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Terms of reference: RDP Housing Assets: Exploring the performance of government subsidised housing in South Africa

1. Introduction

When the housing subsidy policy was launched in 1994, government promises to deliver "one million houses in five years" were heard by many as political posturing and post-democratic bravado. And yet, the skeptics were proven wrong as one million houses were indeed delivered, albeit within seven years. By 2010, the Department of Human Settlements estimates that it has delivered somewhere in the region of 2,8 million houses to qualifying beneficiaries throughout South Africa.

Certainly, government policy has been intent on the functioning of its subsidy investments as assets – this is clearly expressed in the BNG policy, and other documents and speeches. Is this expectation being realized however? What does this mean in real terms, for the households concerned, and for the communities in which they live? Has the housing subsidy benefit translated into a housing asset benefit?

Sixteen years on from when the subsidy policy was first introduced, we now have the opportunity to test whether it has worked as expected. Has state investment in 2,8 million houses changed the lives of 2,8 million households for the better? Are government subsidised houses functioning as the assets that policy promised, and what does this actually mean? And what are the stumbling blocks that prevent or limit the performance of this market? These questions are the focus of the study.

2. Background

If asked what they thought South Africa's housing policy was all about, most people would refer to the housing subsidy programme. Previously known as the RDP subsidy (referring to the Reconstruction and Development Programme of the first democratic administration in 1994) and now asserted as the BNG subsidy (given the policy shifts which occurred in the 2004 adoption of the new policy for sustainable human settlements, popularly referred to as Breaking New Ground) this instrument is the most notorious of all measures implemented by

the Department of Human Settlements since the democratic election in 1994. Since the provision of the first subsidy in 1994 until today, the South African government has invested over R60bn of public funds into the provision of an estimated 2,8m subsidised housing units for low-income beneficiaries. Of course, the housing subsidy programme was but one of seven policy thrusts in the original housing white paper of 1994, and again only one of multiple policy interventions set out in the Breaking New Ground policy of 2004. It is without a doubt, however, the most visible.

Certainly, the delivery successes of the national housing subsidy scheme have been dramatically impressive. Over 2 million units delivered or under construction and as illustrated below, just over 1,6 million beneficiary households with legal title over these units.

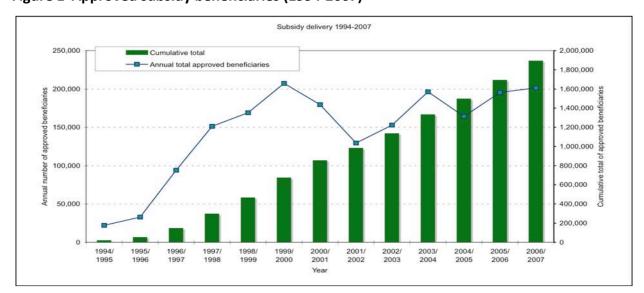


Figure 1 Approved subsidy beneficiaries (1994-2007)

It is highly likely that the significant increase in the number of South African households living in formal dwellings between 1996 and 2007 – from 64.4% to over $70\%^1$ - is primarily as a result of this national subsidy programme.

In 2004, the (then) Department of Housing issued its new policy, popularly known as Breaking New Ground. Among other interventions, BNG undertook to

- unlock the asset value of government subsidized houses
- ensure the functioning of the entire residential property market
- create a link between government subsidy markets and the private market so that subsidy beneficiaries could use their houses as a step-up onto the property ladder

Given the massive state investment, and substantial spread of impact that the government's housing subsidy programme has had, it is important to evaluate its impact and test whether it achieved original objectives and evolving expectations. Certainly, if expectations are not being met, government must consider policy adjustments. And if expectations are being met, these successes should inform ongoing policy developments and state investment decisions. A critical

¹ Statement issued by the Minister of Housing Lindiwe Sisulu on 25 October 2007 regarding the findings of the Community Survey 2007.

question, especially important to the FinMark Trust, is the role of private sector housing finance and savings in the performance of the state-subsidised housing asset.

The study will necessarily involve both quantitative and qualitative analysis. On the quantitative side, a thorough review of the performance of government-subsidised stock, as witnessed in the deeds registry, will be required. The consulting team will work with the Affordable Land + Housing Data Centre (al+hdc)² in accessing deeds data and undertaking this analysis. On the qualitative side, household surveys and focus groups with various sub-groups identified in the deeds registry analysis will be undertaken.

This study follows on from the <u>Township Residential Property Markets study</u> commissioned by the FinMark Trust and partners in 2003 and 2004, where the performance of property markets in former black townships in SA (including some government subsidized areas) was analysed. It also follows on from the <u>study into Housing Entrepreneurs</u>, commissioned by the FinMark Trust and partners in 2005 and 2006, where the phenomenon of households using their homes as a basis for entrepreneurial activity was explored. This study should also build on the theoretical framework of the <u>housing asset triangle</u>, developed by the FinMark Trust, in its assessment of how government subsidized houses have performed for their beneficiaries.

