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**BARRIERS TO PRIVATE HOUSING DEVELOPMENT IN
TOWNSHIPS IN THE WESTERN CAPE**

by

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DECLARATION

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ABSTRACT

Since 1994, the focus of the South African government on subsidy housing has resulted in 2.3 million housing units being built. But despite this achievement, the official housing backlog figure in 2010 was a considerable 2.1 million housing units. With government's focus on subsidy housing, little development has occurred in the gap market (households who earn between R3 500 and R16 000 per month). The gap market is households who can, to some extent, provide for their own housing needs. However, there is a shortage of housing supply in this segment of the market, so even if households can afford to purchase a house, there is no such house available. The problem is further exacerbated in the Western Cape due to high land values. This research highlights that more affordable land, suitable for affordable housing development, is available in the townships of the Western Cape. Private development in the township and affordable market, is still, however, insignificant compared to the government subsidy market. This study therefore investigates the reasons why developers choose not to develop within the gap market in the township/affordable areas. The findings revealed that developers avoided development in the township/affordable market due to five encompassing barriers, namely: land, finance, government inefficiencies, thin profit margins and the risky township/affordable market environment.

OPSOMMING

Sedert 1994 is 2.3 miljoen staatsgesubsideerde huise in Suid-Afrika gebou. Maar nieteenstaande hierdie prestasie, was daar steeds teen 2010 'n behuisingstekort van 2.1 miljoen. Hierdie tekort kan grotendeels toegeskryf word aan die regering se uitsluitlike fokus op subsidiebehuising wat behuising vir die bekostigbare mark afgeskeep het. Bykans geen behuising is beskikbaar vir huishoudings wat tussen R3 500 en R16 000 per maand verdien nie en wat tot 'n redelike mate in hulle eie behuisingsbehoefte kan voorsien. In die Wes-Kaap word hierdie probleem deur duur grondpryse vererger. Hierdie studie benadruk egter dat goedkoper grond wel in die Wes-Kaapse “townships” beskikbaar is. Maar privaatontwikkeling vir die bekostigbare mark in “townships” is in vergelyking met die subsidiemark, eintlik niksseggend. Derhalwe ondersoek hierdie studie die redes waarom ontwikkelaars verkies om nie vir die laer inkomste mark in “townships”/bekostigbare omgewings te ontwikkel nie. Die bevindings toon dat vyf struikelblokke hiervoor verantwoordelik is, naamlik grondbeskikbaarheid, finansiering, oneffektiewe regering, lae winsmarges en die riskantheid van die “township”/bekostigbare mark.

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ACRONYMS/ABBREVIATIONS

ABT	Alternative Building Technologies
ALHDC	Affordable Land and Housing Data Centre
ALI	Anti-Land Invasion
BASA	Banking Association of South Africa
BIBC	Building Industry Bargaining Council
BNG	Breaking New Ground (also known as RDP housing, low-cost housing, fully subsidised housing)
CBD	Central Business District
CCMA	Commission for Conciliation, Mediation and Arbitration
CRU	Council Rental Unit
CSSR	Centre for Social Science Research
DBSA	Development Bank of South Africa
DC	Development Contribution
EAP	Environmental Assessment Practitioner
EIA	Environmental Impact Assessment
FNB	First National Bank
FSC	Financial Sector Charter
GIS	Geographic Information System
HDA	Housing Development Agency
IHS	International Housing Solutions
LAA	Land Availability Agreement
LRA	Labour Relations Act
LTV	Loan-to-value
LUPO	Land Use Planning Ordinance
MFMA	Municipal Finance Management Act
NEMA	National Environmental Management Act
NHBRC	National Home Builders Registration Council
NIMBY	Not In My Back Yard
OMIGSA	Old Mutual Investment Group South Africa
PAGAD	People Against Gangsterism and Drugs
PIC	Public Investment Corporation

PPP	Public Participation Procedure
RDP	Research and Development Project (later referred to as BNG housing, also known as low-cost housing, fully subsidised housing)
ROD	Record of Decisions
SDP	Site Development Plan
SHRA	Social Housing Regulatory Authority
TTRI	Training for Township Renewal Initiative
TRA	Temporary Relocation Area
VAT	Value Added Tax

DEFINITION OF CONCEPTS

Township

A definition for “township” unique to South Africa is necessary for the proposed study; therefore a typical dictionary definition is not sufficient. Wikipedia states that “in South Africa the term township and location usually refers to the (often underdeveloped) urban living areas that, from the late 19th century until the end of Apartheid, were reserved for non-whites (principally black Africans and Coloureds, but also working-class Indians). Townships were usually built on the periphery of towns and cities”.

Social and rental housing

According to the City of Cape Town (2008:25) Social Housing “ ... constitutes higher density subsidised housing that is implemented, managed and owned by independent accredited social housing institutions in designated restructuring zones”. The Social Housing programme provides for rental and cooperative housing projects, and facilitates access to privately administered rental housing for households with an average income of more than R3 000 per month. Social and rental housing requires overall funding sustainability to ensure its success.

Low-cost housing

South African’s earning below R3500 per month qualify for a free RDP/BNG home. A free home is referred to as low-cost housing as well as RDP/BNG and fully subsidised housing (Department of Human Settlements, 2009).

Affordable housing

The Affordable Land and Housing Data Centre (www.alhdc.org.za) refers to affordable housing in 2012 as all housing valued below R500 000. Affordable housing includes both fully subsidised government low-cost housing as well as privately developed gap housing.

Informal housing

“Informal housing comprises informal dwellings erected by the occupants using non conventional building materials. Structures are erected on the land without permission of the land owner,” and are commonly referred to as shacks (Shisaka, 2004:2).

CHAPTER 1

GENERAL ORIENTATION

1.1 INTRODUCTION AND CONTEXT OF THE RESEARCH

South Africa has a history of colonisation by both the Dutch and the British and institutionalised racism (known as Apartheid), “which resulted in great inequalities and racial divisions” in this country (Tonkin, 2008:33). Colonisation began in 1652, while Apartheid (with its discriminatory acts dated back to 1913) was introduced in 1948 (Fourie, 2000). The discussion to follow will highlight how discriminatory Acts resulted in significant land right inequalities and the current housing backlog in South Africa today. Acts which formalised discrimination with respect to land, occurred during the 1900s, and will therefore be the focus of the background of this study.

Black South Africans, through the Land Act 1913, were denied ownership (and rental) of land outside of designated areas, later known as “independent” homelands. “The Cape was the only province excluded from the Land Act as a result of the existing Black franchise rights which were enshrined in the South Africa Act 1909” (Boddy-Evans, n.d.). Only 13 per cent of South Africa’s land was reserved for black people who made up 75 per cent of South Africa’s population in 1913 – “the largest ratio in the world of discriminatory land holding” (Fourie, 2000). Fourie (2000) adds that the South African Development Trust was also formed in 1936, in which all land allocated to black people under the 1913 Land Act (13 per cent), which was not already held by Black people in freehold, became included in the Trust. Black people were allocated a range of highly restrictive titles in the Trust including “permission to occupy, 99 year leasehold which could be cancelled administratively, customary rights, house rentals and so on”.

In 1936 the Land Act was followed by the Trust and Land Act which removed black people from South Africa to the homelands, only allowing access either illegally or as temporary labour (Brown-Luthango, 2007). Fourie (2000) explains that the South African government's intention with both Land Acts was to create “independent” homelands separate from the South African state which would effectively, in their opinion, remove the Black citizens of these homelands from South Africa (Fourie, 2000).

Another, perhaps more contentious law, namely the Group Areas Act was introduced in 1950. Brown-Luthango (2007:5) explains that this Act “reserved certain spaces for specific races,” and resulted in forced removals of black, coloured and Indian people from areas earmarked for white ownership. Approximately 3.5 million people were displaced during this time. Black people, who were still landowners outside of the homelands, were forced to move to the nearest homeland.

Fourie (2000), however, explains that the apartheid planners continued to need black labour in the South African cities. Consequently, large urban areas called “townships” were created to accommodate black workers who commuted between the homelands and “white” cities. Black people also occupied land illegally in and around most of South Africa’s cities and towns, since so little land was available for them to occupy in general.

According to Fourie (2000), illegally occupied land, township residence without legal title, and the expulsion of black people into the homelands under the Apartheid government, resulted in only the white population’s housing stock being planned for. Black people were seldom catered for in the cities with regards to infrastructure such as housing. Consequently, enormous housing shortages in the cities and towns, especially for low income people, were created.

Brown-Luthango (2007:6) explains that housing shortages, especially in the South African cities, has been amplified since 1994 as migration from the homelands into the cities has placed the ANC government under considerable pressure, worsened with land invasions and informal settlements mushrooming.

In order to address the housing dilemma the ANC government introduced major inroads (policy shifts) into the complicated housing framework (Tonkin, 2008). These policy shifts were largely derived from the Freedom Charter¹ of 1955. The demands related to housing in the Freedom Charter of 1955, are reflected in the South Africa Constitution and the Housing Act of 1997.

The Bill of Rights in Chapter 2 of the Constitution of the Republic of South Africa Act, No. 108 of 1996, hereinafter referred to as the Constitution, stipulates in Section 26(1) that “everyone has the

¹ “In 1955, the ANC and its allies sent out fifty thousand volunteers countrywide to collect 'freedom demands' from the people of South Africa” (www.anc.org.za). The Freedom Charter was compiled from these demands. Those applicable to housing provision are: “All people have the right to be decently housed, unused space must be made available to the people, rent lowered, slums demolished, ghettos abolished and new suburbs built in good locations”.

right to have access to adequate housing”. Section 26(2) further states that “the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right” (RSA, 1996). The Constitution, which is the supreme law of South Africa, clearly indicates that government is responsible for providing housing and making housing accessible to the people of South Africa.

Instructions contained in Section 26(2) of the Constitution are given credence through the Housing Act, 107 of 1997. The Act contains general principles regarding housing development, as well as the functions of national, provincial and local government regarding housing delivery (RSA, 1997).

