Low-cost housing to go high-rise

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Tokyo Sexwale says he wants low-cost housing to go "high-rise" and is looking for new ways to do it

After 16 years of building matchbox houses, human settlements minister Tokyo Sexwale says government is going "high-rise" and has its sights on 200 inner-city buildings, which can be converted into low-cost housing for rent.

As part of his performance contract with President Jacob Zuma, Sexwale is expected to deliver 80000 units of rental stock over his five-year term and to upgrade 400000 dwellings in informal settlements. But it is in high-density apartment and office blocks — owned privately and run along commercial lines — where Sexwale believes the potential lies to meet housing demand.

Since 1994 government has built around 2m stand-alone houses, of which ownership was transferred free to beneficiaries. It has also, since 2004, introduced a social housing model, which has used the housing subsidy (now set at R84000/unit) to partly finance the construction of medium-density apartment blocks. Social housing companies, which are generally not-for-profit entities, finance the rest and collect rentals, usually in the region of R1000-R2000/month, to recover costs and do maintenance.

While social housing is growing — about 5000 units have been built since the new policy and another 50000 were created through an earlier financing mechanism — Sexwale is aiming to accelerate housing provision. He wants to entice the private sector into a purely commercial model which would be geared towards serving the bottom end of the market.

"We are going high-rise. We have already identified 85 buildings that we think are suitable for housing in the inner city areas. Our target is 200 nationally," said Sexwale, speaking off the cuff after Zuma's state of the nation address on February 10 about his plans for the coming year.

This would include buildings in Johannesburg, Durban, Tshwane, Port Elizabeth and East London.

The key vehicle for stimulating the market will be the National Housing Finance Corp (NHFC), the financing arm of the department of human settlements. It has already been active in lending about R4bn to inner-city entrepreneurs and social housing companies in Johannesburg.

NHFC CE Samson Moraba says that for many years, during which commercial banks

“red-lined” the Johannesburg inner city, the corporation was the only financial institution lending in the area.

“But we have created confidence in the market and the commercial banks are showing signs that they want to come back. To ramp up to the levels requested by the minister, we will need the participation of all the banks.”

He says the thrust is to try to bring people back into the city. The exit of businesses from most city centres has created opportunity for the conversion of office accommodation to residential.

“The minister has asked us to roll out to all cities. So far, we have identified 85 buildings that can be refurbished.”

Moraba says the idea is to “incentivise rental housing entrepreneurs to have an interest in wanting to manage larger blocks”.

But while government will, through the NHFC, provide finance that might not otherwise be available to developers, Moraba says he believes it is advisable that the buildings be viewed as private. All the normal rules would apply to collection of rents, rather than being seen by tenants as government buildings.

“The notion of a state-owned building is not the right notion. The expectation is that people will be able to pay for these on their own,” Moraba says.

Private rentals target a slightly better-off individual than does social housing, with a range of between R1500 and R2800 , depending on the size of the unit.

While rental repayment rates in some social housing developments have been disastrous — at the flagship N2 Gateway project in Cape Town, payment levels were at one stage only 5% — other buildings have had greater success.

The chair of the social housing regulator agency, Zohra Ebrahim, says in many other buildings repayments are 95%.

Ebrahim says government’s shift to rental makes sense. While after 1994 it was important to provide title deeds to people who had been excluded from ownership by apartheid , the question had to be asked whether in the future government would continue to give everyone a stand-alone house.

The fact that most townships have a thriving rental sector — many households rent out backyard shacks for as much as R800/month — showed that the rental model, while not suitable for the indigent, could work , she says.

Shifting to high density will also help solve some of the problems that have arisen in the mass provision of stand- alone houses. Quality has been one , with the replacement of substandard houses built over the years set to cost government R58bn . Lately, Sexwale has pointed out that the lack of bulk infrastructure is hampering greenfields developments. In Durban, for instance, a 35000-unit

development is on hold as there is no available water or electricity and in Port Alfred a 5000-unit development has temporarily been scaled down to 500 because of unavailability of water.

Some problems will be solved by expanding affordable private rental, but new ones will arise. Given the large numbers of foreign nationals in the cities, a tricky issue will be whether foreigners would qualify for such housing or whether it should be reserved for South Africans only.

Moraba says: “It’s a consideration because you have to ask yourself what you’re trying to create.

“We don’t use it as a criterion now but we want to reflect on it.”

Social housing, on the other hand, which is built using government subsidies, is restricted to South Africans only. The income threshold to qualify for a housing subsidy is R3500/month.

Ebrahim says it’s reasonable to insist that private rental accommodation, which has been funded by a government financial institution, should be there to assist South Africans.