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Banking on reform: The affordable housing opportunity in OV 2.0

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Demand for affordable housing is climbing considerably but supply is not keeping pace. Driven by urbanisation but also by subsidies and new retirement fund policies, demand is particularly urgent in the R7,500-R15,000 a month income bracket. In terms of supply, affordable housing makes up 50% of residential stock but only a small fraction of sales, with strict credit criteria, a shrinking construction industry, rising costs and bureaucratic hurdles impeding progress.

Operation Vulindlela 2.0 aims to address this disparity by focusing on demand-led, partially subsidised housing models and easing supply constraints. Key reforms include unlocking public land, streamlining planning processes, adjusting subsidies and accelerating title deed issuance. Despite implementation challenges, this reform package aims to align private capital, policy and infrastructure delivery for better housing development.

Operation Vulindlela phase two (OV 2.0), launched in May 2025, represents a renewed focus on structural reforms to address spatial inequality and affordable housing delivery alongside strengthening local government performance. Building on the first phase's momentum in telecommunications, energy and logistics, the second phase expands into housing, land reform and passenger rail. The goal is to create "dynamic cities that support economic growth and generate employment" (Presidency & National Treasury, 2025).

This policy shift comes at a critical juncture. Subsidised housing delivery is declining, homeownership subsidies see low uptake and fiscal stress is mounting. In response, OV 2.0 pivots towards demand-driven, partially subsidised programmes that "leverage private sector capital and implementation capacity alongside public funds" (Presidency & National Treasury, 2025). This marks a significant departure from building only fully subsidised RDP houses for the poorest towards creating conditions for scaled private sector participation.

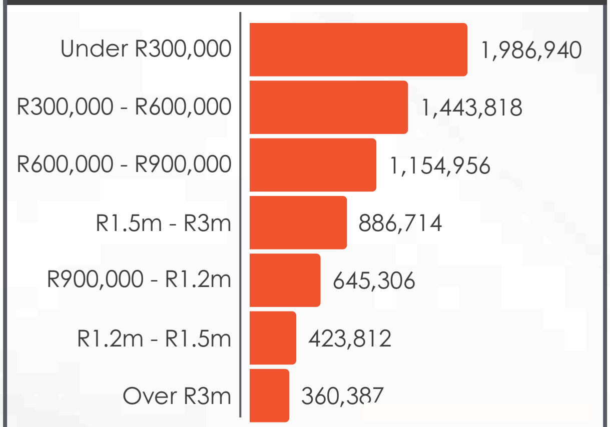
However, the key challenge remains unlocking a responsive supply ecosystem. Historically, demand-side subsidies have failed to generate adequate supply due to regulatory bottlenecks, permitting delays, a struggling construction sector and a lack of risk-sharing mechanisms. The supply market remains inelastic because interventions do not create conditions where supply can dynamically respond to demand changes.

Could OV 2.0 finally address these structural supply constraints that have stalled affordable housing delivery for decades? This paper examines the proposed reform actions and assesses how effectively they tackle housing supply limitations. We explore the market opportunity created by the shift towards demand-led, partially subsidised finance, particularly for the underserved "gap market" earning between R3,500 and R15,000 a month. Finally, we offer practical recommendations for both policymakers and banks on aligning incentives, de-risking participation and catalysing investment into a more inclusive and sustainable housing delivery system.

A market primed to scale - if supply is unlocked

South Africa's affordable housing market is large, underfinanced and growing. In 2023, the residential property market was valued at R6.8tn with 6.91 million properties (Tshangana, 2024). Two-thirds (66%) of these properties are below R900,000. Between 2019 and 2023, however, the sales-to-stock ratio was at 0.8 compared with 1.38 for properties above R900,000, meaning higher-value homes are selling much faster relative to their market size than affordable homes (Tshangana, 2024). In other words, millions of properties within reach of working South Africans remain untraded while buyers and sellers struggle to connect in formal markets.

Residential properties by market segment in 2023



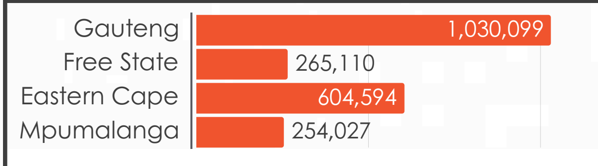
Source: CAHF's Citymark (Tshangana, 2024)

At the centre of this is the "gap market" – households earning R3,500-R15,000 a month. Too wealthy for fully subsidised housing but too poor for standard bank finance, they are central to OV 2.0's demand-driven approach.

