The Development of Housing Finance in South Africa

by Clive Brummer

THE FORMAL FINANCIAL MARKET

History of Building Societies

Building Societies were started in South Africa for the same reason as they had been in England: an acute shortage of housing in urban areas. Settlers from Britain brought the concept to South Africa and started the building society movement.

Unlike Britain, South Africa did not have a large number of wealthy landlords who would erect dwellings for rental purposes. Although rental accommodation has always been available in South Africa - particularly in the cities - large numbers of South Africans have had to buy or build their own homes. Significantly, the building society movement grew most slowly in our oldest city, Cape Town. This was possibly because there was more rented accommodation available in this city. No other large city in South Africa was founded before the 19th century. Towns, with the exception of Johannesburg, Pretoria and the urban centres in the Vaal triangle, are hundreds of kilometres apart. There is no parallel to this in Britain. The growth of the building society movement in South Africa has been inexorably part of the development of new towns and cities.

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During the early years of South Africa, various mutual building societies were formed by interest groups, and terminated once all members had been allocated a loan. The first example of such a terminating society was one in 1855 in Port Elizabeth. The second was in Durban in 1856.

In 1874 the Perseverance Building Society was formed and operated as a terminating society for the first decade of its existence, after which it converted to a permanent building society in 1884. Some of the disadvantages of a terminating society were :

- the uncertainty of dividends;
- late entrants into a 'block' had to pay up back subscriptions;
- the need to bid for loans. This often resulted in very high interest rates - in some instances over 20 percent.

In 1877 the Grahamstown Building Society, operating as a mutual society was formed, and operated as a terminating society until 1926, when it converted to a permanent building society, and is still operating as such.

The first permanent building society in South Africa, was the Cape of Good Hope Land Building and Investment Society, founded in Cape Town in July 1877. However, this society never operated outside Cape Town and was liquidated after the defalcations of the manager in 1897.

In February 1882, the Natal Building Society (permanent) was founded after it evolved out of the many terminating building societies in Natal. It was managed by a firm of accountants who also did conveyancing and estate agency work, under the direction of a Committee of Trustees. While the new society was intended to follow the example set by the permanent societies established in England, "the whole scheme had to be adapted to local conditions".

On 16 November 1883, South Africa's third permanent building society, the Kimberley Permanent Mutual Building and Investment Society was formed. To begin with and for a number of years thereafter, they charged a fixed interest rate of 15% on loans, which was a fair average of what the two other terminating societies received in their bidding and also gives an indication of the market rate a century ago. At the time the Perm was founded, 16 terminating building societies were operating in other parts of South Africa. The movement flourished in the Eastern Cape, an area from which many citizens of Kimberley and Johannesburg had come.

Permanent building societies began to proliferate in Johannesburg as the number of families increased. The Johannesburg Building Society had been founded as a terminating society in 1888 and the Johannesburg No.1 Terminating Building Society, the first of four such societies which amalgamated to form the United Building Society of Johannesburg (later contracted to the United Building Society), began operations in 1889. The amalgamation took place on 14 April 1893.

In 1934 the Building Societies Act was promulgated which forced a unified system of operation and paying of dividends, as well as making it easier for building societies to operate outside their sphere of establishment.

The proliferation of terminating building societies ceased at the turn of the century began, save for CapeTown.

In November 1938 the Association of Building Societies of South Africa was formed.

No fewer than 27 permanent building societies are known to have been started during the 20th century nabt transforming themselves as a result of mergers and takeovers of building societies founded in the 20th century.

Until the outbreak of the Second World War, there were 45 permanent building societies registered; by 1950 these had fallen to 32. In 1960, 29 were registered, in 1970, only 15 and by 1983 only 11. The others had been either liquidated or absorbed into these 11.

Developments in the Last Two Decades in the Housing Finance Market

With the disbandment of the cartel agreement between SA banks, new competitive forces significantly changed the nature of the banking and building society industries.

With the introduction of competition, the differentiation between banks and building societies were essentially based on the following:

- Price;
- Product; and
- Customer orientation.

This resulted in intense rivalry between financial institutions.

