39th annual African Union for Housing Finance (AUHF) Conference

Productive Public Private Partnerships: Dimensions of Sustainability

The case of Public Housing in the City of Cape Town

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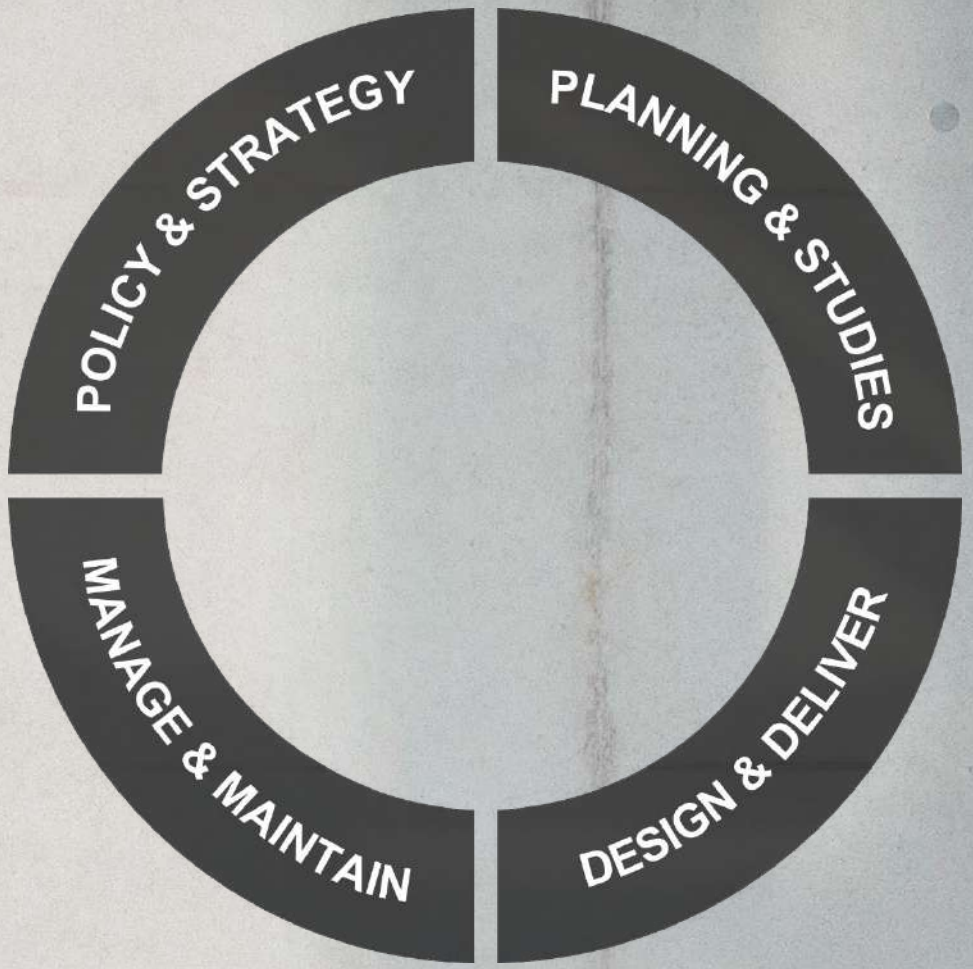
Who is Zutari?

Zutari has a 90 year legacy as an infrastructure engineering and advisory practice.

What do we do?

We provide **full lifecycle infrastructure solutions,** supporting clients with associated policy and strategy, planning and planning studies, design and delivery and management and maintenance.



Public Housing in the City of Cape Town

This research

Using a real-world case and experience in the finance of both private and subsidised housing (public and social) this research raises some **questions about Public Rental Housing:**

1. What are the **dimensions of a PPP in the provision of subsidised housing?**

2. How might the current Public Housing model **transition towards more private sector involvement**?

3. What **obstacles exist in making any shifts** towards more private sector involvement in the delivery of this housing modality ?