FinMark Trust is commissioning this study. Urban LandMark, the Heron Foundation, and others have also committed funding for the study. The project will be commissioned within July, 2010 and finalised within 4-6 months.

3. Objectives

The objectives of the study is:

- To track the performance of the government-subsidised housing asset as demonstrated through formally registered transactions, and to consider the impact this has had on subsidy beneficiaries.
- To test this analysis against the impressions of current occupants, and to understand the other ways in which housing performs as an asset for its residents.
- To understand the role of other factors (finance, municipal investment, job creation, social capital, community development, and so on) in enhancing this performance.
- To develop policy recommendations (national, provincial and local) to overcome identified barriers and improve the potential for housing asset performance.
- To communicate this experience widely.

4. Scope & Output

Because asset performance is in part a function of time, the qualitative aspects of the study should focus on subsidised housing units delivered in the first administration (i.e. 1994-1999) – however, an analysis of the entire delivery programme should also be possible in terms of the

² The al+hdc is a joint initiative of the FinMark Trust, Urban LandMark, Lightstone Property Strategists and Eighty20. It is web-based tool to facilitate research and analysis into property markets where the average transaction price is less than R500 000 (i.e. affordable to low and moderate income households). The website will be launched in August 2010 for public use, but can be used before this time for special cases. The service provider will be able to draw the necessary data from the al+hdc with specific support from co-founder Lightstone.

deeds registry analysis. It would certainly be interesting to compare the performance of early subsidised units with more recent ones – taking time into account, of course.

While the deeds registry analysis should have a national scope, budgetary considerations may make it necessary to constrain the geographic scope of the qualitative survey. Some regional spread will be important, and the study funders may apply specific conditions (to be confirmed on appointment). The Service Provider should make a proposal in this regard.

The expected output of the study will be

- 1. An inception report, summarizing the literature in the field and setting out in detail the methodology, questionnaires, etc. for the study.
- 2. A detailed, summary report analyzing the performance of the state-subsidised housing asset over time, and providing policy recommendations for the current housing challenges this country faces as evidenced by the study. This report will have at least two secondary reports:
 - a. Report on the deeds office data review
 - b. Report on the qualitative survey
- 3. A multi-media presentation providing a tangible, personal view into the impact that such state investment can have in the lives of low-income people.
- 4. A public presentation.

5. Method

It is envisioned that the study will have three main components: a quantitative review, drawing on deeds office data to track the performance of government subsidized stock through registered transactions; a qualitative review, drawing a sample of the records for further engagement in the form of household surveys and focus groups; and the development of a multi-media presentation. Some thoughts regarding the method that may be employed for each are offered below.

5.1 Quantitative data review

This component of the study will seek to build 'family trees' of the houses and the households, tracking their respective progress through the property market. The Department of Human Settlements will provide the ID numbers for beneficiaries, which can be entered into the deeds registry to identify government subsidized stock. Then, using the Affordable Land + Housing Data Centre (the service provider should liaise with Lightstone to discuss access to the data centre – for information, contact Hayley Ivins on hayleyi@lightstone.co.za), the service provider will be able to generate a dataset of erf numbers and registered owners at the time of first registration. The service provider will then track that unit, through its multiple owners (if it was resold) to its current status; and that original owner through their subsequent houses (if any) to their current property ownership status.

From this analysis of the total cohort of about 1.6m records in the deeds registry, the service provider will be able to classify common experiences. For example, the data may show:

- RDP units that have never traded beyond the first transaction, where the original owner is still the registered owner.
- RDP units that have traded once, or twice, or more; or RDP beneficiaries that have traded

once, or twice or more, etc.

- RDP beneficiaries who now own multiple properties; or RDP beneficiaries who are no longer on the deeds registry as registered owners.
- RDP units that are now trading at a much higher value than the original investment; or where the property value does not appear to have improved at all.
- RDP units to which mortgage finance was added and the impact this had on the performance of the asset
- And so on.

