 702 218 | 5,6 | 16,1 |
| Western Cape | 646 351 | 829 264 | 942 192 | 1 048 132 | 1 040 713 | 1 071 804 | 1 083 512 | 1 092 797 | 1 108 007 | 1,4 | 6,5 |
| Metropolitan regions | | | | | | | | | | | |
| PE/Uitenhage (Eastern Cape) | 540 289 | 674 779 | 770 868 | 866 366 | 854 272 | 878 549 | 894 701 | 896 681 | 891 931 | -0,5 | 4,4 |
| East London (Eastern Cape) | 496 900 | 709 911 | 796 799 | 894 424 | 890 071 | 893 992 | 917 799 | 961 818 | 1 006 691 | 4,7 | 13,1 |
| Bloemfontein (Free State) | 517 732 | 640 145 | 758 106 | 928 368 | 908 889 | 966 914 | 996 046 | 1 007 178 | 1 004 267 | -0,3 | 10,5 |
| Greater Johannesburg (Gauteng) | 617 274 | 741 240 | 876 851 | 1 007 700 | 999 905 | 1 014 720 | 1 044 684 | 1 068 558 | 1 052 981 | -1,5 | 5,3 |
| Johannesburg Central & South | 537 177 | 616 599 | 772 706 | 868 717 | 880 013 | 861 214 | 861 009 | 879 231 | 935 979 | 6,5 | 6,4 |
| Johannesburg North & West | 763 564 | 921 307 | 1 074 294 | 1 234 123 | 1 214 462 | 1 244 215 | 1 292 830 | 1 308 668 | 1 275 894 | -2,5 | 5,1 |
| East Rand | 505 152 | 638 870 | 754 169 | 868 305 | 865 130 | 872 964 | 901 709 | 936 378 | 922 985 | -1,4 | 6,7 |
| Pretoria (Gauteng) | 671 944 | 811 755 | 924 735 | 1 071 238 | 1 060 621 | 1 104 309 | 1 097 079 | 1 071 552 | 1 073 063 | 0,1 | 1,2 |
| Durban/Pinetown (KwaZulu-Natal) | 540 765 | 723 575 | 853 787 | 984 986 | 993 896 | 1 017 092 | 1 004 075 | 970 172 | 923 829 | -4,8 | -7,0 |
| Cape Town (Western Cape) | 665 536 | 847 627 | 968 016 | 1 068 507 | 1 058 093 | 1 084 488 | 1 101 757 | 1 106 614 | 1 104 726 | -0,2 | 4,4 |
| Coastal regions | | | | | | | | | | | |
| South Africa | 779 014 | 1 025 970 | 1 145 753 | 1 351 038 | 1 333 361 | 1 387 534 | 1 404 919 | 1 399 318 | 1 389 531 | -0,7 | 4,2 |
| Western Cape | 817 994 | 1 096 197 | 1 213 489 | 1 448 195 | 1 418 205 | 1 483 437 | 1 518 438 | 1 506 374 | 1 515 464 | 0,6 | 6,9 |
| West Coast | 649 865 | 928 780 | 1 018 330 | 1 188 556 | 1 164 200 | 1 191 361 | 1 265 914 | 1 377 732 | 1 493 570 | 8,4 | 28,3 |
| Cape Peninsula and False Bay | 845 864 | 1 084 545 | 1 210 464 | 1 434 445 | 1 399 111 | 1 468 720 | 1 505 819 | 1 482 588 | 1 484 820 | 0,2 | 6,1 |
| South Coast | 786 890 | 1 188 982 | 1 286 318 | 1 590 659 | 1 582 783 | 1 639 176 | 1 656 880 | 1 653 902 | 1 638 324 | -0,9 | 3,5 |
| Eastern Cape | 624 555 | 800 542 | 922 445 | 1 070 415 | 1 052 883 | 1 106 425 | 1 120 065 | 1 125 471 | 1 130 719 | 0,5 | 7,4 |
| KwaZulu-Natal | 761 303 | 970 037 | 1 193 730 | 1 376 163 | 1 379 856 | 1 433 399 | 1 460 011 | 1 405 456 | 1 302 803 | -7,3 | -5,6 |
| South Coast | 630 670 | 889 795 | 1 099 636 | 1 170 028 | 1 162 955 | 1 126 185 | 1 236 600 | 1 254 754 | 1 133 760 | -9,6 | -2,5 |
| North Coast | 864 149 | 1 046 507 | 1 300 795 | 1 545 763 | 1 534 332 | 1 653 963 | 1 615 722 | 1 556 158 | 1 452 124 | -6,7 | -5,4 |