The City of Cape Town Public Housing Turnaround Programme

Infrastructure advisory project under transversal contract:

FY1	Improved Maintenance Processes
FY2	All-round business Improvement & Strategic Direction for Department
FY3	Continuous improvement (maintenance & customer service) & Feasibility of alternative models

Public Housing is a department under the Human Settlements Directorate. Its mandate is to manage **(plan, manage & maintain) the Public Housing portfolio** and **administer lease agreements.**

Housing is a public good

Affordable, well-located, safe housing contributes to public interests by:

Fostering economic growth

Reducing income inequality

Improving urban environments

Enhancing overall community well-being

The relative “Public Good” of affordable, safe, well-located housing is understood and accepted canon – as such, it is not farfetched to expect the involvement of public funds in the provision thereof.

Subsidised Housing in South Africa

The **Reconstruction and Development Programme** was developed prior to and launched in 1994 as an integrated economic strategy for equity and redistribution.

One of the best known elements of the RDP was the mass housing delivery drive (later renamed the Breaking New Ground Policy) with over 1.1mil houses being delivered by 2001. **By 2022 3.4mil houses had been delivered.**

RDP/BNG homes are homes **awarded to eligible households (earning below R3500/month)**

Naturally – a government is not a housing development entity and it became near impossible to deliver houses at the rate of demand.

The **provision of subsidised housing ownership** (despite warranting criticism for the economic challenges it poses) **was an important restitution action.** Unfortunately, with a growing demand for housing opportunities, **it is an unsustainable model.**

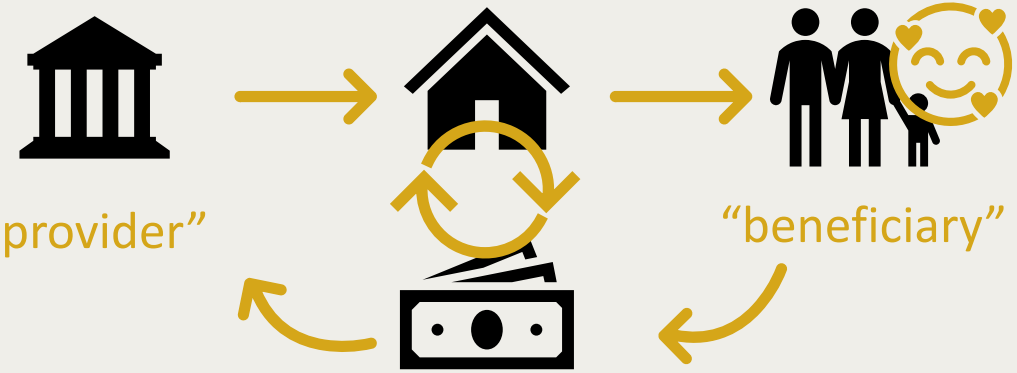
An alternative to ownership? Obviously

Ownership Model:

"provider" "beneficiary"

Challenges
1. Increased demand for housing
2. Strained supply of new housing
3. Reduced fiscal base to finance supply

Rental Model:



"provider" "beneficiary"

Subsidised Rental Housing allows some form of revenue to be garnered from the provision of housing – closing the loop of the cost of housing provision.

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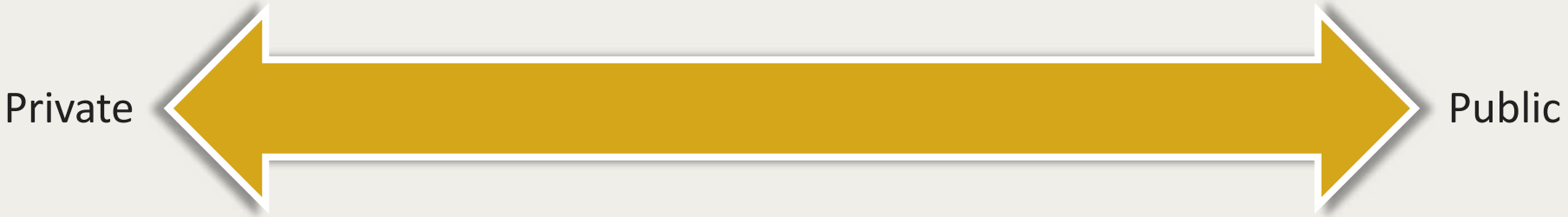
"Affordable Housing" is a complex concept.

