

UNDERSTANDING THE REASONS TO THE CAUSES OF DEFAULTS
IN THE SOCIAL HOUSING SECTOR OF SOUTH AFRICA.

By

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1. Introduction

This paper is based primarily on the findings of a study carried out by the National Housing Finance Corporation (NHFC) in the first quarter of 2003. The article sheds the light about the nature and scope of the underlying reasons to the causes of defaults by tenants in the South African social housing market.

The considered methodology for this particular study was to conduct tenant survey through primary research (use of detailed questionnaire) across all 5 (five) provinces (Gauteng, Eastern Cape, Western Cape, Free State and Kwazulu Natal) covering eleven (11) institutions. A field study carried out on a face-to-face questionnaire interview of the tenants in the selected housing institutions in each of the five provinces. Seven hundred and thirty four (734) heads of the households were interviewed throughout the ten (10) institutions. Of those surveyed, 263(36%) were males, and 471 (64%) were females and most of the household heads interviewed were females.

The overriding purpose was to uncover reasons leading to tenants defaulting on the payment of their rent installments. The investigation was necessary to enable us to come up with alternative solutions and policy options that will improve the system and make it functionally effective. The approach was based mainly on eliciting responses from the end-beneficiaries themselves.

The NHFC mobilizes and secures funding for housing and aims to provide finance for housing to families with household incomes of below R7500, 00 (seven thousand and five hundred Rand) per month by:

- Providing funding to various intermediaries to enable these NHFC Intermediaries to on-lend to lower income households;
- Building adequate and sustainable capacity within the Intermediaries; and,
- Building partnerships with various organizations to pioneer new methods of housing finance and the development of new housing delivery products.

The purpose of this investigation has therefore been to gain an understanding of the underlying reasons for the reluctance of end-users to meet their financial obligations which impacts negatively on the funding institutions by conducting a tenant survey.

2.The Economic System

The profound reasons of defaults in the South African social housing market to be clearly understood and to argue convincingly about the root of the problem, one obviously need to understand the socio-economic patterns in South Africa¹. In addition to that, a comprehensive explanation of what Social Housing is all about as well as its support machinery within the South African context is necessary.

The South African economy has experienced disappointing economic growth, coupled with low levels of foreign and domestic investment- currently less than 15%. An increase in joblessness from 15% to 30% of the labour force since 1995, the decline of formal sector employment, and rising informal sector employment are some of the realities with which South Africa is faced.

Recent studies also point to an increase in levels of poverty and inequality in South Africa. The recently published South African Human Rights Commission Report on Economic and Social Rights tells of the huge capacity challenges government faces in terms of realising

¹ See table 1, for more information

citizens' socio-economic rights. The government-commissioned Taylor Report released last year highlighted the need for a comprehensive social security system given that the majority of people living in poverty still lack access to basic socio-economic rights. Statistics South Africa reports that the poorest 20% of people spend less than R100 per person a month. The Institute for Democracy in South Africa (Idasa) 2002 Afro barometer survey also found that for the majority of those surveyed their greatest concern was the high levels of unemployment in South Africa.

Table 1: Key Economic Indicators

Economic Growth Rate	GDP 2.6% average per annum between 1995 and 2001
Growth Per Capita	0.48% pa (living standards)
Investment	15.9% of GDP (East Asian economy 23% upwards)
Domestic Savings	15.7% GDP
Average Foreign Saving	0.1 GDP
Fiscal Deficit	Under 10% of GDP
Unemployment	30%
Employment	10% of jobs existing in 1995 disappeared by 2000
Poverty	60% of African population live below poverty line of R533/month 30% of Coloured pop. in poverty 5% of Indian pop. in poverty 1% of White pop. in poverty

Source: E-politics Budget Information Service, May 2003

The table below shows that over 35 million people in South Africa qualified for the subsidies in the year 2000. The figure was 34 million in 1996. It is clear from what we gather from the table that there is a desperate need to stimulate real economic activities based on sound fundamentals to deal with the spiral rate of unemployment.