House prices are based on the total smoothed purchase price of houses (including all improvements) in respect of which loan applications were approved by Absa Bank.
House prices for the provinces and metropolitan regions are smoothed for all houses between 80m² and 400m², up to R2,9 million.
House prices for the coastal regions are smoothed for all houses between 80m² and 700m², up to R10,7 million.

Source: ABSA House Review – Third Quarter 2008

APPENDIX 2: Process for Township Establishment

| New housing supply: township development process | | EXHIBIT 1 | |
|---|--|--|--|
| Three legislative procedures: Ordinance, LFTEA, DFA. Ordinance most common and detailed below | | | |
| | | Estimated time | |
| | | Previous | Current |
| Land procurement | Evaluate restrictive conditions of title and development potential of land Secure development rights or acquire land Conclude relevant development and services agreements with Municipality | 2mths (Technical/ Statutory Risk*) | 3-6mths (Statutory Risk*) |
| Township Application and Layout Plan | All planning information obtained and a layout plan prepared by a town planner. Environmental and social impact studies undertaken | 3mths | 3mths |
| Environmental Mgt Plan Approval | EIA exception application submitted to DACEL. Exception application publicly advertised and interest groups invited to comment. Comments received and either accommodated or appealed against. Once resolved DACEL issues an approval | 2-3mths (Technical/ Statutory Risk*) | 6-12mths (Statutory Risk*) |
| Approved Township Application and Conditions of Establishment | Planning report submitted to Municipality Town Planning Dept. Advertisement posted so all interested parties submit comments and objections. Once period expired and comments resolved report submitted to Council. Council approves township establishment. Conditions of Establishment prepared. | 2-3mths (Statutory Risk*) | 7-18mths (Statutory Risk*) |
| Approved General Plan and Eng. Designs | Complete cadastral survey (pegging) and drawing up of a General Plan. Forwarded to the Surveyor General for approval and then to the Deeds Officer. Detailed engineering designs prepared. | 1-2mths (Statutory/ Commercial Risk*) | 3-7mths (Statutory/ Commercial Risk*) |
| Township Register | All conditions of establishment undertaken and documentary evidence submitted to the Deeds Officer Deeds Officer examines all documents and opens the Township Register Transfer documents for the first registration of title can be submitted | 1-2mths (Statutory Risk*) | 2-6mths (Statutory Risk*) |
| Installation and Handover of Services | Tenders are issued and the installation of services is undertaken | 1-3mths (Technical/ Commercial Risk*) | 6-7mths (Technical/ Commercial Risk*) |

* Technical risks comprise physical, legal and bulk servicing constraints; Statutory risks comprise ability to efficiently meet regulatory requirements; Commercial risks comprise developer's ability to recover costs
Research into Housing Supply and Functioning Markets: Findings & Preliminary Action Plan