*In brief, **Housing Affordability** refers to the availability of **housing that costs less than 30% of the average household income.***

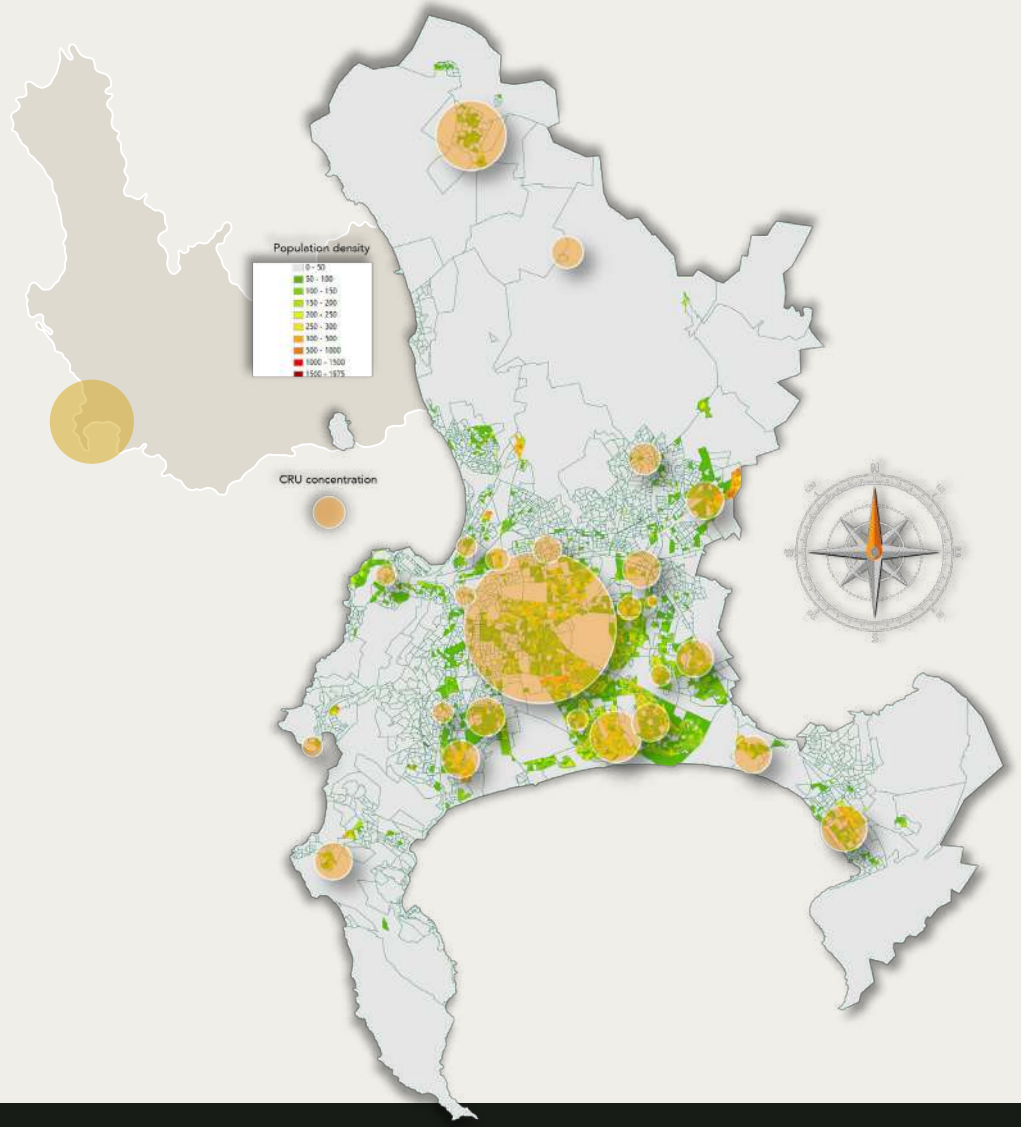
A spectrum of private to public in affordable rental housing