Policy shifts introduced by the ANC government have resulted in many new neighbourhoods, often characterised by a large number of identical small homes built in rows. Sexwale (2010a) explains that housing policy, since 1994, has focused on the housing backlog which resulted in a significant 2.3 million² housing units being built. But despite this achievement, the official housing backlog figure in 2010 was a considerable 2.1 million housing units (thus 27 per cent of the population, or 12 million people).

1.1.1 The affordable market landscape in South Africa

According to the Affordable Land and Housing Data Centre (ALHDC) affordable housing is all housing valued below R500 000 in 2012 (www.alhdc.org.za). In 2010 the RDP/BNG subsidy house was valued at R84 000³ (fully subsidised for those households earning R3 500 or less per month). Due to the weather and soil conditions in Cape Town, Geo-Technical requirements are imposed which results in a subsidy house valued at R100 357 (Department of Human Settlements, 2010).

More recent research by the Financial and Fiscal Commission (2012) estimates that a fully subsidised house in 2012 costs government between R84 000 and R200 000. The next few rungs in the property ladder, after the RDP/BNG subsidy house, would fall into the partial/non-subsidised affordable housing market, also known as the gap market. Rust (2012) refers to this market as the gap market because this is the market in which household “salaries are too high to get government

² The quality of the housing delivery data is questioned by Rust in Seekings, Jooste, Muyebeba, Coqui, & Russell (2010:1) in chapter 2 of this study.

³ R55 706 for the top structure, R22 162 for municipal services and R6 000 for land totalling R83 868 which is rounded off to R84 000.

subsidies but too low to qualify for a normal bank mortgage”. The table below (table 1.1) indicates the three sub-markets within the affordable housing market, and the value of properties in these sub-markets.

Table 1.1: The Landscape of the Affordable Market and the Low to High Income Market

Affordable Market Landscape			
Household income	Name of market segment	Who is the market segment served by?	Value of property
R0 – R3500	Subsidy market (RDP/BNG house)	Government	R100 351
R3501 – R10000	Lower gap market	--	R100 351 – R300 000
R10001 – R16000	Upper gap market	--	R300 001 – R499 000
Low to High Income Market Landscape (Regular Market)			
R16001 – R22 000	Low income market	Private sector	R500 000 – R800 000
R22 001 – R44 000	Middle income market	Private sector	R800 001 – R1500 000
R44 001 – R100 000	Upper income market	Private sector	R1500 001 – R3500 000
R100 001 +	High income market	Private sector	R3500 000 +

Source: Compiled with data from the Department of Human Settlements (2010), Rust (2006, 2011), Madikizela (2011b), Loos (2012), Shisaka (2004a) and www.alhdc.org.za.

As shown in table 1.1 both the lower gap market and upper gap market are not served by either the government or private sector which could explain why the gap market and its respective rungs are, according to Rust (2012), the “most noticeably missing rungs” in the South African property ladder.

The need for government to provide housing higher up the property ladder, according to Rust (2012), has been recognised by President Jacob Zuma when he in his 2012 State of the Nation address announced a key new initiative that will accommodate people whose “salaries are too high to qualify for government subsidies, but who earn too little to qualify for a bank mortgage”. Households earning between R3 500 and R15 000⁴ per month, will be able to obtain a subsidy of up to R83 000 from the Provincial Department of Human Settlements, to “enable them to obtain housing finance from an accredited Bank”. Rust (2012) predicts that a household who earns R3 550 per month might get the full R83 000. Supposing a 30 per cent instalment to income ratio, this household could afford to pay R1 065 per month, which at an interest rate of 10 per cent,⁵ would afford the household a mortgage of R111 000. “Add to this the subsidy of R83 000 the household

⁴ This paper will not explicitly discuss the validity of existing housing policies of the South African government as this falls beyond the scope of the paper.

⁵ An interest rate of 10% is used throughout this paper for ease of illustration, unless indicated otherwise.

can afford a house of R201 369 (assuming they have savings to cover transfer and conveyance fees and moving costs)". There is, however, no market-based housing for sale at R201 369 in South Africa.

Cosmopolitan Projects, a large scale developer of affordable housing in Gauteng sells a 40m² structure with very basic finishes for R245 000. There is no new build available for less than this price (Rust, 2012). Therefore, President Zuma's new initiative may still not be enough to get the "gap market" into homes. Rust (2012) further cautions that simply extending the housing subsidy will not necessarily increase the housing supply.

Delivery in the gap market, according to the Financial and Fiscal Commission (2012:12), is far below the estimated demand with " ... only 6 252 new units priced between R250 000 to R500 000 registered on the Deeds Registry in 2010". Stats SA in the Financial and Fiscal Commission report acknowledges this supply shortage and states that "residential building activity for this segment of the market has been negative" since 2009 and is only recently moving again into the positive zone. The supply shortage is further highlighted by Shisaka (2004a) in research done in Langa and Khayelitsha in the gap market which showed that 29 per cent of owners bought their house as it was the only house they could find according to their affordability. Sexwale (2010a) pointed out that the South African government delivered 150 000 housing units per annum between 2000 and 2004, most of which targeted the subsidised market. Government housing delivery is in stark contrast to the private sector delivery in the gap market, where only 16 000 housing units were built during the same period ((Banking Association in South Africa (BASA)⁶ in Dan Smit Development Capacity 2006:27)). All the above arguments support the notion that the gap market is under-supplied.

1.1.2 Bottom rung emphasised in property ladder

The sixth objective of the Breaking New Ground (BNG)⁷ comprehensive plan is for government to "support the functioning of the entire single residential property market" (Department of Housing, 2004). Government's BNG plan, which is in line with the Freedom Charter and Section 26(1) of the Constitution, aims to broaden access to housing at all points of entry onto the property ladder.

⁶ The Banking Association of South Africa (BASA) was previously known as the Banking Council.

Government's BNG plan to support the entire housing ladder is, however, contradicted by its own subsidy scheme which has addressed the housing backlog with a subsidy programme based on household income (Department of Human Settlements,⁸ 2009). Households earning R3500 per month or less are classified as needing government support – a free RDP/BNG/subsidy house (Rust, 2006). Government's delivery en masse of the subsidy house (Sexwale, 2010a) indicates that government has focussed mainly on delivery to those households who earn between R0 to R3500 per month. Therefore, government's subsidy programme has emphasised the lower rungs in the housing ladder which according to Rust (2006) fails to acknowledge the fundamental and important linkages between the different rungs in the property ladder, especially those immediately higher than the RDP/BNG subsidy house.

Rust (2006:33) explains that government aims to “subsidise low-income households who live in informal housing (shacks) by giving them a basic housing unit with decent services”. Several authors in Adebayo (2010) support Rust's views that government expects subsidy beneficiaries to improve on their homes and then “sell the housing unit for a profit so that they can buy another home higher up the property ladder. The sold home becomes entry-level accommodation for the next low-income person. In this way, a subsidy beneficiary becomes part of the housing supply chain. The new home that is bought becomes the next asset for the person who was once a subsidy beneficiary and is now climbing the property ladder, improving his/her housing conditions independently, without state support”.

But, upward housing mobility is problematic, according to Rust (2006:34), as subsidy beneficiaries who have the financial means to move up and out of the subsidy band, are unwilling to sell their subsidy house if there is no gap housing unit available, which is an improvement on the subsidy beneficiary's subsidy house. In this way, the availability of gap housing “... is relevant to the mobility of households in subsidy properties”. Housing beneficiaries have nowhere to move to as the property rungs, immediately higher than the RDP/BNG house, are missing in the South African

⁷ The Breaking New Ground comprehensive plan for the development of sustainable Human Settlement provides guidelines to “promote the achievement of a non-racial, integrated society through the development of sustainable human settlements and quality housing”. The BNG plan is further discussed in chapter 2 of this study.

⁸ In 2009 the Department of Housing changed its name to the Department of Human Settlements as the Department understood that its role was not to just delivery rows of houses but rather to create “mixed residential environments which stimulate sustainable communities” (Osman, Arranitakis & Sebake, 2010:1).

property ladder, and housing beneficiaries cannot afford to advance past the missing rungs to the available rung.

Missing rungs in the property ladder lock in subsidy beneficiaries in the subsidy market. Rust (2006:40) explains that government should direct policies to not only affect the bottom rung in the property ladder, but should focus on reducing backlogs in the entire housing market until full housing mobility is realised. Higher income earners in some cases are still house poor due to the next rung in the property ladder being out of reach as large segments of the property ladder remain under-supplied. “Blockages higher up the ladder will undermine government’s capacity to deliver at the bottom end”. The implication of the above mentioned argument is that the “entire housing market is relevant to government’s goal of addressing the needs of the poor”.

1.1.3 The economic framework

Government’s market share of 91% in the provision of housing, between 2000 and 2004 (Sexwale, 2010a), as opposed to the private sector’s 9% market share (Dan Smit Development Capacity, 2006) during the same period, indicates that government intervention is significant. Such a high degree of government intervention in the provision of housing (mostly subsidy housing) has been accepted for equity reasons, but, as per most subsidy allocations, is inefficient due to the welfare loss or deadweight loss of the subsidy (Mohr and Fourie, 2008). It could be inferred that large subsidy allocations, as is the case with subsidy housing, leads to a significant amount of inefficiency. Significant amounts of inefficiency have implications for taxpayers and the welfare of the poor as the costs of the subsidy are greater than the benefits of the subsidy.

Since subsidy housing (government intervention) is inefficient it would not be prudent to seek more government intervention higher up in the housing ladder (in the form of subsidies). Also, according to Mohr and Fourie (2008), subsidies distort the overall market which is a possible reason why the gap market is under-supplied. Rust (2006) explains that more subsidies for households earning in the gap housing range (between R3 500 and R15 000 per month) would not increase the supply of housing. Therefore, a more balanced approach between efficiency and equity needs to be reached. Put differently, a better balance between private and government provision of affordable housing needs to be achieved.