The Service Provider should also draw a time-line of progress, and chart onto this the impact of significant spatial or economic events, such as

- Interest rate spikes and declines
- The price of resources such as platinum
- Major state investments that might influence property markets, such as the paving of all roads in Soweto; the Maputo corridor; the World Cup stadiums and transportation infrastructure; the N2 Gateway initiative; the Coega development; etc.
- Policy change, such as the introduction of the transfer cost exemption for all properties selling for less than R500 000.
- The property boom in SA, followed by the global economic crisis and its impact on property markets
- The introduction of the Financial Sector Charter housing finance targets in January 2004
- And so on the service provider may build a more extensive list

From this analysis, the Service Provider may be able to comment on

- Whether and how geography (location) determines asset performance
- The sensitivity of the asset performance of government subsidized units to economic shocks
- The impact of mortgage finance on asset performance
- (Possibly) levels of home improvements?
- The significance of Sales in Executions and Properties in Possessions in this market and for whom (i.e. the original subsidy beneficiary or a subsequent owner)
- The impact of state investment on asset performance
- The impact of time on asset performance
- And so on the service provider may identify a number of areas

The results should be documented in such a manner that the trends within individual provinces are identified.

5.2 Qualitative analysis

From the different experiences identified in the quantitative analysis, the service provider will then draw a series of samples for the qualitative survey: for example, a sample of original RDP owners where no formal transaction has taken place; a sample of RDP units that have been sold once, or twice, or multiple times; etc as above. The service provider can determine a preferred method – it is expected this will involve household interviews and possibly also focus groups. These discussions are likely to involve highly personal material, and the service provider will need to consider carefully how to respect the respondent's privacy while also ensuring a rich and detailed output.

The focus of the qualitative survey will be on exploring any hypotheses developed in the quantitative analysis, and seeking further nuance and detail on the experience of benefiting from a government subsidized house, and its performance over time. The role of home improvements not expressed in sales should also be explored. The survey should consider broadly the question of asset performance and the impact this has had on the household. For example:

- What impact has the RDP house had on the beneficiary financially, economically, socially, psychologically, etc.? How has it impacted on the capital of the beneficiary household (drawing on Moser's 5 capitals)
- Is the resident of the house the registered owner? If not, why and how did this happen? What is the story of the unit and its original owner and now subsequent occupant?
- Has the subsidy beneficiary's access to finance improved as a result of their access to this housing unit? Have they used their house as collateral for credit? Why or why not?
- If the original beneficiary sold the house, why? For how much? And what later property purchase (if any) did this sale lead to?
- If the original beneficiary has not sold the house, why? Do they have plans, ever, to sell the house? Has this influenced their investment choices in the house?
- If the house has been improved, how has the beneficiary or subsequent owner(s) financed these improvements?
- What is the current owner's vision for the house? What factors have influenced this vision?
- And so on the service provider will develop a detailed questionnaire.

The survey will also involve a visual component:

- What does the house look like now? Have any improvements been made?
- What does the local environment look like now? Is there evidence of municipal or other state investment? Is there evidence of private investment?
- Are there common design preferences evident in the improvements that have been made?
- And so on the service provider may have other observations.

Drawing from the qualitative data, the service provider may begin to answer some broader questions, such as

■ What is the impact of time on the performance of the housing market — at what point to people invest in their homes? At what point do they sell their homes?

- How do subsidy beneficiaries relate to the housing asset, and is this changing over time?
- What impact has the pre-emptive clause had on the resale of stock, and how do people understand their rights and responsibilities regarding their housing subsidy benefit?
- Is the State's investment in a subsidized unit enough, or are other state investments (for example, into roads or other infrastructure) also necessary to unlock housing asset performance?
- Is housing asset performance all about sales transactions and the financial asset, or are there other, equally powerful ways in which the housing asset performs for its owners?
- Is there evidence of informal sales transactions? If so, are there any broader factors that suggest the likelihood of informal sales transactions? Are there any lessons for policy?
- What policy changes would improve the functioning of this market and contribution towards the realisation of housing as an asset?
- And so on the service provider may identify other issues for discussion.

The results should be documented in such a manner that highlights trends within individual provinces.

5.3 Multi-media presentation

An important component of the project is the development of a multi-media presentation that captures and interrogates the stories and experiences of subsidy beneficiaries and subsidy houses. This presentation will offer photographs of then and now – changes made to the landscape, to the houses themselves, to the communities, and where possible, the households – and comment on what this means for South Africa and the development of our policy. With Google Earth and other visual databases, the possibilities for such historical review are considerable. The multi-media presentation will demonstrate the profound impact that the State's investment over the past 15 years has had on the very fabric of our society, while also highlighting challenges and unintended consequences.

The service provider should seek original photographs of the housing and neighbourhood – either from the media, the original developer, the Department of Human Settlements, or from the resident household themselves. Further, the service provider should request permission to take photographs of the unit now (outside, and if possible, inside), as well as the surrounding neighbourhood. The service provider should think of creative ways to communicate the common and the individual experience of the government subsidized housing programme. A web-based approach may be useful in communicating the message broadly, beyond South Africa's borders. In addition, a local exhibition that could tour (for example, to provincial parliamentary galleries) may also be considered.