"Affordable" Housing	Social Housing	Public Housing
Private Sector developer	Private Sector SHI (either for or non-profit)	Government Provided (typically municipal level)
No subsidy (may benefit from incentive schemes)	**Government Capital Subsidy** for development (green or brownfields)	Government developed (i.e. state funded) and **ongoing individual subsidy** (if eligible and awarded tenancy, income based rental reduction)
No eligibility criteria	Household income of R3500 – R22500pm	Household income below R3500pm



R3500 = ±$185 (USD)

Cape Town Public Housing – current assets & residents



Public Housing Portfolio – 57 554 units

34 404
Non-saleable* units
+ 14054 Hostel Rooms
≈ 134 653 people

9 096
Saleable** units
≈ 30 000 people

*Non-saleable units are units within a building (i.e. apartments) that cannot be sold individually.
**Saleable units are theoretically able to be sold individually (i.e. freestanding units). In both cases deed conditions apply.

Subsidised Rental Housing addresses the needs of the thousands of Cape Town's poorest residents.

Public Housing – The Facts

State owned – assets on the municipality's books

As asset owners – municipalities are responsible for tenancy management , maintenance (and capital upgrades).

Rental rates are far below market value - <R25/m² (40m² unit = R1000; a similarly sized new social housing development unit is ±R2600)

To qualify, a combined household income of less than R3500 is required (full time minimum wage is R3700 – 4000), once qualified, tenants can register for indigency and benefit from a 'payment arrangement'.

There is very little churn – tenancy transfers are possible and some families have occupied units for decades.

R1000 = ±$53 (USD)

The Challenges

1. *Rental rates are very low (less than cost)*
2. *Indigency is incredibly high (46% of rental written off)*
3. *Collections are very low (33% of billed is received)*
4. *High operational costs (280% of revenue received in FY21/22)*
5. *Municipality tops up the revenue deficit to cover operational cost (estimated R184mil pa)*
6. *The source of the top-up is not guaranteed and is easily diverted to other municipal projects (i.e. unpredictable future)*

At present, despite the perceived public good of investing in affordable well located housing options for marginalised groups – the public sector is seemingly unable to continue to operate the portfolio in its current form.

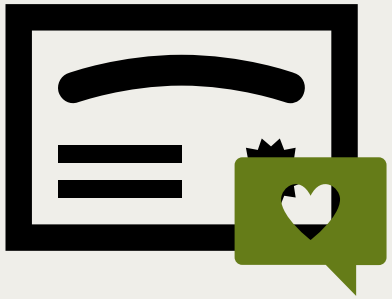
Is a Public-Private Partnership the answer?

1 What are the **dimensions of a PPP in the provision of subsidised housing?**

2 How might the current Public Housing model **transition towards more private sector involvement**?

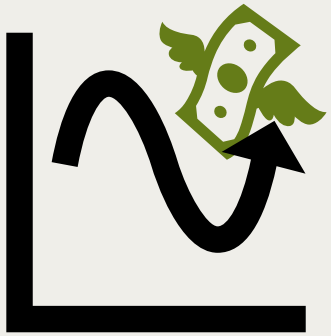
3 What **obstacles exist in making any shifts** towards more private sector involvement in the delivery of this housing modality ?

The Private Sector does housing better



Efficacy (Service Excellence)

Efficiency (sustainable spending)



Accountability (financial obligations)

Reduced dependency on strained fiscus

Private sector involvement in the housing industry typically results in provision of a better service, and better performance internally as well.
It also reduces the demand placed on state housing provision.

What does a PPP entail?

Historically public functions

Private sector efficiencies (due to specialisation, profit motive, access to markets or capital,

Incentive structure: shared responsibility – shared benefits -

Risk transfer – risk is borne by the party best equipped to manage it (or most incentivised to do so)