1.2 RATIONALE OF THE STUDY

Cape Town's housing problem is worsened by its high land values (City of Cape Town, 2008). As a result, private developers are not able to develop affordable housing since affordable land is limited.

1.2.1 High land values in Cape Town

Cape Town has the highest land values in South Africa (City of Cape Town, 2008). Land in 2008 was acquired for government housing at a cost in excess of R1m/ha, and some over R2m/ha (City of Cape Town, 2008). Private sector initiatives such as gap housing projects, which should cater for the gap market (houses valued between R100 351 and R500 000), are often developed on expensive land resulting in higher priced housing units starting at the top end of the affordable market and exceeding the affordable market ceiling. Soralia Village in Muizenberg with a starting price of R549 000 (www.mspd.co.za) is a typical example of affordable housing built on land that obtained too high a price for affordable housing developments.

1.2.2 Presence of private developers in townships

The majority of government subsidised housing projects take place in the townships (City of Cape Town, 2008), which implies that land in the township areas is the cheapest land available in Cape Town, since subsidy housing would seek out the most affordable land to maximise output. Therefore, despite Cape Town having the highest land values in South Africa, more reasonably priced land is available in the townships of the Western Cape.

Subsidy housing, which is most often developed on cheaper township land, is estimated to cost the Western Cape government between R100 351 and R200 000 (Financial and Fiscal Commission, 2012) which overlaps with the value of gap housing. Therefore it seems reasonable to assume that the most likely way of providing housing units for the gap market would be for private developers to develop housing units in the townships. The possible outcome of the private sector developing gap housing in the townships could be the development of a healthier property market with more rungs in the ladder.

A small number of gap and social (rental gap market) housing projects have taken place in the townships. The N2 Gateway⁹ development in Langa is an example of a township social housing project (Cohre, 2009), but most often such developments take place outside of the township areas (City of Cape Town, 2008). In contrast, subsidy housing is dominant in the townships with private developers developing in the townships on contract to government through a process which is driven by government (City of Cape Town, 2008). Therefore it appears that without government involvement, private developers seem to avoid developing in the townships – the reasons for this need investigation.

1.3 STATEMENT OF PURPOSE

The purpose of this study is to identify and explore barriers that private developers encounter when building in townships in the Western Cape. Once identified, these barriers could then be addressed to promote private development in townships in order to develop a healthier property market with more rungs in the property ladder.

1.4 PARADIGMATIC PERSPECTIVE AND RESEARCH DESIGN: A BROAD OVERVIEW

The study will be undertaken from an interpretivist paradigm following a qualitative approach in the form of interviews. Terre Blanche, Durrheim and Painter (2006:274) explain that the interpretive paradigm involves making use of qualitative research techniques to make sense of people's subjective experiences. Maree (2007:60) further explains that interpretivist research provides "insight into the way in which a particular group of people make sense of their situation or the phenomena they encounter". The study will endeavour to make sense of private developer's experiences developing in townships by conducting face-to-face semi-structured interviews, supported by field notes and a reflective journal.

Participants who hold the richest information will be selected for interviews. A stratified purposive sampling method, which selects participants according to pre-selected criteria relevant to the

⁹ The N2 Gateway development in Langa is an example of a township social housing project which was not administered entirely by the Western Cape but rather driven by National government through Thubelisha, national government's service provider (Cohre, 2009).

particular research questions (Maree, 2007:79) will be used to select participants. Therefore, the focus of the interviews will be on private developers in the Western Cape who target the affordable market in the townships, but will not exclude firms that choose not to operate in this market.

1.5 CONCLUDING COMMENTS

The affordable property market in South Africa is distorted largely due to equity issues. Economic theory suggests that such a distortion is potentially due to the existing housing subsidy. This argument is in line with some authors, such as Rust (2006), who note that the market directly above the subsidy market, called the gap market, is the most neglected and distorted. To reduce the distortion, it is important to obtain a better balance between government and private provision of affordable housing. In striving to achieve a better balance, private developers would need to be encouraged to develop in the gap market.

Developing gap housing is possible if private developers were to develop housing units in the townships of the Western Cape, since land in the townships is more affordable. More affordable township land, results in gap housing that the gap market can afford given their levels of income. Developers, however, seem to avoid developing in the townships. Therefore, the research will investigate the barriers that private developers experience when developing in the townships of the Western Cape. Such barriers could then be addressed to encourage development in the townships so that the missing gap market rungs in the property ladder can be filled to create an overall healthier property ladder.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

BASA in Dan Smit Development Capacity (2006) is of the opinion that the private sector's provision of gap housing valued between R100 351 and R500 000 is insufficient. This is exacerbated in Cape Town by high land values (City of Cape Town, 2008) which results in housing being priced above the gap market.

Although more affordable land is available in Cape Town's townships (Department of Human Settlements, 2010) it seems that those areas are avoided by developers who are not on contract to government (City of Cape Town, 2008). Possible reasons for the mentioned tendency will be explored in this chapter. Also included in chapter two is a background and discussion of the housing situation in South Africa.

The following table (table 2.1) is a schematic outline of the theoretical framework for this study. It is split up into seven distinct areas of focus. The framework provides an overview of the discussion that follows.

Table 2.1 Schematic outline of the theoretical framework for the study

THEORETICAL FRAMEWORK OF LITERATURE REVIEW										
2.2 THE ECONOMIC FRAMEWORK	2.3 HOUSING DELIVERY AND BACKLOG	2.4 THE AFFORDABLE MARKET AND HOUSING AFFORDABILITY	2.5 THE SOUTH AFRICAN PROPERTY LADDER	2.6 THE PRESENCE OF GAP, SOCIAL AND SUBSIDY HOUSING IN THE TOWNSHIPS	2.7 MOBILISING PRIVATE SECTOR INVESTMENT IN THE TOWNSHIPS	2.8 BARRIERS TO MOBILISING PRIVATE SECTOR INVESTMENT IN THE TOWNSHIPS	2.9 THE IMPORTANCE OF PRIVATE DEVELOPERS BUILDING AFFORDABLE HOUSING FOR PRIVATE CLIENTS IN THE TOWNSHIPS	2.10 CONCLUSION		
2.2.1 The trade-off between efficiency and equity	2.3.1 International perspective 2.3.2 Domestic perspective 2.3.3 The Western Cape	2.4.1 Affordable market 2.4.2 Subsidised housing and its effect on the affordable market 2.4.3 Housing affordability and the gap market 2.4.4 Affordability in the former black townships 2.4.5 Churn in the affordable market 2.4.6 New build versus resale values in the affordable market	2.5.1 Emphasis on the lower rung of the property market 2.5.2 Housing as a social, economic and financial asset 2.5.3 Focus on housing as a social asset 2.5.4 Challenges in harnessing the full asset value of subsidised housing 2.5.5 The widening gap 2.5.6 Township sub-markets 2.5.7 The missing rungs most noticeable in the townships	2.6.1 Gap housing 2.6.2 Social housing 2.6.3 Subsidy housing 2.6.4 The landscape of gap, social and subsidy housing in the Western Cape		2.8.1 Land 2.8.2 Finance 2.8.3 Government inefficiencies 2.8.4 Profit margins 2.8.5 Township environment				

2.2 THE ECONOMIC FRAMEWORK

Arguments for equity and efficiency are explored in this section of chapter two, in order to provide a clear economic framework for the research. Equity is important to improve the social welfare of a country, but equity often comes at the cost of efficiency, and could remove society from the efficiency frontier resulting in a loss of production.

2.2.1 The trade-off between efficiency and equity

“Efficiency is a normative criterion for evaluating the effects of resource use on the well-being of individuals. The efficiency criterion is satisfied when resources are used over any given period of time in such a way as to make it impossible to increase the well-being of any one person without reducing the well-being of any other person. Developed by the Italian economist Vilfredo Pareto (1848 - 1923), it is often referred to as the criterion of Pareto optimality. The criterion represents a precise definition of the concept of efficiency”. Put differently, “an efficient economic system allocates resources so as to set the marginal social benefit of each good or service equal to its marginal social cost. Hence, markets are organised for the purpose of allowing mutually gainful trades between buyers and sellers” (Hyman, 2002:52,56).

According to Hyman (2002:69) a perfectly competitive market system is capable of achieving efficiency but not equity as “many participants in the market cannot satisfy their most basic needs” as low income market participants have “little capacity to pay for market goods and services”. Striving for complete efficiency can therefore result in “poverty in the midst of wealth” which is regarded as inequitable. For this reason, critics of the market system suggest that tax should be redistributed from the wealthy to the poor to ensure that the poor are kept from falling below minimum standards of well-being. “This, however, creates a dilemma. Taxes and subsidies used to alter the distribution of income, distort incentives to produce in ways that prevent achievement of efficiency”. Furthermore, Arthur Okun’s “leaky bucket” experiment indicated that the redistribution bucket was leaking to such an extent that less than half of the money in the redistribution bucket actually reached the poor. Okun suggests that redistribution in the name of equity is often at the expense of economic efficiency (Samuelson, 1995). Therefore, there is a “trade-off between equity and efficiency” (Hyman, 2002:69).

The trade-off between equity and efficiency is frequently evident when government intervenes to redistribute wealth by “subsidising private enterprises or operating their own enterprises at a loss, using taxpayer funds to make up the difference” (Hyman, 2002:62). Government intervention in the housing market, for instance, subsidy housing, leads to inefficiencies in the form of the excess burden, or deadweight or welfare loss, of the subsidy. Furthermore, subsidies themselves lead to market distortions. It seems therefore that government intervention should be avoided if an efficient market is to be achieved. The case for subsidies and government intervention is, however, stronger where merit goods provide positive externalities, that is where the “marginal private benefit a consumer derives from a good, deviates from the marginal social benefit due to an external benefit to a non-user” (Black, Calitz & Steenekamp, 2012:45).