| New housing supply: development and individual transfer | | EXHIBIT 2 | |
|---|--|--|--|
| | | Estimated time | |
| | | Previous | Current |
| House design and bldg plan approval | Plans and base specifications prepared and costed Provided to Municipality for approval and Lender for project funding commitments | 1mth (Commercial Risk*) | 3mths (Commercial Risk*) |
| Sales Agreements Concluded | Development marketed. Offers to purchase processed and pre-screening undertaken. Bond application submitted to Lender | 1mth (Technical/ Commercial Risk*) | 3mths (Commercial Risk*) |
| Title and Bond Registration and Bond Drawdowns | Bond registration lodged and build order issued. Deeds Office register the bond. A clearance certificate requested from Municipality who undertakes valuation. | 1mth (Statutory/Commercial Risk*) | 10mths (Statutory/Commercial Risk*) |
| House Construction and Handover | House constructed and handed over to new owner | 2mths (Technical/ Commercial Risk*) | 3mths (Commercial Risk*) |

* Technical risks comprise structural and construction quality requirements; Statutory risks comprise ability to efficiently meet regulatory requirements (clearance certificates and deeds); Commercial risks comprise developer's ability to recover costs (end-user access to finance)
Research into Housing Supply and Functioning Markets: Findings & Preliminary Action Plan

APPENDIX 3: Financial Sector Charter Scorecard on Access to Financial Services

| Core component of BEE | Indicators | Target 2008 | Target 2014 | Financial institution annual target | Threshold | Points | Institution's annual score |
|---|--|------------------|-------------|-------------------------------------|---------------|--------|----------------------------|
| Section 3– (Paragraph 8 of the charter) Access to Financial Services | | | | | | 18 | |
| 3.1 Transactions savings products and services | Effective access for LSM 1-5 (%) | 80% | | | 70% | 4 | |
| 3.2 Bank savings products and services | Effective access for LSM 1-5 (%) | 80% | | | 70% | 4 | |
| 3.3 Life assurance products and services | Effective access for LSM 1-5 (%) | tbf | | | | 12 | |
| 3.4 Collective investments products and services | Effective access for LSM 1-5 (%) | 1%, plus 250,000 | | | 0 | Tbd | |
| 3.5 Short term risk insurance products | Effective access for LSM 1-5 (%) | 8% | | | 0 | 4 | |
| 3.6 Origination | Origination of home loans (R) | tbf | | | 10% of target | 4 | |
| | Origination of agriculture loans (R) | tbf | | | 10% of target | 2 | |
| | Origination of black SME loans (R) | tbf | | | 10% of target | 2 | |
| 3.7 Consumer education | % of post tax operating profits spend p.a. | Min 0.2% | | | 0% | 2 | |
| Section 4– (Paragraph 9 of the charter) Empowerment Financing | | | | | | 22 | |
| 4.1 Targeted Investments | Institution's target for Targeted Investment (R) | Tbf | | | 0 | 17 | |
| | Institution's annual investment in transformational infrastructure (R) | | | | | | |
| | Institution's annual investment in low-income housing (R) Institution's annual investment in agricultural development (R) | | | | | | |
| | Institution's annual investment in black SMEs | | | | | | |

Source: Financial Sector Charter Council (2008)

APPENDIX 4: Interview Schedule

Expert Interviews – Duration 1 hour

1. Introduction

The in the first 5 minutes or so the introduction by both parties (Interviewer and respondent) will take place. This is just to set up the pace for the interview - this will be covered in the introduction:

- The reason for the interview and also that it is open-ended ,
- The duration that it might take,
- The confidentiality that will be exercised on the information discussed,
- Background of both parties,

Section 1: Delivery of houses outside the BNG process

1. In your view are there any challenges in the delivery of houses in South Africa? Please expand on your statement?
2. What quantities of houses have been delivered in the FSC market excluding those that fall within the BNG process since its inception?
3. Are there any backlogs in the housing stock currently?
4. In your view what factors are inhibiting in the creation of housing stock if any?