Table 2: Individual Income Per Month in the year 2000

EMPLOYMENT STATUS	R0- R1500	R1501- R2500	R2501- R3500	>R3500	TOTAL
Employed	6 005 023	1 303 291	780 484	1 935 988	10 024 786
Unemployed	6 549 866	28 341	14 176	1 947 909	8 540 292
Housewife	1 861 892	11 195	5 948	232 058	2 111 093
Pensioner	2 394 330	153 018	65 537	272 620	2 885 505
Disabled	290 976	5 680	1 366	26 020	324 042
Student	4 628 717	4 695	1 745	621 599	5 256 756
Aged <15	12 899 189	3 082	1 626	1 909 108	14 813 005
Total	32 629 994	1 509 302	870 881	6 945 302	43 955 479

Source: The Demographic Information Bureau data has been extrapolated by using the Census 1996 data

3. The Social Housing System in South Africa

This section provides a comprehensive approach of the South African Social Housing System. This is drawn as follows:

- Characteristics of the social housing sector
- An outline on the subsidy system
- An outline of the risks in the housing delivery process in South Africa
- An introduction to selected stakeholders
- The core business functions of a typical housing institution
- Some legal obstacles to social and rental housing delivery
- The types of tenure on offer

3.1 Characterisation Of The Social Housing Sector

Social Housing, according to the Toolkit developed by the Social Housing Foundation, is “a particular approach to affordable housing whose core intention is to provide low to moderate income households with an affordable housing option”. Embraced by this approach are a range of other services which include provision of community development services and empowerment benefits, and promote a lifestyle which is conducive to community living. Social housing is distinct from other low to moderate-income housing as it involves the residents in the ongoing management of their housing.

There are two main features of Social Housing:

- It is located in a formally recognised institution; and,
- Residents are somehow involved, to a greater or lesser degree, in the overall management of their arrangements.

The local government has put a high emphasis on the regeneration of the inner city. An important part of this program is the development of the social housing.

The local Government Green Paper on Social Housing in the Inner City of May 1998 states, ‘Social housing represents an important opportunity to achieve both the objectives of housing delivery and urban regeneration’.

The term social housing is used locally to describe a very broad range of housing delivery and management mechanisms, aimed at housing the lower income part of the market, but which are all characterized by the fact that it is subsidized with the institutional subsidy provided under national subsidy scheme.

The Green Paper on Social Housing further states that social housing is a recent phenomenon in South Africa and there is little knowledge of policy or experience to guide its development. The Green Paper suggests a supportive approach and a number of important recommendations on the facilitation and promotion the social housing sector are made.

Currently, the social housing sector is characterized by institutions that differ in terms of:

- Legal form (Private companies, section 21 companies and co-operatives);
- Tenure options (Rental, Co-operatives, Rent - to - Buy and Installment sale); and,
- Type of development (Greenfields, Refurbishments, Conversion and Upgrade).

The institutions also differ according to their stage of development with the following categories discernible:

- Potential Social Housing institutions representing institutions that have expressed an intention to pursue social housing delivery but have not yet registered a legal entity for social housing;
- Emerging Social Housing Institutions being those institutions that have formally registered a legal entity for social housing but have not yet developed any housing stock; and,
- Established Social Housing Institutions being those institutions that are formally registered legal entities, owning and/or managing housing units.

3.2 Institutional Subsidies And Social Housing

The institutional subsidy policy allows for both profit and non-profit companies to access institutional subsidies for the purpose of providing housing on a collective basis to beneficiaries of the housing capital subsidy scheme. The additional powers and functions given to local government in the Housing Act of 1997, do allow local government to decide to keep social housing stock out of the housing market stock in their regions.

In summary, the current subsidy scheme is structured such that households earning up to R3,500 per month can access subsidies of R18,400 per housing unit. The housing institution normally makes a formal application to the Provincial Housing Development Board (“PHDB”) for each individual planning to access the subsidy.