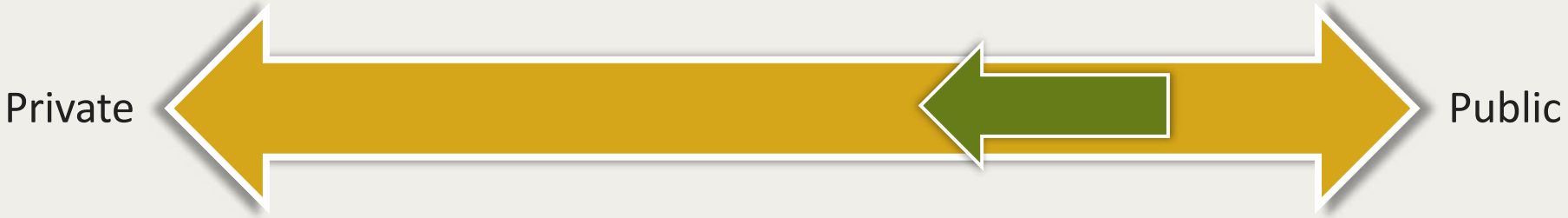
At it's a core a PPP entails the sharing of responsibility (and benefit) between public and private actors. The sharing is typically framed around risk transfer, where risks are borne by the party that is best able to manage them.

1 What are the **dimensions of successful PPPs in the provision of subsidised housing?**

2 How might the current Public Housing model **transition towards more private sector involvement**?

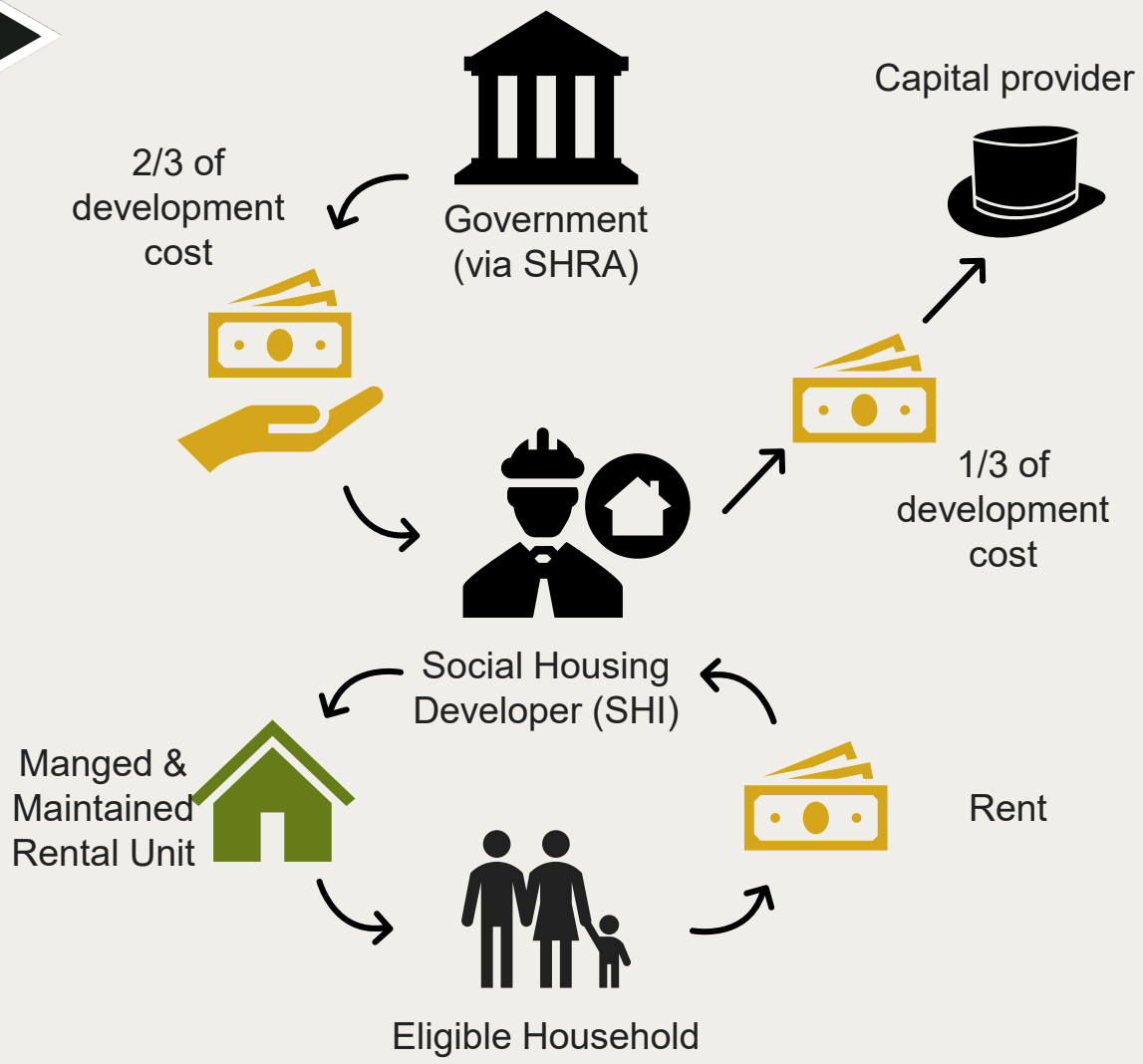
3 What **obstacles exist in making any shifts** towards more private sector involvement in the delivery of this housing modality ?