Banks and building societies were regulated by different sets of legislation which further exasperated the competitive stance of institutions.

Banks were regulated by the Bank's Act, which meant that:

- Capital requirements were determined on assets (4% of assets);
- No restrictions in obtaining call funds applied;
- No restrictions on mortgage loans (valuations, loan to value requirements) applied; and
- Access to foreign funds by banks gave banks a funding flexibility advantage over building societies.

Building societies were regulated by the Building Societies Act, which meant that:

- Capital requirements were based on liabilities (4% of liabilities);
- Only 10% of funds could be obtained in the call market;
- Strict loan to value criteria applied;
- Restricted product range (Savings, mortgage loans, loans) was legislatively

Table 1 : Urban Households, Housing Stock and Backlog, 1990, with Estimates for 2000

	Number of Urban Households, in Thousands		Average Size		Percent of Households Living in Urban Areas		Housing Stock, in Thousands	Percentage of Households Living in Formal Housing	Housing Backlog, in Thousands
	1990	2000	1990	2000	1990	2000	1990	1990	1990
Whites	1,607	1,671	3.1	3.1	91.3%	94.9%	1,756	109%	-149
Coloureds	576	674	5.1	5.1	88.0%	90.1%	484	84%	92
Asians	214	244	4.6	4.6	98.0%	96.4%	210	98%	4
Blacks	2,418	4,205	5.5	5.5	47.3%	60.5%	1,226	49%	1,192
Total	4,815	6,794	4.6	4.6	58.5%	70.0%	3,676	76%	1,288

Notes
1. The rural population is expected to decline for all population groups, and rural housing needs are therefore not considered.
2. Backlog figures are based on the assumption of universal formal housing.
3. Excess housing is a reflection of market related vacancies, holiday homes, etc.

Source : South Africa, De Loor Task Group, 1992. Housing in South Africa: Proposals on a Policy and Strategy, Chapter 6. Pretoria: Government Printer.

determined. Societies could not offer cheque accounts;
- No access to foreign funds resulted in a significant funding disadvantage relative to the banks.

The following key changes took place in the financial services market during the 1980's, which had a major impact on the products and finance available for housing:

- Conversion of mutual building societies to equity based companies;
- Leveling of playing field occurred in respect of :-
  - Product range;
  - Funding restrictions;
  - Legislative restrictions;
  - Legislative changes to allow mutual societies to list on stock exchange;
- Banks entered home loan market;
- Building societies began issuing cheque accounts;
- Restrictions on call deposits lifted from 10%;
- Capital intensity increased due to changes in the technological nature of the banking sector;
- Role of technology increased in importance;
- Skills shortage became a growth inhibitor;
- Product innovation increased dramatically;
- Intense competition was the order of the day;
- All major mutuals were listed or acquired;
- Insurers retained a competitive advantage in acquiring funds;
- Group formation resulted in greater concentration in the industry.

Listing of societies resulted in :

- Accountability to shareholders;
- Capital for diversification;
- Changed mind set.

In 1986, UBS became an equity based company listed on the JSE. They were followed by Natal Building Society in early 1987, Allied in June 1987, and Saambou by the end of 1987. Perm Building Society opted not to be listed and merged with the Nedcor Group in October 1988. The Trust Building Society was absorbed into Trust Bank in December 1991, and the Standard Building Society into Standard Bank at the same time.

During the 1990's further rationalisation in the financial services market took place. The Banks Act and the Building Societies Act were replaced by the Deposit Taking Institutions Act. Building Societies began converting to banks. The capital reserve requirement of all financial institutions was based on the Basle Concordat, at 8% of all assets.

A level playing field was established which resulted in :

- Economies of scale becoming increasingly important;
- Capital adequacy considerations becoming an issue;
- The tempo of increasing capital intensity accelerated.

All the major banks were controlled by the life insurers.

A spate of mergers resulted in the four major banks controlling 84% of the banking sector's assets. The formal housing finance market was serviced by an abundance of innovative and flexible products. However, there was a dearth of products tailored for the informal housing market.