3.3 Some Comments On Risks In The Housing Delivery Process

There are a number of distinct stakeholders in the South African housing process, and each faces distinct risks, as illustrated in the table below:

Stakeholder	Risk
1. Consumer	<ul style="list-style-type: none"> ▪ Losing the house after foreclosure ▪ House losing value over time ▪ Interest rate changes for variable rate loans
2. Developer	<ul style="list-style-type: none"> ▪ Not selling the houses ▪ Delays in construction or sales ▪ Land invasion
3. Builder	<ul style="list-style-type: none"> ▪ Cost overruns ▪ Defects requiring rectification
4. Government	<ul style="list-style-type: none"> ▪ Loss of support through non-delivery of houses
5. Lender	<ul style="list-style-type: none"> ▪ Default by borrower ▪ Term mismatch

Most of these parties have mechanisms for managing their risks or at least for ensuring that those responsible for the risk manage it appropriately. For example, since the consumer has no means of monitoring or controlling the risk of defects in construction, a standard warranty requires the contractor, who can control that risk through quality control procedures, to bear this risk.

3.4 An Introduction To Selected Role Players

3.4.1 The National Association Of Social Housing Organisations

The National Association Of Social Housing Organisations (“NASHO”) was formally launched on 27 May 2002 by the then Minister of Housing, Sankie Mthembu-Mahanyele. NASHO was formed to represent and promote the interests of social housing institutions within the sector. The goals of this organisation are:

- To promote the social housing sector;
- To be the voice of the sector;
- To provide the information on the activities in the sector;
- To build capacity in the sector; and,
- To develop programmes to further the interests of the sector.

A National Executive Committee is in place with regional representatives for 15 affiliates representing no less than 10,000 units under social housing ownership.

3.4.2 The Social Housing Foundation

The Social Housing Foundation (“SHF”) is a Section 21 company that was created in 1997, whose mandate is to provide capacity building and technical support services to emerging and existing social housing institutions and to facilitate the development of a policy framework for the sector and promote social housing as another form of tenure in South Africa.

An example of one of the SHF’s products is a manual or Toolkit, which has been developed to aid the development process of the Social Housing Institutions. This Toolkit covers a wide area of housing related activities including:

- Form of legal entity;
- Governance structures;
- Business planning;
- Financial management;
- Property management;
- Financial management; Human resources development; and,
- Aspects of Government Policy.

In addition, the SHF is perceived to be the custodian of European Union grant funding availed for the purposes of capacity building by the European Union. The Social Housing Institutions have to meet very stringent requirements in order for them to access these grant funds.

3.4.3 The National Home Builders Registration Council

The National Home Builders registration Council (“NHBRC”) is a statutory body established in terms of the Housing Consumers Protection Measures Act (No 95 of 1998). The Council was mainly established to protect the interests of new housing consumers against defined defects and to regulate the home building industry.

3.5 The Core Business Functions Of A Social Housing Institution

Table 4: The core business functions of a typical social housing institution are as follows:

Strategic Management	(i) Organisational leadership (ii) Risk Management (iii) New Products and relationships (iv) Public relations and positioning of the organisation
Property Development	(i) Financial feasibility assessment (ii) Project Assembly (iii) Project management (iv) Project commissioning (v) Quality control
Property Management	(i) Letting (ii) Tenant relations (iii) Rental administration (iv) Maintenance and default management
Financial Management	(i) Financial administration and reporting (ii) Cash and cash flow management (iii) Funding (iv) Investment management

4. Some Legal Obstacles To Social And Rental Housing Delivery

4.1 Value Added Tax Act

VAT issues are perceived to be among the major obstacles to the delivery of social and rental housing. Some of the VAT related issues affecting the industry include:

- Input VAT on rental and management services is not claimable;
- Developers need to fund VAT on expenditure from cash flows;
- Provision of residential accommodation is deemed to be an exempt supply; and,
- Subsidies are zero rated where rental is delivered.