A shift towards private



As an example of how Public Housing becomes more private (and begins to resemble a PPP) ***Social Housing is a useful benchmark.***

Social Housing	Public Housing
Private Sector SHI (either for or non-profit)	Government Provided (typically municipal level)
Government Capital Subsidy for development (green or brownfields)	Government developed (i.e. state funded) and **ongoing individual subsidy** (if eligible and awarded tenancy, income based rental reduction)
Household income of R3500 – R22500pm	Household income below R3500pm



Social Housing Facts

1. *SHIs can access up a capital subsidy of up to 66% of the development cost*
2. *Capital subsidies can be used to develop brownfields sites*
3. *R1100/unit Operational benchmark*
4. *Higher qualification criteria for households (higher income, proof of employment, stricter debt management)*
5. *Collection rates of up to 85%*
6. *Some SHIs offer additional social support*

At present, despite the perceived public good of investing in affordable well located housing options for marginalised groups – the public sector is seemingly unable to continue to operate the portfolio in its current form.

Opportunities for private sector involvement in Public Housing

	Task	Requirements	Risk	KPI
Upgrades & Maintenance	Building upgrades/renovations	Current condition & Service level required	Limited maintenance budgets Supply chain restrictions Limited control against vandalism	Works orders attended to Building conditions
	Day to day maintenance			
Tenancy Management & Lease administration	Tenancy Management (placements, transfers, inspections etc)	Tenant (and occupant) details, billings & revenue oversight	Limited control over tenant profile, rental rates, budget etc.	Rental collection rate Customer approval ratings
	Revenue & Debt management			
	Safety & Security	Control & escalation ability and support	Limited access control and no full occupant data	Incidents
Long term planning	Major Upgrades	Current condition & Service level required	Supply chain restrictions	Building conditions
	New infill development	Land-use constraints	Municipal Asset resections Cross-pollination of old and new	Number of new tenant opportunities
	Finance	Collateral		Returns

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Challenges with private sector involvement in Public Housing

Municipal asset transfer restrictions exist. Additionally, governments **cannot merely 'stop' providing a service.**

Social issues in public housing estates are complex (and political) and likely both **inappropriate and unattractive** for the private sector .

Unpredictability and **limited controls** over operational model makes **private sector involvement in the current model unattractive or expensive.**

The **skewed financial model** creates in limited economic drivers. Alternative performance metrics would have to be put in place.

What can be done?

Segmentation is key

Segmentation of Operations: What tasks does managing Public Housing entail? Who does what? How well do they do it?

Financial Segmentation: What different costs and revenues are involved? How do they compare?

Portfolio Segmentation: What spatial and asset-based categories exist? How do they differ? How are they the same?

Tenant Segmentation: What types of tenants live here? How do they differ? How are they the same?

Integration is key

Integrated housing development : What different approaches are different levels of government employing to meet the need for affordable housing?

Integrated service delivery: How is the roll-out and ongoing provision of other services and infrastructure affected by or supporting the delivery of subsidised housing?

Integrated socio-economic imperatives: Housing is about more than houses – what other socio-economic development initiatives are required to enable the benefits of affordable housing to be reaped?

Private sector integration : What role can the private sector play in this ecosystem?

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