THE INFORMAL MARKET

1970's - 1980's

Various non-government organisations (NGO's) such as USAID, Operation Hunger, etc., operate in this sector. They are primarily funded by the international communities as part of aid packages. Although their main aim has been to provide job creation and feeding schemes, some of their activities can be related to the housing environment as they provide assistance in:

- small loans/grants to buy building materials;
- education in basic building construction techniques;
- studies by international bodies into affordable housing.

Another Foundation that actively provides support in this environment in the issuing of small loans (R 450 to R 30,000) is the Get Ahead Foundation. This was originally funded by foreign aid, but lately by internal private aid. They also specialise in group lending in the community (known as Stokvels).

Late 1980's - 1990's

Government sponsored organisations started to appear in the form of the IDT (Independent Development Trust, operating in the business sector of the informal sector), the SAHT (South African Housing Trust, which provides housing assistance), etc. The SAHT, although predominantly funded by the SA government, is responsible for the development of suitable trust land into residential areas. It uses developers to provide affordable, serviced building sites. They provide housing loans for the purchase of housing up to R 35,000. The organisation is run on similar lines to a private financial institution, with the exception that they are not allowed to provide for normal banking services such as savings and cheque accounts.

Table 2 : Percentage of Population Able to Afford HousingWithout being Subsidised

Value of House, in Rand	Percentage of Population in this Bracket
75,000	14%
25,000	25%
7,500	27%
4,500	12%
Cannot Afford any Formal House	22%

Table 3 : Number of Houses Required Annually for Household Income Categories Distributed in Intervals of R5,000 per annum, 1990

Level of Income, in Thousand Rand	Number of Houses Required, in Thousands
0 - 5	22.0
5 - 10	31.5
10 - 15	28.1
15 - 20	19.2
20 - 25	14.9
25 - 30	11.0
30 - 40	9.6
40 - 60	6.9
60 - 80	4.8

In August 1992, the South African Housing Forum (SAHF) was established to coordinate the activities of the various NGO's in the housing environment. This was mainly due to the fact that these organisations were not involved with the De Loor Commission's activities, and also that they refused to provide input to the Commission due to their exclusion. The SAHF will coordinate the activities and actions of these organisations with that of the government departments and the various other interest groups to tackle the housing problem in a piece meal, prioritised fashion rather than in an all-embracing national basis.

There are currently moves under way to establish Community Banks, predominantly funded by the bigger financial institutions, that will also address the need for loan capital in this market. The owners of the Community Banks will be members of the local community being serviced.

The Home Loan Guarantee Company (HLGC) and Khayelitsha Home Loans (KHL) provide a reasonable idea of the extent of lending taking place to finance homes below a ceiling of R 45,000.

HLGC insured a total of 10,236 loans up to end February 1993. The value of loans granted stood at R 304 million. During the period July 1991 to June 1992 the HLGC averaged 486 loans a month, but this has fallen to an average of 345 loans during July 1992 to February 1993. Overall, using HLGC and KHL figures as base, a total of approximately 600 loans per month seems to be available to finance homes in this category.

The following regional lending institutions are operating in this market:

- Amatola Finance Corporation;
- Bochabela Finance Corporation;
- Eastern Transvaal Group Credit Company;
- Fabfin Development Foundation;
- Future Bank;
- Get Ahead Foundation;
- Great North Credit Company;
- The Group Credit Company;
- King Finance Company;
- Masakhane Loan Services;
- Metropolitan Housing Finance Cooperative;
- Natal Credit Corporation.

HOUSING

Formal Housing

<u>Legislations, Commissions and Special Committees</u>

Parliament appointed a Commission in 1919 to inquire into matters concerning housing accommodation in urban areas and it was reported that some 10,000 houses of 'a European standard' were required for whites, and a further 10,000 for 'natives and other non-Europeans'. The Public Health Act (Act no. 36 of 1919) was passed in an effort to do something about slum areas and in the following year the Housing Act (Act no. 35 of 1920) was passed which, basically made provision for Central Government to make loans for housing available through the four Provinces at low interest rates. A Central Housing Board was created to advise authorities on the administration of the Act.