4.2 Prevention Of Illegal Eviction and Unlawful Occupation Of Land Act, 19 of 1998

A major issue noted in the sector has been the impact of The Prevention Of Illegal Eviction and Unlawful Occupation Of Land Act, 19 of 1998² (“PIE”). The key features of this piece of legislation are:

- A hearing must be held by the Court before any eviction can be carried out;
- The Court may grant an eviction order if it is of the opinion that it is just and equitable to do so after considering all the relevant circumstances, including the rights and needs of the elderly, children, disabled persons and households headed by a woman; and,
- If it’s just and equitable the court must determine:
 - a just and equitable date on which the unlawful occupier must vacate the land under the circumstances; and
 - the date on which an eviction order may be carried out in the unlawful occupier has not vacated the land on the date set by the court;
 - In setting that date, the court must have regard to all relevant factors including the period the unlawful occupier and his/her family have resided on the land in question (i.e. the Court must give notice).

² The department of housing and the department of land affairs as well as relevant stakeholders are currently looking at ways to amend the Act.

4.3 Rental Housing Act 50 Of 1999

The Rental Housing Act 50 Of 1999 has the following objectives:

- to define the responsibility of Government in respect of rental housing property;
- to create mechanisms to promote the provision of rental housing property;
- to promote access to adequate housing through creating mechanisms to ensure the proper functioning of the rental housing market;
- to make provision for the establishment of Rental Housing Tribunals;
- to define the functions, power and duties of such Tribunals;
- to lay down general principles governing conflict resolution in the rental housing sector;
- to provide for the facilitation of sound relations between tenants and landlords and for this purpose to lay down general requirements relating to leases;
- to repeal the Rent Control Act, 1976; and,
- to provide for matters connected therewith.

The following questions have arisen over this Act:

- Compliance and awareness of its existence;
- Whether it applies to co-operative tenure;
- Whether it applies to the lease of a shack;

4.4 Alienation of Land Act 68 of 1981

The Alienation of Land Act 68 of 1981 covers installment sale agreements where more than two installments are over a period exceeding one-year. The issues surrounding this Act are that:

- disclosure requirements are cumbersome and,
- there is a need to streamline with credit law review currently being conducted by the Micro Finance Regulatory Council (MFRC).

4.5 The Proposed Community Reinvestment Bill

The Proposed Community Reinvestment Bill (“CRA”) has the objective of “promoting investment by the private sector in marginalised communities through identifying causal deterrents for investments and creating incentives and dis-incentives for future investments” (Minister of Housing, Budget Vote speech in National Assembly, 19 June 2001). Once the Act approved, it is envisaged that amongst other things, the Act seeks to compel Banks to lend loans for housing to the low and moderate- income households. The Bill to be promulgated to an Act before December 2003.

4.6 The Types Of Tenure In The Social Housing Sector

The common types of tenure encountered in the social housing sector in South Africa, each with its own relative advantages and disadvantages are as follows:

Table 5: Common Types of Tenure in the Social Housing Sector of South Africa

Type of tenure	Who owns property?	What use rights do residents have?	Residents' payment/s	Potential for ownership in the long term
Co-operative	The co-op is owned by residents.	Residents have exclusive and private use of unit for as long as the co-op exists.	Residents pay for co-op membership and monthly charges.	Individual residents will not be able to own units unless the co-op is dissolved and the property sectionalised.
Rental (lease)	The institution owns the property.	Residents have exclusive and private use of a unit for the term of the lease.	Residents pay a monthly rental.	Residents will not be able to own their units in future.
Rent-to-buy	The institution owns the property.	Residents have exclusive and private use of a unit for the term of the lease.	Residents pay a monthly rental.	Residents may exercise their option to buy in the long term.
Installment sale	The institution owns the property until it is transferred to the resident.	Residents have exclusive and private use of their unit and will own it within the agreed time- frame.	Residents pay a monthly installment and levy.	Residents will own their unit on the date of transfer, which is decided at the start.