Furthermore, Black, *et al* (2012:73) indicates that government intervention in the provision of housing is considered equitable by many, and is in line with Robert Nozick’s entitlement theory (Principle 3 – Rectification of injustice), which states that the redistribution of wealth is justified if Principle 1 (Justice in acquisition) and/or Principle 2 (Justice in transfer) have been violated. Apartheid violated both Principle 1 and Principle 2. Therefore, Nozick’s Principle 3 of his entitlement theory is applicable in South Africa and essentially means that “if Tom enriched himself at Thandi’s expense and did so against her will, the principle demands that Tom should give back to Thandi what rightfully belonged to her so that both parties would be in the same position as they would have been in the absence of the injustice”.

According to Nozick, an “accurate assessment of the distribution pattern that would have emerged in the absence of the violation” is necessary in order to establish an individual’s rightful position (Black, *et al* 2012:74). In order for the South African government to try and restore every individual’s rightful position, is not only complex, but also unlikely given the limited revenue income. Nevertheless, Nozick’s entitlement theory requires that government redistribute wealth which is in line with the large budget allocations for private goods such as housing.

In addition, government favours housing as it is regarded as a merit good. General economic theory indicates that merit goods are looked upon fondly by government as such goods are regarded as “so meritorious that they are funded by the national budget” despite being private goods. Government prefers funding merit goods as such goods “confer external benefits on other people and the community at large” (Black, *et al* 2012:44).

External influences are evident in areas where wealthy people are located in close proximity to poorer informal settlements, where it is possible that the “poor may impose certain negative externalities on the rich”. Such negative externalities include increased levels of crime, degradation of the environment due to lack of sanitation and refuse removal services, and diseases that go hand in hand with unhealthy living environments such as lack of sanitation, water, shelter, etc. Under such conditions, the wealthy may be prepared to transfer part of their income to the poor to develop sanitation, housing, improved policing and health promoting services. Such transfers of income may minimise the negative external effects on the rich (Black, *et al* 2012:75).

However, general economic theory indicates that no single rich person can minimise the negative external effects alone “and it is partly for this reason that the distribution of income is often viewed as a public good: all or most rich people will stand to benefit from a reduction in poverty, and hence in the level of crime and violence or in the incidence of disease, but individuals acting on their own cannot bring about such changes” (Black, *et al* 2012:75).

Furthermore, in South Africa, where there is a high degree of inequality, the rich may be altruistic and could experience “net increases in utility from a policy that taxes their own income and redistributes it in favour of another individual. Movement along the utility-possibility curve¹⁰ would then improve the welfare of both individuals” (Black, *et al* 2012:75) thereby breaking Ragnar Nurkse’s “vicious circle of poverty” which implies a “circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of poverty” (Brue & Grant, 2013:517).

To break the cycle of poverty in an efficient way requires a balanced approach in terms of government intervention. Government intervention is necessary for purposes of equity, but too much intervention can result in the crowding-out phenomenon, which according to Black, *et al* (2012:333), occurs when private sector investment is dampened by increases in public expenditure. Therefore, although government intervention is necessary for equity purposes, the extent to which government intervenes should be kept to a minimum due to efficiency concerns.

¹⁰ The utility-possibility frontier is derived in Francis M. Bator, “The Simple Analytics of Welfare Maximization,” *American Economic Review* 47 (March 1957): 22 – 59.

2.3 HOUSING DELIVERY AND BACKLOG

2.3.1 International perspective

UN HABITAT (n.d.:1) defines a slum household (known as an informal household in South Africa) “as a group of individuals living under the same roof in an urban area who lack one or more of the following:

- a) Durable housing of a permanent nature that protects against extreme climate conditions;
- b) Sufficient living space (not more than three people sharing the same room);
- c) Easy access to safe water in sufficient amounts at an affordable price;
- d) Access to adequate sanitation in the form of a private or public toilet shared by a reasonable number of people; and
- e) Security of tenure that prevents forced evictions”.

“Not all slum dwellers suffer from the same degree of deprivation. The degree of deprivation depends on how many of the five conditions that define slums are prevalent within a slum household. Sub-Saharan Africa’s slums are the most deprived; over 80 per cent of the region’s slum households have one or two shelter deprivations, but almost half suffer from at least two shelter deprivations” (UN-HABITAT, n.d.:1). Despite such significant deprivations the proliferation of slums continues and is “fuelled by a combination of rapid rural-to-urban migration, spiralling urban poverty, the inability of the urban poor to access affordable land for housing and insecure land tenure” (UN-HABITAT, 2007:1).

UN-HABITAT (2003:vi) explains that slum areas have the “highest concentrations of poor people and the worst shelter and physical environmental conditions”. Slum areas are often characterized by “broken families, unemployment and economic, physical and social exclusion”. Slum households are forced to endure: “insecurity of tenure, lack of basic services (especially water and sanitation), inadequate and sometimes unsafe building structures, overcrowding, and structures located on hazardous land”. Also, credit and formal employment is limited to slum dwellers due to “stigmatization, discrimination and geographic isolation”. Slums are most often located on land that is fragile, dangerous, polluted or saturated with industrial effluent and waste – land that no one else wants. For this reason, slum dwellers often suffer from water-borne diseases like typhoid and

cholera. Furthermore, a high incidence of crime is often associated with slum areas further exacerbating the situation.

Internationally, according to UN HABITAT (2003:xxv) 924 million people (31.6 per cent of the world's urban population) lived in slums in 2001. "The majority of them were in the developing regions accounting for 43 per cent of the urban population, in contrast to 6 per cent in the more developed regions". In 2001, Sub-Saharan Africa had 71.9 per cent (the largest portion in the world) of its urban population residing in slums. "In between these were South-central Asia (58 per cent), Eastern Asia (36.4 per cent), Western Asia (33.1 per cent), Latin America and the Caribbean (31.9 per cent), Northern Africa (28.2 per cent) and Southeast Asia (28 per cent). Asia (all of its sub-regions combined) dominated the global picture, having a total of 554 million slum dwellers in 2001 (about 60 per cent of the world's total slum dwellers). Africa had a total of 187 million slum dwellers (about 20 per cent of the world's total), while Latin America and the Caribbean had 128 million slum dwellers (about 14 per cent of the world's total) and Europe and other developed countries had 54 million slum dwellers (about 6 per cent of the world's total)".

UN HABITAT (2005) indicates that the proliferation of slums internationally brought about the Habitat II Agenda's goal of achieving an international right to adequate housing and sustainable human settlements (formulated at the Habitat II Conference in Istanbul, Turkey, in June 1996). The Habitat II Conference was followed by the United Nations Millennium Summit, the "largest gathering in history of world leaders, which brought together 149 Heads of State and Government and high-ranking officials from over 40 countries". Concern about poverty led governments, during the Millennium Summit in September 2000, "to adopt a specific target on slums in the United Nations Millennium Declaration, which aims to significantly improve the lives of at least 100 million slum dwellers by the year 2020". This target was further proposed by the UN Task Force on slums to be expanded and formulated as follows: "By 2020, improving substantially the lives of at least 100 million slum dwellers, while providing adequate alternatives to new slum formation".

According to UN HABITAT (2003:xxvi) and in keeping with the sentiment expressed by the 2020 target, international approaches to slums have "generally shifted from negative policies such as forced eviction, benign neglect and involuntary resettlement, to more positive policies such as self-help and in situ upgrading, enabling and rights-based policies". Today, slum areas are seen as places

of opportunity, and while forced evictions still occur, governments refrain from such drastic and repressive measures.

2.3.2 Domestic perspective

It is well established in economic theory that housing is a private good because it is rivalrous (“one person’s consumption of the good reduces its availability to other potential consumers”) and excludable (consumption is restricted to a given individual which excludes consumption by other people) (see Black, *et al* (2012:36) amongst others). Private goods should therefore be catered for by the private sector, but since South Africa has a history of institutionalised inequality, government has intervened in the provision of housing to try and correct past imbalances in the housing market. In addition, the South African government, according to the City of Cape Town (2008:11), has committed itself to fulfilling the international right to adequate housing by signing the Habitat II Agenda. South Africa also supports the United Nations Millennium Declaration on Cities, which aims to improve “... the lives of at least a 100 million slum dwellers by the year 2020”.

The Department of Housing (2004:7) has within its broader vision, further committed to meeting the following specific objectives laid out in its New Housing Vision from Breaking New Ground:

- a) “Accelerating the delivery of housing as a key strategy for poverty alleviation;
- b) Utilising provision of housing as a major job creation strategy;
- c) Ensuring property can be accessed by all as an asset for wealth creation and empowerment;
- d) Leveraging growth in the economy;
- e) Combating crime, promoting social cohesion and improving quality of life for the poor;
- f) Supporting the functioning of the entire single residential property market to reduce duality within the sector by breaking the barriers between the first economy residential property boom and the second economy slump;¹¹ and
- g) Utilizing housing as an instrument for the development of sustainable human settlements, in support of spatial restructuring”.

But despite South Africa's New Housing Vision and commitment to housing delivery, the former Minister of Human Settlements, Tokyo Sexwale (2010a), pointed out that South Africa has seen an increase in the housing backlog from "1.5 million households in 1994 to 2.1 million households" in 2010. Sexwale explained that the backlog persists despite delivering 2.3 million housing units to nearly 11 million people since 1994. To further exacerbate the housing backlog, the average household size, according to Van Zyl (2008:8-10), has dropped from 4.4 people in 1994 to 3.2 people in 2006, necessitating the need for more homes. Regardless of the notable housing delivery, the housing backlog had grown in leaps and bounds with a housing deficit of approximately 12 million people (Sexwale, 2010b).

Rust, according to Seekings, Jooste, Muyeba, Coqui, & Russell (2010:1), however, questions government delivery claims of 2.3 million housing units. Rust explains that there are four "major problems with reaching an aggregate figure for new, state subsidised housing". Firstly, deeds office records do not distinguish between houses built with a subsidy and those without. Secondly, incomplete subsidy approval data does not correlate with actual house construction. Thirdly, a significantly high proportion of RDP/BNG houses have not been registered in the deeds office. Fourthly, housing subsidy figures include transfers of ownership from government leasehold to occupant freehold which do not translate into new house construction. "Rust counts less than 1 million (registered) RDP/BNG subsidy housing units", which falls very short of government's official housing delivery.