The National Housing Needs Register (NHNR) recorded 2.2–2.4 million households needing housing in 2023 (DHSm 2023). Urbanisation and metro housing shortages will push this higher. The opportunity goes beyond sales. Buy-to-let makes up 12% of property purchases, with affordable housing responsible for 30% of these deals.

This is where policy ambition needs to meet delivery reality. At the centre of this is the "gap market" – households earning R3,500–R15,000 a month. Too wealthy for fully subsidised housing but too poor for standard bank finance, they are central to OV 2.0's reforms.

Provinces with most households from NHNR not yet assisted



Source: DHS (2023)

With over 2.4 million households needing housing and over half of these (1.03 million) in Gauteng, urbanisation will push this higher. Yet supply remains stuck as structural constraints have made the housing delivery ecosystem slow, brittle and unresponsive.

Since 2015, 94 construction firms have collapsed, with sector employment down 20%. High risk, low margins, delayed payments and construction mafia activity have pushed big builders out. Smaller developers, vital for township and rental projects, face steep barriers. Many rely on personal funds, lack access to credit and struggle with procurement designed for larger firms.

Rising costs add to the strain. Building a 50m² unit now averages R625,000 – excluding land and fees. Outdated design rules push projects to cheaper, disconnected sites, reinforcing sprawl and exclusion. Even when subsidies or rental support stimulate demand, supply fails to follow. Policy signals take too long to show up as housing.

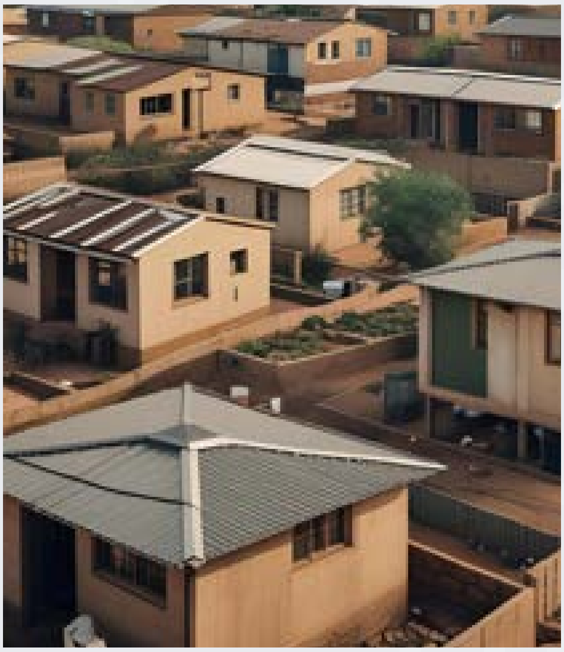
Existing banking performance proves the gap market is viable. Standard Bank has grown affordable housing lending at double digits for four years. FNB manages a R21.9bn affordable housing book covering 69,429 households. These prove the gap market is bankable and scalable – not charity.

If OV 2.0 is to succeed, it must go beyond policy intent and directly tackle these delivery blockages. Without a responsive supply ecosystem, the opportunity in affordable housing will remain just out of reach.

Unlocking the RDP resale market

South Africa's housing market largely fails the "gap market" – households earning R3,500 to R10,000 – too much for RDP housing but too little to access bank finance. With new builds requiring incomes of R15,000/month or more, RDP homes priced at R70,000-R250,000 are a more viable option (Rust, 2015). Furthermore, promoting this market could:

- Help owners unlock equity and build intergenerational wealth.
- Add affordable stock for public sector workers and other underserved groups.
- Stimulate demand by improving credit access and boosting developer confidence



Yet only 11% of RDP houses are formally sold every five years. A key barrier is the Housing Act's eight-year resale rule, which requires owners to first offer the house back to the state. Outside the Western Cape, these buy-back systems barely function because of limited capacity, funding and political will. Combined with a backlog of untitled properties, this leaves most sales happening informally – and keeps the potential locked away.

To address this, government needs to urgently clear the title deed backlog, ease resale restrictions and expand support so more homes can be traded formally at fair value. It should also strengthen provinces to enforce buy-backs and reduce informal, undervalued sales.

What is changing under OV 2.0?

OV 2.0 shifts from fully subsidised, state-led housing delivery towards unlocking private capital and capacity. Affordable housing is no longer seen as government's role alone. Instead, targeted reforms aim to crowd in banks and investors through demand-driven, partly subsidised programmes. The redesigned First Home Finance scheme will help more low- to moderate-income households qualify, while a new demand-side rental subsidy could grow a viable low-income rental market for the first time.

Releasing well-located land and clarifying ownership unlock opportunities for retail mortgages, resale finance and investment structures like real estate investment trusts, ground leases and municipal bonds for bulk infrastructure.

