POLICY

DETERMINING OF SELLING PRICES OF THE REMAINING SALEABLE RENTAL UNITS MANAGED BY THE HOUSING DIRECTORATE

APPROVED BY COUNCIL: 11 MAY 2011

C 85/05/11

City of Cape Town

POLICY FOR DETERMINING OF SELLING PRICES OF THE REMAINING SALEABLE RENTAL UNITS MANAGED BY THE HOUSING DIRECTORATE

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DEFINITIONS

National Housing Funds	Means grant finance provided by the National Department of Housing for the development of housing for low-income households
Discount Benefit Scheme (Old Scheme)	Means the discount, up to a maximum of R7500,00, for qualifying tenants to take transfer of their state-funded rental units in terms of the National Sales Campaign
Enhanced Extended Discount Benefit Scheme (New Scheme)	Means the discount, up to the maximum value of the prevailing Individual Housing Subsidy, for currently qualifying tenants to take transfer of their state-funded rental units in terms of the National Sales Campaign
Historical selling price	Means the historic cost of the serviced erf and the improvements thereon
Municipal Finance Management Act (MFMA)	Means Act 56 of 2003
National Housing Code	Means the comprehensive document, established in terms of Section 4 of the Housing Act, 1997 and contains National Housing Policy and administrative guidelines
Consumer Price Index	Means the changes through time in the price level of consumer goods and services purchased by households
Circular 17 of 1983 National Sales Campaign	Means the circular issued by the erstwhile Own-affairs Administration on the sale of houses financed by the National Housing Fund
Circular 4 of 1987	Means the circular issued by the erstwhile Own–affairs Administration that sets the current formula for calculating sale prices for dwellings financed by the National Housing Fund
Individual Housing Subsidy	Means a state housing subsidy to assist qualifying households who wish to acquire an existing house

POLICY FOR DETERMINING OF SELLING PRICES OF THE REMAINING SALEABLE RENTAL UNITS MANAGED BY THE HOUSING DIRECTORATE

1. PREAMBLE

The City's Housing Directorate manages approximately 43 500 rental units. The development of these units was largely financed with former National Housing Funds, with some units being financed by the erstwhile local municipalities. During the 1980s, government initiated the Discount Benefit Scheme (DBS) to encourage tenants and sales debtors to acquire ownership of their saleable units identified in terms of the National Sales Campaign Circular 17 of 1983 and for which prices were determined in term of Circular 4 of 1987.

The discounted benefit was initially for an amount not exceeding R7 500.00. If the selling price exceeded R7 500.00, the purchaser was required to pay the excess plus any arrears.

In time, the principles and objectives of the DBS policy were found to be inadequate to deal with certain wide ranging complexities and a new policy framework, criteria, conditions and implementation processes and procedures for an Enhanced Extended Discount Benefit Scheme [EEDBS] was subsequently established to support the sales campaign.

One of the more important aspects of the latest EEDBS is the fact that those tenants earning less than R3500 per month qualify for a State subsidy equal to the sale price of the rental unit but not exceeding the current subsidy quantum linked to the Individual Housing Subsidy Schemes. Tenants earning in excess of R3500 only qualify for a maximum subsidy of R7 500.

A considerable number of saleable rental units have already been transferred by the City to their qualifying occupants since the implementation of the DBS/ in 1994.

In line with the above and through ensuring equity, transparency and fairness, the need has arisen to also review the historical selling prices of the remaining saleable units of the City of Cape Town, taking into account similar complexities that gave rise to the EEDBS and which could be factored in the determining of the selling price. Furthermore, there is also the requirement to consider the issue of equity and transparency in terms of, inter alia, Section 14 of the Municipal Finance Management Act (MFMA) and the Municipal Asset Transfer Regulations (MATR) established in terms of section 168 of the same Act.

2. POLICY PRESCRIPTS AND PROVISIONS

2.1 LEGISLATIVE FRAMEWORK

The sale prices to be determined in accordance with this policy will apply to properties that have been financed from two sources, namely National Housing funds and municipal funds. This approach will ensure consistency for all prospective purchasers of saleable City housing stock.