Furthermore, Bolnick (n.d.:3) does not concur with the official housing backlog figure, suggesting that the housing backlog is much higher than the official figure of 2.1 million. Bolnick explains that the official figure does not include poor households who "do not meet the state's criteria for a subsidised house, or the number of households who have sold their government subsidised house due to a host of reasons".

Bolnick (n.d.:3) and Rust in Seekings, *et al* (2010:1) share the sentiment, that among the questionable housing delivery and backlog figures, the housing backlog has increased over the

¹¹ The New Housing Vision from Breaking New Ground came out in 2004 when the first economy (low to high income market) residential property market was going through a boom period while the second economy (affordable market) residential property market was going through a slump.

years. The housing backlog has increased despite building “an average of 160 000 housing units per year since 1994”.

2.3.3 The Western Cape perspective

Burger and Van der Berg in Seekings, *et al* (2010:2) indicates that formal households in the Western Cape rose from approximately 766 000 housing units in 1996 to an estimated 1 130 000 units in 2007 (an increase of approximately 364 000 housing units). In metropolitan Cape Town alone, the number rose from under 506 000 in 1996 to 743 000 in 2007. Although it is difficult to separate government subsidised housing from privately developed housing (since many housing units were built by the private sector), Burger and Van der Berg indicates that approximately “240 000 housing subsidies were provided in the Western Cape in the fourteen financial years from 1995/96 to 2008/09”. Their figures “conforms to data from two provincial government documents,¹² which record that projects comprising a total of 172 000 houses were approved in the ten year period between 1994 and 2003, whilst 77 000 houses were built during the five financial years from 2004/05 to 2008/09 (of which 52 000 houses were in Cape Town)”.

Seekings, *et al* (2010:2) points out that a total of “32 500 houses were reportedly built under the Integrated Serviced Land Project in the area around Cape Town’s airport, whilst many other houses were built in Khayelitsha and other parts of the city”. It further “seems likely that at least 250 000 state subsidised houses were built in the Western Cape” between 1994 and 2009. Put differently, close to “two thirds of the formal housing built in the Western Cape since the end of apartheid, was built with public funding”, or at least one fifth, and perhaps one fourth of households in the “Western Cape as a whole lives in a post-1994, state subsidised house”.

Despite the significant delivery of post-apartheid public funded housing, the housing backlog in the Western Cape persists due to in-migration from other provinces and population growth (City of Cape Town, 2008). In the Western Cape, in-migration from other provinces estimated by Stats SA, (2011:14) indicates that there was a net influx of 94 600 people from 2006 to 2011. Population growth in the Western Cape according to mid-year population estimates was approximately 2.23 per cent for 2006 to 2011 (Stats SA, 2006-2011). Both in-migration and population growth contribute to the continued proliferation of informal settlements nationally and provincially. According to the

City of Cape Town (2008) there are 223 informal settlements in the Western Cape alone, with an ever increasing housing backlog which has more than doubled from 150 000 households in 1998 to 400 000 households in 2007. A more recent article by the Minister of Human Settlements in the Western Cape, Bonginkosi Madikizela (2011a), states that the housing backlog in the Western Cape is approximately 500 000 housing units.

The housing backlog in the Western Cape of 500 000 housing units is especially significant given that the Western Cape Provincial Government, in partnership with municipalities, is providing 11 000 homes and 14 000 fully serviced plots of land in accordance with its R1.8 billion provincial housing budget for the 2011 financial year (Western Cape Provincial Treasury, 2011:14). The gap between housing provision (11 000 housing units) and housing backlog (500 000 housing units) is significant. Such a gap clearly indicates that government's persistent provision of free subsidy housing is not making an impact on the housing backlog, hence the importance of the involvement of the private sector in the affordable market.

2.4 THE AFFORDABLE MARKET AND HOUSING AFFORDABILITY

The significance of the affordable market in the entire housing ladder, and which households fall within this market, is highlighted in this section of chapter two.

2.4.1 Affordable market

The Financial Sector Charter defines the affordable market as all households with an income between R1 928 and R9 670 per month (Ruiter, 2009). The ALHDC indicates that affordable housing is all housing valued at under R500 000 (www.alhdc.org.za). Rust (2011:3) on the other hand specifies that the affordable market is not only properties worth less than R500 000 but includes "areas where the average house value is worth less than R500 000". Therefore higher priced houses may reside in areas considered affordable.

The affordable market includes the subsidy housing market (Rust, 2011) which is worth R84 000, and is fully subsidised for those households earning R3 500 or less per month (Department of Human Settlements (2010). As mentioned in Chapter one, more money (R100 351) is allocated to

¹² According to Seekings, *et al* (2010:2).

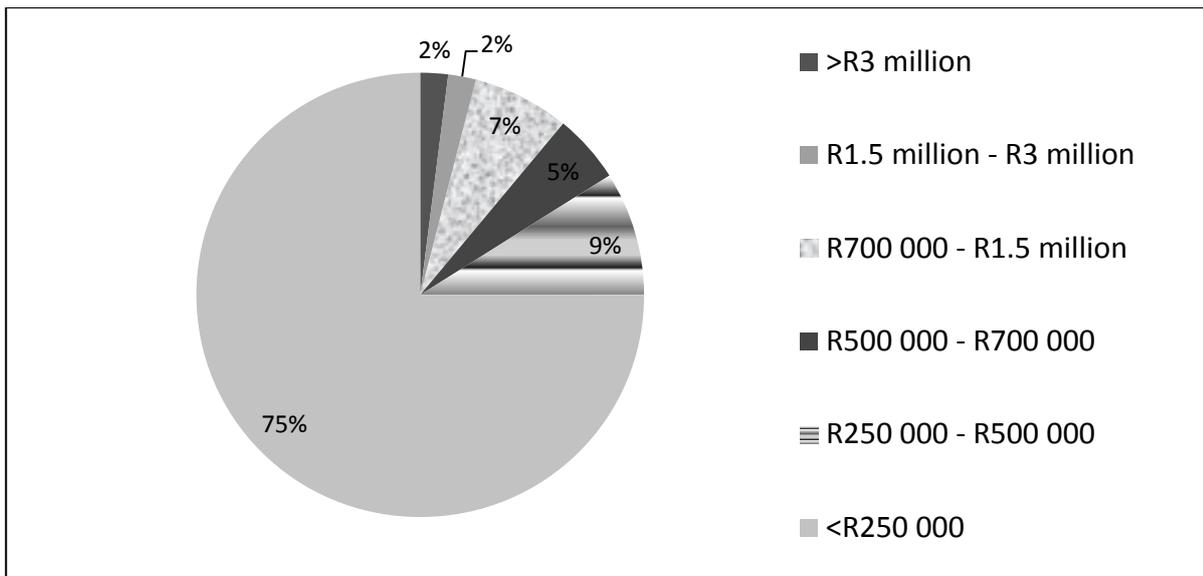
building a subsidy house in Cape Town due to the Geo-Technical requirements. Properties valued between R100 351 and R500 000 fall within the gap market because this is the market in which household “salaries are too high to get government subsidies but too low to qualify for a normal bank mortgage” (Rust, 2012). Therefore two sub-markets exist within the affordable market; namely the subsidy market and the gap market. For the purpose of this research (because the overall gap market covers a large price range), the gap market has been further divided into two segments, namely the lower gap market and the upper gap market. This study will therefore refer to three sub-markets within the affordable market as indicated in chapter one (table 1.1).

Rust (2011:5) mentions that the affordable market with its three sub-markets accounts for 3.5 million of “almost 6 million residential properties on the Deeds Registry” in South Africa. Therefore the majority (58 per cent) of residential properties in South Africa fall in the affordable housing market, but service approximately 88.14 per cent of the population. The affordable market is therefore the largest property market in South Africa with the “most people and the most properties”. In contrast, the low to high income (regular) market is affordable to approximately 11.86 per cent of the population.

2.4.2 Subsidised housing and its effect on the affordable market

Sexwale (2010a) reckons that the delivery of 2.3 million government subsidised households has had a significant impact on the affordable market. In figure 2.2, Rust (2011) indicates that in 2010 alone, 84 per cent of new builds formed part of the affordable market with 75 per cent worth less than R250 000 and representing the subsidy market. General economic theory, as set out in Black, *et al* (2012:333), explains that government intervention of such large proportions as is the case in the subsidy housing market, would dampen private sector investment, also known as the crowding-out phenomenon. The application of the crowding-out phenomenon to the affordable market highlights that the government subsidy has distorted the affordable housing market, more especially the gap market, the market which requires more private sector investment. Such distortions result in significant inefficiencies in housing delivery in the affordable market.

Figure 2.1 Total new houses registered in 2010, by market segment



Source: Rust (2011:12)

The provision of subsidy housing in the affordable market is broadly based on the Finance-linked Subsidy Programme. This programme entitles South African citizens, who meet the necessary criteria, to obtain a RDP/BNG house for free, or receive part government subsidy thereof (Department of Human Settlements, 2010).

Appendix A outlines the subsidy bands according to income levels. Households earning less than R3 501 per month are entitled to a fully subsidised house worth R100 351. Households earning between R3 501 and R7 000 per month are entitled to different subsidy amounts which decrease the higher you move up the increment bands.