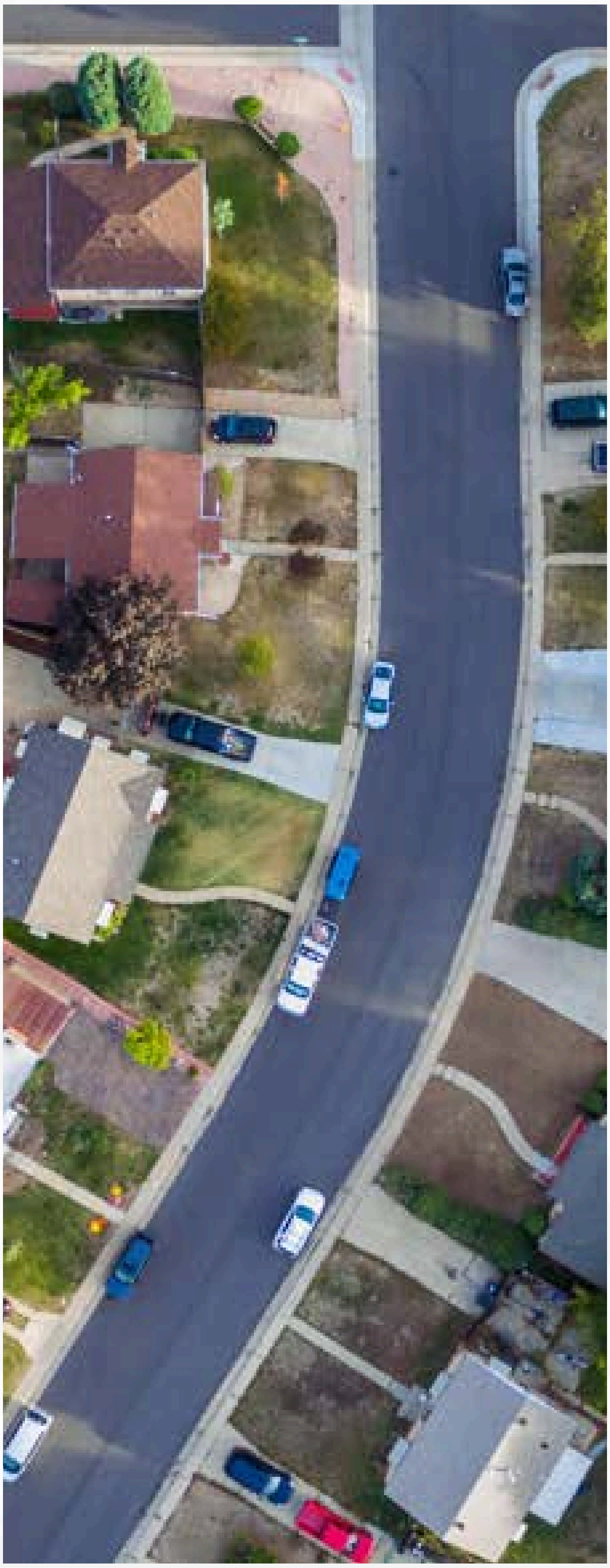
On the supply side, OV 2.0 promises regulatory reform and land release. The Department of Public Works and Infrastructure has begun unlocking state-owned land, while measures to reduce red tape – such as standardising building regulations and expediting approvals – are intended to ease delivery costs.

Title deed reform is also a major focus. Recent legislation enables digital lodgement of deeds, which could help formalise ownership and support mortgage market expansion in the subsidised segment.

Regulatory changes support delivery. Standardised building rules and faster approvals aim to cut costs and risks for smaller developers, making affordable housing more viable for banks to fund.

Transport upgrades matter too. Investment in passenger rail – including corridor restoration and devolution planning – creates the potential for transit-oriented development and stronger links between housing and economic opportunity.

Yet, while the policy direction is promising, the framework still lacks the financial architecture needed to support scale. OV 2.0 makes no mention of credit guarantees, first-loss protection or regulatory incentives for lenders. Without clear risk-sharing mechanisms, many banks will remain cautious. For OV 2.0 to unlock finance at scale, it must tackle not just affordability – but bankability.



Where retail banks can lead

As mentioned, South Africa's residential property market is dominated by properties priced under R900,000, yet these properties lack the liquidity and sales activity of higher-end markets. The gap between what's built and what's financed reflects deep access constraints, especially for households earning R3,500-R15,000 a month. With the right mix of product innovation and policy alignment, banks are well placed to close this gap.