6. Governance

The service provider will be contracted by the FinMark Trust. The service provider will report directly to Kecia Rust (Kecia@iafrica.com or 083-785-4964), theme coordinator for the Housing Finance Theme Area with FinMark Trust. Kecia Rust will convene a Steering Committee of

funders³ to the study, who will monitor the progress of the service provider and provide comment on draft deliverables. In all cases, Kecia Rust will coordinate the inputs of the Steering Committee, and negotiate any differences that may arise within the Steering Committe, so that the service provider need only respond to one client.

7. Reporting Timeframes & Deliverables

- 1) An inception report summarising existing literature in the field, and setting out the detailed approach to the study (including a draft questionnaire for the qualitative survey): 13 August 2010.
- 2) A first draft report on the quantitative analysis of the deeds office data, submitted to FinMark Trust for review by 17 September 2010.
- 3) A first draft report on the qualitative analysis of household surveys, focus groups, etc.; and a proposed approach for the multi-media presentation, submitted to FinMark Trust for review by 29 October 2010.
- 4) A first draft summary report on the study, including answers to study questions, submitted to Finmark Trust for review by 19 November 2010.
- 5) The final report, including multi-media presentation, submitted to FinMark Trust by 10 December 2010.
- 6) Presentation of the final report at one public function to be agreed before the end of February 2011.

8. Call For Proposals

Service providers are invited to submit proposals to Kecia Rust of the FinMark Trust, by email, received no later than 12-noon on Thursday, 15 July 2010.

Proposals to undertake this project must include:

- Statement of Qualifications of firm(s) (if no previous work record for FinMark Trust).
- Name & CV of staff members responsible (i) for overseeing the work; (ii) for undertaking the work.
- Proposed approach to the work.
- Fee proposal & costs estimate, indicating the basis of calculation of fees.
- Affirmative action scorecard.

The service provider must demonstrate an adequate understanding of the housing sector in South Africa and the affordable property market. The service provider's capacity both in quantitative and qualitative analyses, and in the preparation of multi-media presentations, must be demonstrated.

³ Confirmed funders of the study are currently the FinMark Trust, Urban LandMark, and the Heron Foundation (an American private grantmaking institution dedicated to supporting organisations with a track record of building wealth within low-income communities). The National Department of Human Settlements has also confirmed its interest in participating.

An understanding of a Making Financial Markets Work for the Poor approach will be required. See Porteous D, 2004, Making Financial Markets Work for the Poor, www.finmarktrust.org.za

Basis of award:

FinMark Trust will award the contract based on:

- Relevant, demonstrated competence of firm(s) in this area: (20%)
- Demonstrated expertise of key individuals to be involved in this project: (25%)
- Content, quality and originality of proposal: (30%)
- Affirmative action scorecard: ownership, management, staff development (10%)

Note: FinMark Trust takes the need for affirmative action seriously and reserves the right to compel the service provider to address this component in one form or other. We would of course wish to ensure that any arrangement works for all and would be flexible in agreeing the structure.

■ Fee basis (15%)

Guidance notes to bidders

FinMark Trust reserves the absolute right to use its discretion in the interpretation of these award criteria. The following notes are intended to provide broad guidance only on how proposals will be evaluated. Bidders may be required to clarify their proposals by way of a telephone call or presentation.

"Relevant, demonstrated competence of firm(s) in this area" - you should aim to demonstrate how the firm's collective past experience can be applied (or adapted) to address the specific brief set out in the terms of reference. You are welcome to describe the firm's general experience of financial sector development issues (e.g. in other geographies or topical areas) but the evaluation will focus particularly on the application of that experience for the specific task at hand.

"Demonstrated expertise of key individuals to be involved in this project" – the evaluation places considerable emphasis on the role and demonstrated expertise (ie track record) of the key individuals to be involved on the project rather than on the expertise of the firm itself.

"Content, quality and originality of proposal" – proposals should address the brief set out in the terms of reference in a comprehensive manner. Bidders should aim for innovation as well as professional presentation. Whilst similar, relevant experience in other markets will be an advantage for a bidder, each market is different and so proposals need to reflect the particular characteristics of that market, as well as the challenge set by the terms of reference.

"Affirmative action scorecard"- ownership, management, staff development.

"Fee basis" – value for money, as well as absolute cost, will be taken into account.

Created with initial funding from the UK's Department for International Development, FinMark Trust is an independent trust whose business is controlled by five trustees from countries in Southern Africa. FinMark Trust's purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. It does this by conducting research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings. Thus, FinMark Trust has a catalytic role, driven by its purpose to start processes of change that ultimately lead to the development of inclusive financial systems that can benefit all consumers