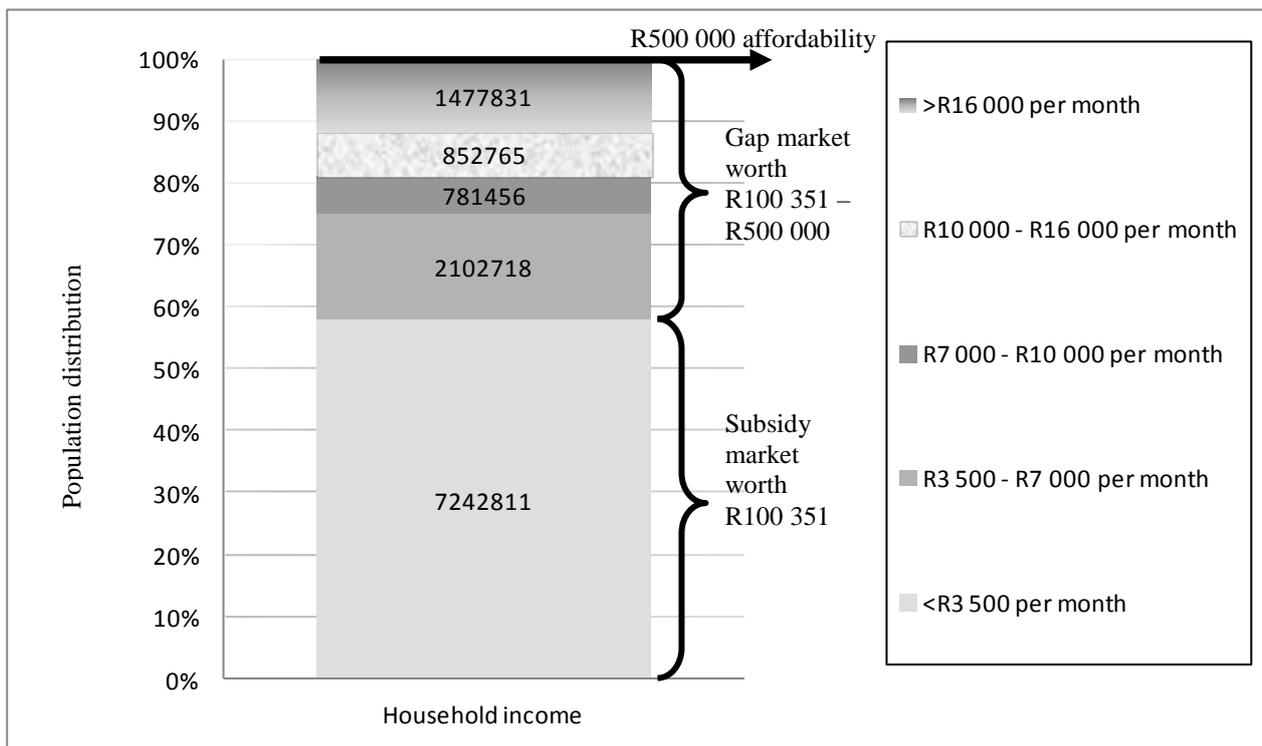
2.4.3 Household affordability and the gap market

Ruiter (2009) explains that the housing subsidy eligibility ceiling (household income of R3 500 per month) has remained unchanged since 1994. The unchanged subsidy band coupled with inflationary increases in household incomes since 1994 has resulted in a decline in the number of South Africans qualifying for a full housing subsidy. Rust (2011) quantifies Ruiter stating that 86 per cent of the South African population qualified for a housing subsidy in 1994 as opposed to a 60 per cent eligibility rate in 2011. The difference (29 per cent) has formed the “gap market” as depicted in figure 2.2 below. Rust (2012) highlights that the gap market is made up of households who earn too much “to get government subsidies but too little to qualify for a normal bank mortgage”.

On the balance, government has likely not updated the subsidy band in line with inflation, since government is not able to finance the 2011 subsidy eligibility rate of 60 per cent due to limited current tax revenues. Increasing the subsidy band to accommodate the gap market will not change government’s ability to finance housing, therefore the gap market has to provide for their own housing situation.

Figure 2.2 also highlights the prominent income gap between the subsidy market (R3 500 per month ceiling) and the bank bondable market (R16 000 per month minimum). Given a fixed interest rate (10 per cent), a combined household income of R16 000 per month is what is required to obtain a R500 000 loan, therefore those households who earn less than R16 000 per month fall into the affordable market. More specifically, households earning between R3 500 and R16 000 per month fall into the gap market within the affordable market.

Figure 2.2 Population distributions by household income (2010 Rands) South Africa



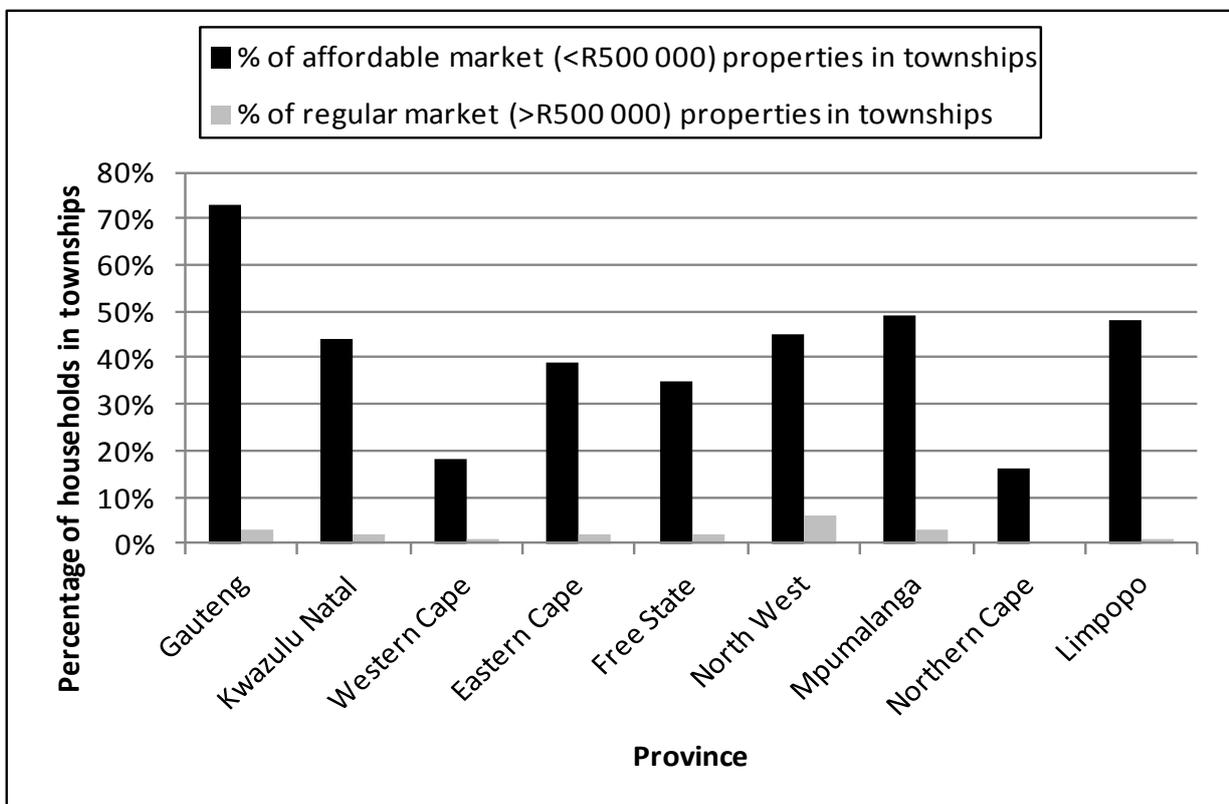
Source: Rust (2011:6)

2.4.4 Affordability in the former black townships

“47 per cent of the affordable market is found in former black townships” and figure 2.3 indicates that townships are almost entirely affordable (Rust, 2011:7). Dominance of the affordable market in the townships is further supported by the City of Cape Town (2008) which indicates a high rate of present and future government housing delivery programmes in the townships of the Western Cape. Since government seeks the most affordable land in order to reduce the overall cost of housing delivery, its significant activity in the townships suggests that township land is the most affordable in Cape Town. Therefore it is evident that the affordable market is dominant in the townships due to its low land values. Land used nationally for the subsidy programme, for the 2010/2011 period, has an estimated market value of R6 000 per stand (Department of Human Settlements, 2010).

The value of a plot of land can influence the type of housing built on it. The type of housing unit will be determined by the rate of return a developer/owner can expect to achieve from the development. Therefore it is reasonable to assume that affordable land will more likely result in affordable housing being developed (Galster in Ruiter, 2009).

Figure 2.3 Township properties: affordable and high-value

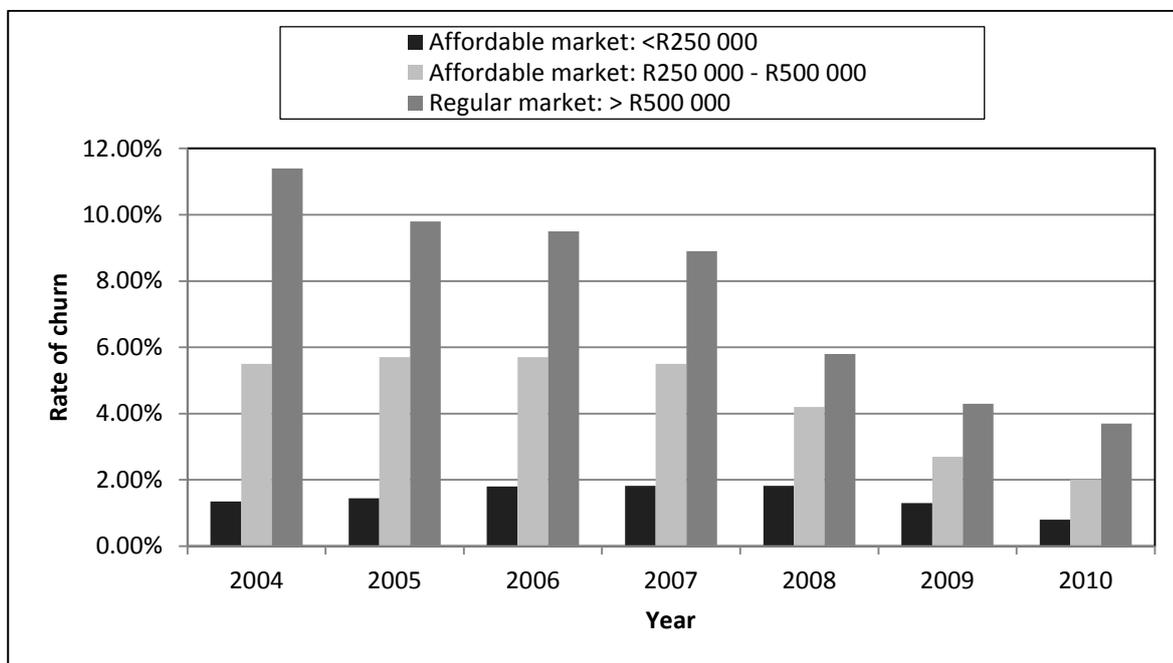


Source: Rust (2011:7)

2.4.5 Churn in the affordable market

The secondary (resale) residential property market in former black townships is “extremely limited with very few formal transactions” and limited informal transactions (FinMark Trust, 2004). Figure 2.4 indicates that lower property values have lower rates of churn, and since the townships are almost entirely affordable, churn is limited, with residents choosing not to sell their properties (hence the under-supply in the townships). Rust (2011) also acknowledges that the under-supply or “gap” in the market is more noticeable in the township areas due to the low churn characteristic of low valued properties.