Products linked to title deed formalisation

More than 2 million subsidised homes could enter the mortgage market if title deeds are issued and verified. Banks can support this process by developing tailored bridging products, renovation loans and graduated mortgages that activate once ownership is confirmed.

Realising this potential will require continued innovation, risk-sharing mechanisms, and close coordination with government and development finance institutions. With the right enabling environment, banks can play a transformative role in unlocking South Africa's R6.8tn affordable housing market

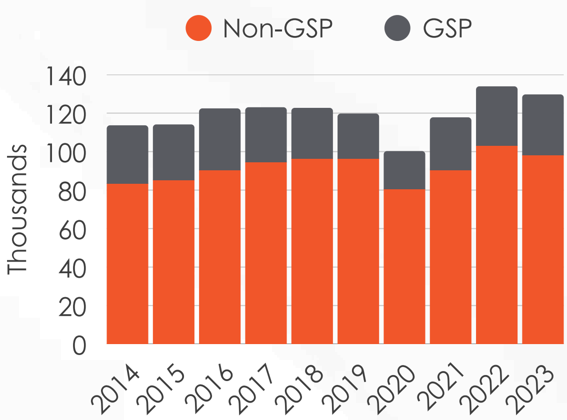
Green mortgages and rebates

Demand for energy-efficient homes is rising, especially where green finance lowers costs. Absa and Standard Bank already offer rebates and rate concessions on certified homes. OV 2.0's support for densification and public transport creates further scope for green-linked retail products, particularly in inner-city and infill developments.

Lending to the gap market

Retail portfolios in the affordable segment are already growing. Standard Bank, Nedbank, FNB and Absa all report increased lending to buyers of homes priced between R350,000 and R700,000. OV 2.0's focus on subsidy reform and resale market activation provides an opportunity to deepen this growth – particularly for first-time buyers, who dominate demand.

Government-subsidised vs non-government subsidies resale transactions between 2014-2023



Source: CAHF's Citymark (Tshangana, 2024)

Alternative credit scoring

Traditional scoring systems exclude many informal earners. Fintech-driven approaches – such as Capitec's AI-based scoring – offer a blueprint for more inclusive risk assessment. By leveraging non-traditional data such as mobile money transactions, utility payments and even social media activity, banks can assess creditworthiness beyond standard bureau scores. Banks can scale these tools to widen mortgage access, particularly for informal or irregular income households.

Unlocking the resale market

Only 9% of subsidised homes are formally resold – despite making up over 30% of the housing stock. Banks can drive uptake by offering resale-linked finance, partnering with provinces to improve formalisation, and creating liquidity for both sellers and buyers in this underdeveloped secondary market.

However, success depends on practical execution and real risk-sharing. Without tools like credit guarantees or first-loss protection, banks will struggle to lend at scale. OV 2.0 creates the conditions for growth – but to translate policy into bankable deals, the missing piece is clear: incentives and risk cover to make affordable housing finance commercially viable at scale.

Investment banking opportunities

OV 2.0 opens new space for investment banking to help scale affordable housing delivery. With the right financial instruments, banks can mobilise long-term capital, monetise underused assets and help government shift from project-by-project delivery to systems-level reform.

Securitising public housing stock

Over two million subsidised homes, many untitled, represent a latent pool of mortgageable assets. If title deed reforms are fully implemented, banks could package these loans into mortgage-backed securities. The Trust for Urban Housing Finance and Standard Bank Urban Ubomi partnership provides a working model, showing how rated social bonds can support inclusive rental markets. Paired with senior tranche guarantees and credit enhancements, these structures could attract institutional investors, such as pension funds, without taking on outsized risk.

Financing green, transit-oriented developments

Investment in passenger rail creates potential for new development nodes near restored corridors. Green bond structures and blended finance instruments can support projects along strategic transport routes, aligning with both spatial transformation and ESG objectives. The IFC's $300m sustainability-linked loan to Standard Bank, which allocates 50% to affordable housing, demonstrates the appetite for such products. Similarly, Nedbank's partnership with the DBSA has financed 400 green units, reducing utility costs for households and showcasing the commercial viability of green, affordable developments.

Structuring REITs and ground lease platforms

OV 2.0 commits to releasing more than 430,000ha of public land. Banks can help monetise this land through real estate investment trusts (REITs), long-term ground lease models and municipal debt platforms linked to future property taxes. This would give metros capital to fund bulk infrastructure – and provide investors with access to stable, long-duration returns tied to affordable housing pipelines.

Partnering in social housing pipelines

The Social Housing Regulatory Authority has 64 active projects in its pipeline, with R12.9bn in capital grants already committed. Banks can step in as co-financiers, supplying the remaining R5bn in equity or debt to complete delivery. With 70% of unit costs grant-funded, risk-adjusted returns are competitive, particularly in urban areas with proven rental demand.