Source: Social Housing Foundation Toolkit

5. Key Findings from the Study

- i) Employment Status:** 65.98% of the heads of the households are formally employed and 22.44% unemployed. The rest are either informally- or self-employed.
- ii) Length of time at present job:** 41% of those who are currently employed and have been in their present job for between one and five years. 25%, have been in their present job for between 6 and 10 years.
- iii) Total monthly household income:** 13% of the tenants earn income less than R1000.00 a month.
- iv) Current status of rent payments:** Regarding the status of rental payments (47%) of the tenants stated that they were up to date with their rent payments. (53%) were in arrears.
- v) Previous cases of rental default:** Of the tenants found to be up to date with their rent payments 37% had been in arrears before. The distribution of these tenants is fairly even across the institutions. This implies that the likelihood of tenants not normally falling behind with rental payments is the same in all the institutions. 59% of the tenants who were found to be in arrears had been in arrears for more than 4 months.
- vi) Issuance of monthly statements:** 23% of the tenants across all institutions said that they do not receive their monthly statements.
- vii) Method of payment of rent:** Cash is the most popular method of paying rent (and it is the method mostly preferred by the tenants). The majority of the tenants (96%) indicated the cash is paid at the bank rather than at the housing institution offices.

viii) The rental amount: 20% of all tenants said they were not correctly advised on monthly rentals.

ix) Accuracy of monthly rental statements: Asked if their monthly rental statements are accurate, the majority of the tenants (72%) agreed that they are.

x) Inspection of housing units prior to occupation: 67% of the tenants agreed that the landlord of the housing institution did actually go through the unit and recorded the problems where they existed prior to occupation.

xi) Tenant training: 57% of the tenants did not receive training before signing tenancy agreement.

(xii) Quality of housing units: One of the mandates of social housing is the provision of housing that meets the quality standards of the beneficiaries, 65% of the tenants felt that the quality of their housing units was not what they expected when they signed the rental agreement.

5.1 Affordability

The survey findings have shown that most of the tenants who were in arrears were those who were earning below R3,000 a month. Regarding the question of household income distribution in general, - a high proportion of household income goes into essential household expenditure (groceries, school fees etc.). There are two groups of tenants falling in this dilemma:

- Those whose income falls below the minimum of R1,500 per month (the minimum required in order to meet the social housing criteria; and,
- Those whose income falls within the required range but for some other reason are unable to meet their rental commitment on a regular basis.

5.2 Lack Of End User Information

A high proportion (78%) of tenants stated that they were informed of the correct rent amount prior to occupation. Of those who stated that they were not correctly informed (22%), claimed their monthly rent are charges for water and electricity consumption whose amount, in most cases, is not known before hand and is therefore based on estimates. It should, however be noted that the majority of the tenants (77%) indicated that their water and electricity statement is sent separately from the rent statement.

6. Conclusion and Recommendations

Rental housing is basically meant for people who are employed in one way or another. An unstable source of income could lead to arrears. Although social housing products are affordable, they are nevertheless suitable for beneficiaries with household income of R1500.00 and above.

As our research suggests that 13% of the tenants had income earnings of less than R1000.00. For tenants currently defaulting on the basis of affordability, it is suggested that they reduce their less important expenses in order to be able to meet their rental obligations. Tenants earning below the required minimum, instead of finding themselves trapped in a web of indebtedness- they should be counseled timely out of the housing units to avoid further defaults. Incentive based measures can be devised for tenants who settle their dues on time and punitive measures for those in defaults.

It is also clear from the findings that, *affordability, disputes*, over quality of housing units, *confusion*, over the type of tenure and the prevailing *culture of entitlement* on the part of tenants form part of the major reasons to the causes of non-payment.

These are largely the results of lack of communication between the tenant and the housing institution concerned. To address this, a review of landlord-tenant relationship is necessary including re-training of the tenants.

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