Sub-economic loans were introduced in 1931 for the building of homes for the poorest members of the community, and for slum clearance. Due to the Great Depression, not much real progress was made until 1936 and by 1943, due to war conditions, activity in this area ceased. The Housing Act did not affect building societies unduly, as it was designed to cater for classes of society in which few could afford a building society loan. After WW II the Government used building societies in assisted housing schemes.

In 1937, the Government passed the Additional Housing Act which operated through building societies and enabled certain low income borrowers to obtain 90% bonds instead of the normal 75% of bond to property value. In 1945 the Housing (Emergency Powers) Act was passed which increased the earnings ceiling for borrowers to qualify for the scheme. A National Housing and Planning Commission was constituted, replacing the National Housing Board formed in 1944 and 'National Houses' were built for those who could not afford building society funded houses.

The first racial Act was the Asiatic Land Tenure and Representation Act (Act 28 of 1946) which was assented to in June 1946. The primary objective of this Act was to "impose restrictions with regard to the acquisition of fixed property in the province of Natal". This was followed by the Group Areas Act in 1950. This resulted in artificial home ownership patterns developing and saw the formation of dormitory townships, for example Soweto.

In 1981 the Government appointed the Viljoen Commission to investigate private sector involvement in resolving the housing backlog in Soweto. This resulted in a 99-year leasehold scheme. This Commission was followed by the Du Plessis Commission and the De Kock Commission in 1982 and 1983.

Between 1970 and 1984 the following Commissions and Committees of Enquiry into housing issues were established :

- •1970 Niemand Commission of Enquiry into the High Cost of Residential Land.
- •1973 Theron Commission of Enquiry into Coloured Affairs with Reference to Housing and Social Services.
- •1977 Fouche Commission of Enquiry into the High Cost of Housing and Related Matters.
- •1978 Housing Matters Advisory Committee and the Housing Policy Council - established to investigate all aspects of housing in terms of the Housing Matters Act of 1978.
- •1979 Committees of the Department of Community Development to investigate the Township Establishment Process.
- •1980 Browne Committee of Enquiry into Local Authority Finances.
- •1980 Fouche Subcommittee of Enquiry to Investigate Private Property Ownership for Coloured and Asian Population Groups.
- •1981 Viljoen Committee of Enquiry to Investigate Private Sector Involvement in Resolving the Housing Backlog in Soweto.
- •1981 Croeser Working Group - To Evaluate the Report of the Browne Committee and Methods of Financing Services for Townships.
- •1982 Du Plessis Commission of Enquiry to investigate Matters Relating to Building Societies.
- •1982 De Kock Commission of Enquiry into the Monetary System and Monetary Policy in South Africa.
- •1982 Louw Commission of Enquiry into Alternative Methods for the Large-scale Provision of Housing for the Lower Income Groups.
- •1983 Steyn Commission of Enquiry to Investigate Financing of Black Housing.
- •1984 Venter Commission of Enquiry into Township Establishment and Related Matters.

In November 1985 the Private Sector Council on Urbanisation (PSC) comprising representatives of 6 private sector organisations and 30 individual members was founded, setting themselves the task of formulating proposals for a new urbanisation strategy for South Africa. The institutional members represented a cross-section of the South African economy.

The impact of the above resulted in:

- Only 30,000 to 40,000 housing units being built annually during the 1980s;
- Laws and regulations constraining the delivery of housing;
- The majority of those requiring housing were very poor and often unemployed and were unable to fund this market;
- SA's current crisis to a large extent being the result of failed public policies of the past and South Africa's rapid population growth rate. Influx control measures and forced removals have contributed greatly to the current housing backlog, inter alia, because they were perceived to be an alternative to a programme of housing construction in 'white' urban areas. Although other countries have housing problems on a scale similar to those experienced in South Africa, the legacy of apartheid has added a unique dimension to the problem;
- Little is being done to develop an effective housing policy until recently, despite Government Commissions and Committees of Enquiry. The creation of the SAHAC and the recent publication of the De Loor Report, may provide a breakthrough in this respect;
- The state has been involved in direct housing in ways that have inhibited private sector participation;
- People have expected the state to provide housing on a highly subsidised rental basis. (As a consequence of blacks being temporary residents of 'white cities', housing was provided on a subsidised rental basis);