The intersection of retail and investment banking in affordable housing is more promising than ever. OV 2.0's reforms – from subsidy redesign and title deed resolution to public land release and transit-oriented development – create a platform for banks to deliver both financial returns and developmental impact. Realising this potential will require continued innovation, risk-sharing mechanisms and close coordination with government and development finance institutions. With the right enabling environment, banks can play a transformative role in unlocking South Africa's R6.8tn affordable housing market.

What still needs to change?

OV 2.0 sets the right direction, but it will fall short without deeper structural reform. The policy ambition is sound and the commercial appetite is real but the conditions for scale are not yet in place. Five gaps need urgent attention if the banking sector is to play a more active role in housing delivery.

Introduce risk-sharing mechanisms

Private lenders will not scale into the affordable housing segment without targeted risk protection. Subsidies like First Home Finance may improve affordability, but they don't reduce lending risk. What's needed are practical credit enhancements – partial guarantees, liquidity facilities or first-loss protections – particularly for sub-R700,000 mortgages. These tools are common globally but still absent from South Africa's housing finance architecture.

OV 2.0's most significant gap lies in its lack of specific risk-sharing mechanisms to de-risk private sector participation in affordable housing. This risk perpetuating an inelastic supply market where demand-side interventions fail to generate corresponding increases in housing output.

Fix regulatory delays and misalignment

Unpredictable, slow planning processes and outdated regulations drive up costs and deter developers. Streamlined building approvals, digitised planning systems and clear timelines for regulatory steps are essential. Zoning rules must support densification and mixed-use projects, not reinforce sprawl. OV 2.0 commits to "cutting red tape" – but now needs time-bound, trackable reforms at metro and provincial level.

Address municipal dysfunction

Municipal financial and operational constraints pose significant delivery risks, with municipalities owing R118.7bn to bulk suppliers and only 55 informal settlements upgraded between 2020 and 2024. Capacity limitations, misaligned incentives and budget pressures create an environment where municipalities struggle to support new housing developments whilst maintaining existing infrastructure.

The challenge stems from municipalities bearing service delivery burdens without corresponding revenue streams, particularly in fully subsidised housing areas where rates collection remains minimal. This creates perverse incentives where municipalities view new housing developments as fiscal liabilities rather than economic opportunities.

Align housing with infrastructure

Housing delivery is repeatedly stalled by misaligned timelines. Developers secure land or finance, but then wait years for bulk infrastructure to materialise. OV 2.0 must facilitate tighter coordination between human settlements and infrastructure departments – from project planning to budget execution – to ensure land is serviced in line with demand.

Together, these gaps form a delivery bottleneck. Until they are resolved, finance will remain fragmented, risk-averse and subscale

Support small and micro developers

Large firms have exited the market. Small developers – particularly those building rental housing in townships – are delivering more with less. But they are under-capacitated, under-financed and often locked out of formal tenders. Supporting this segment with technical assistance, targeted finance and streamlined procurement is critical to unlocking labour-intensive, scalable delivery in underserved areas.

Together, these gaps form a delivery bottleneck. Until they are resolved, finance will remain fragmented, risk-averse and subscale – no matter how well designed the subsidies or how strong the demand. OV 2.0 must now move from strategy to system reform.

The way forward: a joint agenda for delivery

South Africa's housing crisis cannot be solved by the state alone. OV 2.0 rightly recognises that delivery at scale requires both public leadership and private capital. But turning policy intent into real progress will depend on whether banks and government can align behind a shared delivery agenda.

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For banks, the opportunity is clear. The affordable housing market is large, underserved and showing strong demand. With the right mix of mortgage innovation, credit scoring tools and investment products, financial institutions can expand access, deepen inclusion and unlock new markets – from first-time buyers to township landlords. But to step up, the sector needs greater policy certainty, better risk-sharing mechanisms, and more predictable delivery pipelines.

For government, this means going beyond subsidy reform. It must put in place the financial architecture that de-risks bank participation – including guarantees, liquidity tools and regulatory reforms that enable scale. It must also coordinate infrastructure and housing planning, support small developers and accelerate land release and titling.

This is not a case of government stepping back – but of stepping differently. The state must focus on enabling conditions, while banks lead in designing and scaling fit-for-purpose finance. If both sides move together, OV 2.0 could unlock far more than homes. It could catalyse a housing system that is inclusive, investable and economically productive.

The next phase must be practical, focused on aligning incentives to close delivery gaps and unlock financing. The housing system doesn't need more vision – it needs execution.

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