Figure 2.4 Rate of churn by market segment



Source: Rust (2010:19)

2.4.6 New build versus resale values in the affordable market

Rust (2010) states that the value of resale properties in the affordable market is consistently higher than new build values. Higher resale values are thought to be a result of a drop in new build stock with only 60 000 new units (including subsidy properties) registered in 2009 in the affordable market. Of these, only 16 650 were in the R250 000 to R500 000 price range.

2.5 THE SOUTH AFRICAN PROPERTY LADDER

Section 2.5 explores the different rungs in the South African property ladder. The lack of certain rungs is highlighted and the reasons for this phenomenon are investigated.

2.5.1 Emphasis on the lower rung of the property market

Government's BNG plan, which is in line with the Freedom Charter and Section 26(1) of the Constitution, aims to broaden access to housing "by supporting the functioning of the entire single residential property market" (Department of Housing, 2004:7). The entire single residential property market is ignored by government's focus on delivering subsidy houses which only addresses the bottom rung of the property ladder. Government has addressed the housing backlog with a subsidy scheme based on household income. Households earning R3500 or less per month are classified as needing government support, a free RDP/BNG house (Department of Human Settlements, 2009). Households earning more than R3500 per month, able to afford a housing unit worth more than the subsidy house, are not the focus of government. Rust (2006:33) explains that government's focus on the lower rung fails to acknowledge the fundamental and important linkages between the different rungs in the property ladder.

Rust, however, fails to recognise that the housing subsidy itself has caused the linkages between the different rungs in the property ladder to break. In economic terms, the housing subsidy has caused the market to be distorted. Since it has already been established that the subsidy is significant, it could be inferred that the distortion too is significant. Furthermore, it appears that government does not fully understand its role in the distortion of the market. The development of sustainable human settlements, a BNG objective (Department of Housing, 2004), requires the different rungs in the property ladder to be linked (Rust, 2006) but makes no mention of minimising the distortion. Such an objective would require government to interrogate its intervention in the housing market so as to minimise the distortion the housing subsidy has created.

The initial intention of the housing subsidy is explained by several authors in Adebayo (2010), who indicate that government's goal was to provide subsidy beneficiaries with their first housing asset. The housing asset would then appreciate and create wealth to facilitate household's ascendancy up the housing ladder, and ultimately their spatial and social-economic integration. In more detail Rust

(2006:33) explains how government wishes to provide shack dwellers with RDP/BNG homes. The expectation is that housing beneficiaries will improve on their housing units to later sell it for a profit in order to move up the property ladder. “The sold home is therefore recycled¹³ for the next low-income person. In this way, a subsidy beneficiary becomes part of the housing supply chain. The new home that is bought becomes the next asset for the person who was once a subsidy beneficiary and is now climbing the property ladder, improving his/her housing conditions independently, without state support, on the back of an appreciating property market”.

The housing ladder, “whereby a household sells one property in order to purchase a better quality property, is not occurring” in the affordable market (Shisaka, 2004b). Rust (2011:6) indicates that almost 30 per cent of the affordable market in 2010 earned above the subsidy house band, yet there appears to be very limited movement in the affordable market. Very limited movement supports the notion that the affordable market is affected by the housing subsidy as argued earlier.

According to Shisaka (2004b) 83 per cent of township households stay in their first home so movement up the property ladder is problematic. Rust (2006:34) explains that a subsidy beneficiary will only sell his/her RDP/BNG housing unit if a better housing unit is available and affordable. If no such unit is available, then the housing beneficiary will have no choice but to stay in the government subsidised house. “In this way, the availability of higher income housing is relevant to the mobility of households in low-income properties”.

Housing beneficiaries have nowhere to move to as the property rungs, immediately higher than the RDP/BNG house, are missing in the South African property ladder. Housing beneficiaries cannot afford to advance past the missing rungs to the available rung. Rust (2006) therefore suggests that government should direct policies to not only affect the bottom rung in the property ladder, but should also reduce backlogs in the entire housing market until full housing mobility is realised. Rust emphasises that higher income earners in some cases are still house poor due to the next rung in the property ladder being out of reach because, according to Shisaka (2004a), large segments of the property ladder have a serious supply shortage. Rust (2006:40) further reckons that missing rungs

¹³ Recycling is necessary as government cannot provide free RDP/BNG subsidy houses to all those who qualify for a free subsidy house (hence the backlog). Recycling is important as, over time, government hoped to assist more than just one household per housing unit.

“higher up the ladder will undermine the government’s capacity to deliver at the bottom end. The entire housing market is relevant to government’s goal of addressing the needs of the poor”.

Absent rungs higher up the property ladder results in a locked market for subsidy beneficiaries who refuse to sell their property due to immobility (Rust, 2007). Such a locked market is what De Soto (2003:6) refers to as “dead capital” and estimates to be worth approximately R63.3 million in South Africa’s former black townships.

De Soto (2003:6) is of the opinion that property becomes “dead” when the property market is dysfunctional (a property ladder with missing rungs as well as a thin secondary resale market) and is referred to by Adebayo (2010:11) as the dead capital character of RDP/BNG housing. Rust (2006:37) highlights a useful example of a locked market in Protea Glen, “a middle-income, privately developed suburb of Soweto” (possibly the next *available* rung above the subsidy market). Bond defaulters’ resisted eviction as this was not a normal market. “In a normal market it is unlikely that residents would resist eviction, because eviction itself would be unlikely”. In the low to middle income (regular) market, homeowners would sell their homes during financially trying times and “use the equity from the sale to buy a cheaper more affordable home” (rungs below the house that was sold). The housing asset is normally used as a “safety net” in difficult times in the regular market.

Rust (2006:37) further indicates that Protea Glen homeowners, however, could not find buyers for their homes, as the shift from the subsidy house rung to the Protea Glen rung, was too big. Nor could the Protea Glen homeowners find cheaper alternative housing for themselves as subsidy homeowners (the rung below the Protea Glen house) were not willing to sell due to immobility. Since the Protea Glen homeowners could not sell their house, nor purchase housing in lower rungs (even if they could sell their house), they were trapped – a scenario mostly found in the affordable market, and an “incentive to resist eviction”. “Because they were unable to sell their homes, the equity the Protea Glen residents had invested in it, was worthless”. When the banks repossessed their homes, they lost everything they invested in their homes. Protea Glen homeowners did not benefit from homeownership. The situation was no different from renting.

Rust indicates, in the Protea Glen scenario, that the housing rungs above the subsidy house were too few (distorted market). Rust does not, however, explore the possibility that the subsidy house itself

may be pitched too high on the property ladder. Government's provision of the first housing asset to subsidy beneficiaries needs to be further investigated.

Furthermore, it seems that subsidy beneficiaries are locked into the subsidy market due to government's pre-emptive¹⁴ clause, which according to Adebayo (2010) denies the subsidy beneficiary the right to sell the house within the first eight years. The pre-emptive clause not only locks the homeowner into the subsidy market, but denies the expression of the market impulse by owners – hence a large number of illegal sales.

Approximately 30 per cent of subsidy houses in Joe Slovo Park in Milnerton were estimated to be illegally sold five years after they were handed over to beneficiaries (Jacobsen in Kingwill *et al*, 2007) highlighting that the demand for the subsidy rung was significant albeit an illegal transfer. Adebayo (2010) points out that the tendency for such illegal sales to be worth significantly less than the amount government paid for it to be built, further aggravated the subsidy house's ability to create ascendancy up the property ladder, and suggests that the subsidy house is not an appreciating asset. The significantly discounted sale of subsidy housing supports the demand (which includes the availability to pay) for housing worth less than the subsidy house. Thus, the subsidy house may be pitched too high – possibly the initial problem of a distorted, dysfunctional, broken property ladder.

Ruiter (2009) furthermore states that government has not built any credit linked houses above the subsidy rung, in the past twelve years, which contributes to the ever increasing need for housing in the gap market. Adebayo (2010) also points to the reticence of many subsidy households to take up credit (due to concerns that they might lose their home) and more especially the reluctance by banks to lend in the subsidy market (due to these being high risk areas) so that subsidy house beneficiaries can move into the gap market of the property ladder. A thin gap market creates an unhealthy secondary (resale) market as subsidy house sales are unlikely. Housing immobility, which is most prominent in the affordable township market, was pointed to by Shisaka (2004b) as a leading reason for an overall dysfunctional market. The dysfunctional property market is hampered further by poorly skilled labour, increasing building costs, limited bulk infrastructure, scarcity of affordable urban land¹⁵, and the inelasticity of housing supply (Ruiter, 2009, Brown-Luthango, 2007).

¹⁴ The reason for Government's pre-emptive clause is explained in section 2.8.5.8 of this chapter.