Table 4 : The Extent and Distribution of Informal Housing : An Urban Perspective, 1990

Area	Total Black Population	Informally Housed Population
PWV	5,213,000	2,260,000
Durban	2,600,000	1,800,000
Port Elizabeth	580,000	320,000
Cape Town	570,000	330,000
Bloemfontein	470,000	160,000
East London	342,000	105,000

Informal Dwelling Types	Population (low estimate)	Dwelling Units
Backyard Shacks	1,173,804 (52%)	293,451 (51%)
Outbuildings	709,537 (31%)	202,725 (35%)
Free-standing settlements	377,109 (17%)	83,802 (14%)
Total	2,260,450	579,978

Sources : UF/CPS Reports 2 and 3, and UF Demographic Projection Model

Table 5 : Population Growth for the Major Metropolitan Areas in South Africa, 1980 - 2020

		Population (Thousands)			Forecasted Population (Thousands)		
Region	**Grouping**	**1980**	**1985**	**1990**	**2000**	**2010**	**2020**
PWV	Total	6,058	7,128	8,743	12,317	16,462	21,266
Durban / Pinetown	Total	2,010	2,630	3,089	4,368	5,821	7,481
Cape Metropole	Total	1,743	2,034	2,506	3,202	3,677	4,100
PE / Uitenhage	Total	684	816	984	1,416	1,901	2,409

- Public policy, in general, has not been tailored to serve the needs of the urban poor;
- Rent and bond boycotts, political unrest and economic decline, militate against the implementation of an effective housing policy;
- Lending institutions have become reluctant to provide financing for low-income housing as a result of violence in the townships, bond boycotts and difficulties with repossession of homes;
- Many building companies withdrawing from townships as a result of township violence.

Informal Housing

Informal housing is to be found in and around many cities in South Africa. In August 1991 the Urban Foundation estimated that over 7 million people lived in urban informal housing, making this form of shelter a major component of contemporary urban residential landscapes. To put this into perspective, one in five people currently live in informal housing. The informal housing in South Africa consists mainly of :

- Backyard shacks - erected on residential properties in formal legal townships, but not part of the formal township;
- Free-standing informal settlements - clusters of informal structures located on tracts of land within formal townships, buffer zones between townships, on undeveloped farmland, on tribal land close to urban areas, and in scatter camps;
- Scattered informal settlements - small clusters of informal structures often found in locations such as disused mines and on small holdings. The residents are highly mobile.

Table 6 : Fiscal Implications of Financing Housing for Various Levels of Subsidies

Value of Subsidy for Site / House Rand	Annual Fiscal Requirements R Million
4,500	192
7,500	586
25,000	3,915

FUTURE SITUATION

On the assumption that ideally, every household should be accommodated in a formally constructed dwelling, there is a current backlog of about 1.3 million housing units in SA; The land required annually to build 200,000 housing units at 20 units per hectare is 10,000 hectares. Acquisition of suitable land is a major problem.

By far the most severe housing problem occurs amongst urban blacks, where more than 50% of urban households are not formally housed. Not only is the average household size larger (8 people per unit), but the estimated 5.7% annual growth rate of black urban households is also placing a severe strain on urban housing capabilities.

Just to accommodate this increase will require an average of 198,000 dwelling units to be constructed annually during the 1990s. A further 65,000 units would be required annually if the backlog in housing were to be reduced by replacing 5% of informal dwellings per year.

The state cannot, mainly as a result of the political situation, continue to be directly responsible for the provision of housing.

While the formal financial services sector has undergone fundamental change and housing finance in the formal sector is marked by innovation and diversity, clearly a major challenge exists in order to address the housing shortage in SA. The fiscal system cannot afford to fund the housing backlog. The financial institutions' risk profile criteria and the affordability of home loans limits the availability of housing finance to the most needy segment of the population, that is the informal housing market.

Innovative financing schemes, appropriate delivery of housing and finance are issues which the formal banking sector, the Communities, Government and development agencies are all currently grappling with. ■