The relevant provisions of the EEDBS as contained in the National Housing Code, 2009 will be applicable to the sale of properties originally financed by National Housing Funds and identified as part of the National Sales campaign.

Likewise, the relevant provisions of, inter alia, Section 14 of the Municipal Finance Management Act, 2003 will be applicable to the sale of those properties financed by own municipal funds.

2.2 OVERALL POLICY PRINCIPLES

The following fundamental principles are applicable:

Equity – the sale prices determined through the application of this policy shall apply to all saleable rental units irrespective of their original sources of funding, except for those units classified under clause 2.4.4 below.

Consumer Price Index (CPI) – this policy proposes that the National Stats SA CPI be applied as a measure in determining the price of the saleable rental stock.

Final Price: The final price will be the lesser of market value or inflation adjusted price.

The full prevailing individual housing subsidy will apply to all qualifying beneficiaries as approved by the Provincial Government: Western Cape

2.3 POLICY INTENT

The intent of the policy is to establish and approve a fair and equitable process, using CPI, to determine selling prices of the remaining saleable rental units managed by the City's Housing Directorate in order to stimulate and facilitate, where it is viable and practical, the transfer of these units to qualifying occupants, by using subsidisation up to the full prevailing individual housing subsidy amount. These properties include:

i. Rental units identified under Circular 17 of 1983 National Sales Campaign;
ii. Rental units based on Circular No. 4 of 1987; and
iii. Saleable municipal funded housing stock.

2.4 APPLICATION OF THE POLICY

2.4.1 Categories of affected properties

The categories of rental units affected by this policy are limited to the following:

i. Free standing houses – individual rental units on defined and designated pieces of land;
ii. Semi-detached houses – rental units that share common walls with their neighbouring unit;
iii. Terraced houses (row houses) – rental units that have at least two common walls, usually on either side of the house, with its neighbours; and
iv. Maisonettes – generally referring to rental units that have two dwelling spaces one on top of the other but share common walls with their neighbouring unit.

The registration of transfer in respect the abovementioned categories of rental units could be effected immediately assuming that all arrears and municipal charges are current.

2.4.2 Determining of current and future selling prices

i. In order to measure the average change through time in the price level of a consumer goods and service, it is common practice to apply the Consumer Price Index (CPI) (ie inflation rate)
ii. This policy aims to apply CPI principles by taking the previously calculated and approved historical prices as at 31 December 2005 of the various categories of saleable rental units and then increase the price by the official CPI rate. The decision to use 31 December 2005 as the cut-off date for the previously calculated and approved historical prices is based on the date at which the Individual Housing Subsidy became applicable to all EEDBS sales, namely 1 December 2005. This further ensures consistency.
iii. The final price will be the lesser of market value or inflation adjusted price.
iv. The table below illustrates how sample sale price calculations can be determined by using base historical prices of R22 651,00 , R7 570,00 and R9 090,00 for different categories of saleable rental units and applying the CPI from 2006 onwards.

Year	CPI	Amount	Amount	Amount
2005 (historical)		**22,651.00**	**7,570.00**	**9,090.00**
2006	**4.6**	**23,693.00**	**7,918.00**	**9,508.00**
2007	**7.2**	**25,399.00**	**8,488.00**	**10,193.00**
2008	**11.5**	**28,320.00**	**9,464.00**	**11,365.00**
2009	**7.1**	**30,331.00**	**10,136.00**	**12,172.00**
2010	**3.5**	**31,393.00**	**10,491.00**	**12,598.00**

It should also be noted that any revised prices that represent a more equitable cost, must be submitted to the Provincial Minister for Human Settlements for his/her consideration and approval for those rental units that are subject to the provisions of the EEDBS.

2.4.3 Instances where the selling price is greater than the Individual Housing Subsidy

i. In instances where the selling price is greater than the prevailing Individual Housing Subsidy, any balance remaining must be financed, by using the beneficiaries own resources which may include mortgage loans.

ii. Tenants earning in excess of R3500 will be required to pay the difference between R7500 and the sale price plus any municipal arrears.

2.4.4 Implementation date

This policy is to take effect on the date approved by Council