Section 2: Inhibiting Factors

1. In your view what are the possible causes for the slow creation of housing stock?

Section 3: FSC Contribution

1. In your view what are the reasons that led to the Financial Sector Charter?
2. What are the main objectives of the FSC and the targets to be achieved?
3. What contribution has the FSC made in the creation of housing stock since its inception if any? How?
4. Do you think the impact of the FSC will address the housing backlog that has existed in South Africa for a long time within its target market?
5. In your view does the FSC lead to any social, socio-economic or economic benefits? Please elaborate your answer?
6. If there has been an improvement since the FSC inception – is it possible to point the areas where it took place?

Section 4: Changes that could be made in the FSC

1. In your view what are the main risks associated with the FSC? Why?
2. What could be done to mitigate those risks?
3. Do the current structures support the objectives set out in the FSC and the delivery of housing?
4. In your view what needs to be changed in the FSC to make it more effective in the creation of housing stock?

Section 5: Changes that could be made to the entire housing delivery system

1. Are all the stakeholders effectively contributing to the creation of the much needed housing stock in South Africa?
2. Do you think there is a need for innovative solutions in improving housing delivery? Expand?
3. In your view what needs to be changed in the entire housing system to improve the delivery?
4. What other recommendations do you have that might improve the housing delivery?

CONCLUSION (5 mins)

Are there any recommendations that you would one to make that pertain to the FSC? Any views that you would like to share about the industry as a whole?

Thank you for affording me the opportunity to learn more about the industry and the impact of the FSC.

Appendix 5: Participants

| NAME | SHORT RESUME |
|-------------------------|---|
| Dr. Gert Dry | <p>Project Director: ABSA Home Loans and Affordable Housing</p> <p>Qualifications: MBA, PhD, FIBSA, PMS Managing executive</p> <p>He joined the ABSA Group in 1991. He worked in a number of departments before joining Real Estate Asset Management (REAM) as the CEO.</p> <p>REAM is an integrated real estate management business unit comprising Absa Props, Facilities Management, Repossessed Assets, Commercial and Residential Valuations, Absa Development Company, and Group Security and Business Continuity.</p> <p>He resigned in 2004 but due to his experience he was recalled back into the Group as a Project Director with the task of forming a new business which caters solely for the low end of the market. Dr. Gert and his team they have managed to grow this business, ABSA Affordable housing is currently the biggest player in this market.</p> <p>He also successfully consolidated ABSA's presence in the inner city.</p> |
| Mr. Abel Mlabeni Mngadi | <p>General Manager: FNB Housing Finance - New Housing Developments and Credit</p> <p>Qualifications: BCom- Acc, MBA (Potchefstroom University)</p> <p>Started his career at FNB Home loans in 1982 he has held a number of positions including being seconded to Servcon as Regional Manager Properties in Possession, East Rand. He was promoted to be Head of Credit in 1998 the position he held until 2002. From December 2002 he became the</p> |



| | |
|------------------------------------|--|
| | <p>Chief Operating Officer for Commercial Property Finance then in September 2004 he moved to FNB Housing finance a business unit created to cater for the low income market as a General Manager responsible for Strategy formulation and implementation of Credit and Housing Developments.</p> <p>He is also a Member of FNB Investment Committee, which approves the purchasing of vacant land and development of low income housing. FNB Housing Finance has funded huge project such as the Glen Ridge in Soweto, Cosmo City, Windmill Park and so on.</p> |
| Mr. Jozephus Frank van Honschooten | <p>Director: Standard Bank - Integrated Residential Developments</p> <p>Qualification: BCom – Law, CA (SA), Higher Diploma in Tax Law, Senior Executive Management Programme at Wits Business School, Advanced Management Programme at Harvard Business School.</p> <p>Worked 7 years as a partner at Pim Whitely & Close (now Deloitte) joined S A Perm (a large building society) as General Manager, Finance and Accounting. He then joined The Standard Bank of South Africa Limited as Divisional General Manager, Community Banking Services Division and thereafter assumed responsibility for the SME market in Retail Banking. From January 2000, responsible for Wealth Products in SBSA before assuming responsibility for Retail Lending & Bancassurance in Stanbic Africa.</p> <p>Seconded to Banking Association South Africa in 2005 as Financial Sector Charter Co-ordinator on Low Income Housing Finance. Returned to Standard Bank Corporate and Investment Banking as Director: Integrated Residential Developments in January 2007.</p> |
| Mr. Pierre Venter | <p>Head - FSC Co-ordinator: Banking Association of South Africa – Housing Initiative</p> <p>Qualifications: Bcom, Banking diploma, number of</p> |



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| | <p>Property Diplomas. He is completing a Masters Degree in Housing.</p> <p>Pierre is a housing specialist who has more than 20 years experience in housing within the banking environment, at least half of which has been within the lower income market segment.</p> |
| Mr. Derek Steyn | <p>Director: Calgro M3 - Marketing and Strategic Planning.</p> <p>Qualification: BSC (QS)</p> <p>Derek worked as a quantity surveyor for five years at Eskom. After which he became a Project Manager at Safrich, an established property development company specialising in the affordable housing market sector.</p> <p>Calgro M3 was started in 1995 by Derek and his brothers, Deon and Douw. Derek is a specialist in cluster developments, land acquisitions and affordable housing. Calgro M3 has delivered over 50 affordable housing projects. They currently have a number of projects underway such as Fleurhof ext. 2 which is one of the largest integrated residential housing developments planned for Gauteng, promising to deliver in excess of 6000 units before 2013, Pennyville Ext 1, Clayville, Drooggeheuwel, Glen Ridge, Mabopane, Reverlea Ext 3 and many more.</p> |
| Mr. Desmond Hughes | <p>Managing Director: Basil Read Developments</p> <p>Qualifications: PEng (UK), PrCM, MSE, ACIOB</p> <p>Des has thirty-six years experience in the construction industry ranging from consulting practices and contracting of project developments.</p> <p>His main focus within Basil Read Group is on projects that meet the requirements of the government "Integrated Housing Development" policy such as the highly successful Cosmo City Development. They have number of big project underway.</p> |



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| <p>Mr. Gumani Mathavhathe</p> | <p>Senior Manager, National Department of Housing (NDoH) – FSC Housing</p> <p>He has been with the Department of Housing for many years with his main focus at look being in the affordable housing market.</p> <p>He is responsible for evaluating the existing finance instruments, sustainability and accessibility to finance and also for the development of innovative finance products for affordable housing purposes.</p> <p>He also monitors the projects that have been delivered and targets of the FSC via the Banking Association of South Africa. He also works closely with the Treasury division that manages the subsidy funds for the BNG and Credit linked Housing.</p> |
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Appendix 6: Government Subsidies

The South African Housing Subsidy Scheme subsidy quantum amounts for the period 2008/2009 in respect of a 40m² house only.

| Individual and Project Linked Subsidies | Top Structure Funding only | Own Contribution | Product Price |
|--|----------------------------|------------------------------|---------------------|
| R0 - R1 500 | R43 506.00 | None | R43 506.00 |
| R1 501 - R3 500 | R41 027.00 | R2 479,00 | R43 506.00 |
| Indigent: Aged, Disabled and Health Stricken R0 - R3 500 | R43 506.00 | None | R43 506.00 |
| Institutional Subsidies | | | |
| R0 - R3 500 | R41 027.00 | Institution must add Capital | At least R43 506.00 |
| Consolidation Subsidies | | | |
| R0 - R1 500 | R43 506.00 | None | R43 506.00 |
| R1 501 - R3 500 | R41 027.00 | R2 479,00 | R43 506.00 |
| Indigent: Aged, Disabled and Health Stricken R0 - R3 500 | R43 506.00 | None | R43 506.00 |
| Rural Subsidies | | | |
| R0 - R3 500 | R43 506.00 | None | R43 506.00 |
| People's Housing Process | | | |
| R0 - R3 500 | R43 506.00 | None | R43 506.00 |
| | | | |
| | | | |

Source: Department of Housing (2008)