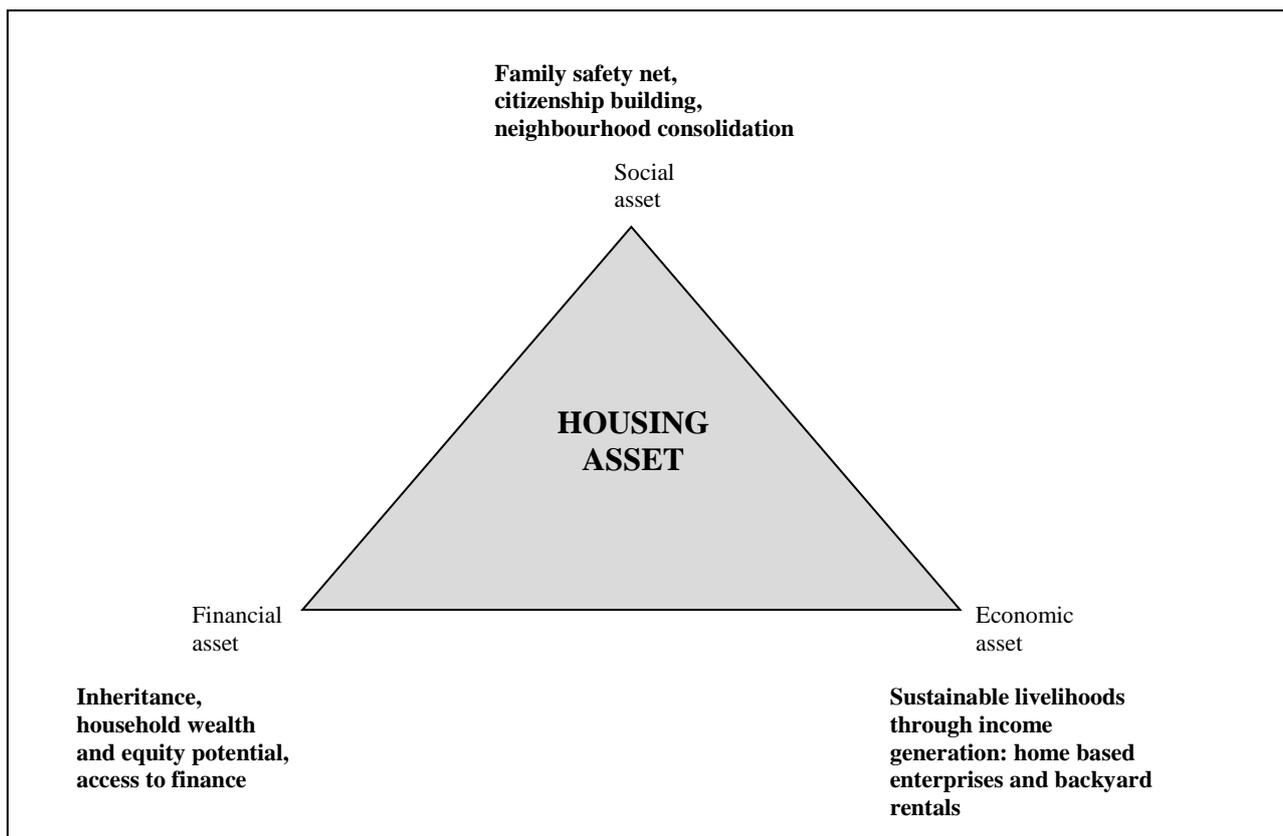
¹⁵ Speculators hold on to undeveloped land in the hope of realising future profits – 27000 vacant plots worth R7.2 billion in Cape Town.

The situation is worse for those South African's living in informal settlements who qualify for a housing unit, as most will wait years to benefit from the subsidy programme (Rust, 2007). Also, they will not be motivated to improve their own housing situation. By way of example, Eglin (2011) highlights that if a poor household saves a portion of their income and buys a piece of land, they will not qualify for a subsidy house as they will be considered a property owner, further keeping them out of formal housing.

2.5.2 Housing as a social, economic and financial asset

Government, through the Finance Linked Individual Subsidy Programme (FLISP), initially envisaged that a home would create wealth for its beneficiaries, by performing as an asset (Rust, 2007, Adebayo, 2010). Rust (2007) divided the housing asset into three components: housing as a social asset, economic asset and financial asset. This is depicted in figure 2.5 below.

Figure 2.5 The Housing Asset



Source: Rust (2007:10)

As a social asset a home would serve as a household safety net (Adebayo, 2010), contributing to household sustainability, and reduce household vulnerability (Rust, 2007). A home functions as an

economic asset due to its income earning potential through rental accommodation or home based enterprises (Rust, 2007). A home's financial asset value is realised when it is sold or bequeathed to heirs, or used as collateral for accessing credit (which can be used as leverage out of poverty, for example, through financing education) (Brown-Luthango, 2007). Rust (2007) adds that the financial asset value refers to the ability to move up the property ladder where you sell a home and use the money from the sale to purchase a more suitable home. Also, homeowners looking for smaller, retirement homes can fund their retirement from the sale of their larger family homes.

2.5.3 Focus on housing as a social asset

Rust (2006) is of the opinion that government has focused on housing as a social asset which has sidelined the harnessing of the economic and financial value of subsidy housing. As a consequence, strategies to support households to maximise such values have also been sidelined. Adebayo (2010) reckons that a good example of government's lack of understanding of a home having financial value is the pre-emptive clause which prevents subsidy beneficiaries from selling their home within the first eight years. The current pre-emptive clause fundamentally inhibits homeowners from purchasing existing properties in the secondary market (Shisaka, 2004b). Rust (2007) and De Soto (2003) agree that if the housing asset value is realised in social, economic and financial terms, housing can indeed alleviate poverty.

2.5.4 Challenges in harnessing the full asset value of subsidised housing

According to Adebayo (2010, 2011) and Rust (2007) the difficulties experienced by RDP households in harnessing the full asset value of their housing, has been compounded due to the following reasons:

- a) The poor build quality of the subsidised house;
- b) Poor location of housing units;
- c) The size of the house was too small to accommodate residential as well as home-based businesses or rental arrangements;
- d) An absent post-subsidy support system to households to access credit, building material and technical assistance to extend on the RDP house;
- e) The unattractiveness of an RDP house as collateral for banks;

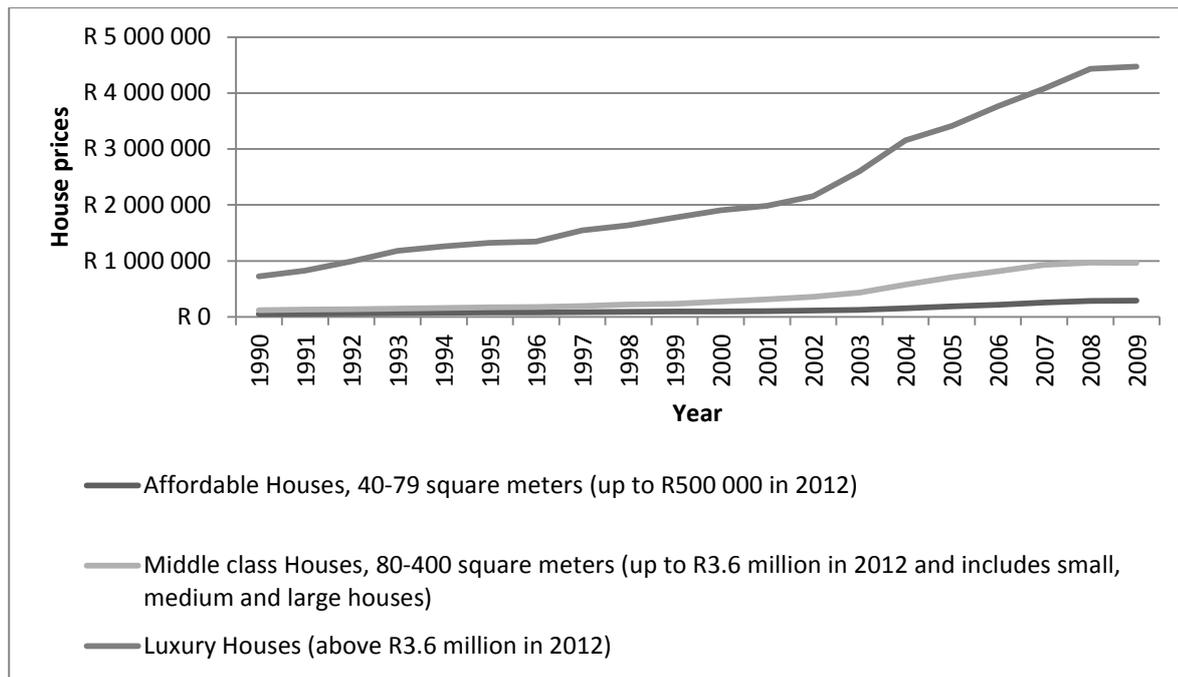
- f) The absence of a secondary market;
- g) The depressed sale value;
- h) The private sector's avoidance to develop in RDP, low income areas often associated with high levels of crime (Todes in Adebayo, 2010);
- i) Low levels of affordability;
- j) The deterioration of whole neighbourhoods of subsidised properties due to disincentives of residents to invest in their property and thereby improve it;
- k) Disinvestment in subsidised neighbourhoods cause subsidised neighbourhoods to become stagnant and even depreciate; and
- l) The notion of a "free house" creates the incorrect perception that the house is not worth much financially which has resulted in many below real value sales.

The above reasons overall result in RDP households struggling to harness the full asset value of their homes. The property ladder therefore is significantly distorted in the subsidy segment of the housing market

2.5.5 The widening gap

Brown-Luthango (2007) argues that growth in the low to middle income (regular) market has surpassed the gradual increases in the affordable market. A clear "missing middle" (Rust, 2007:4) is depicted in figure 2.6 below with middle class houses (low to middle income, regular market) outperforming the affordable houses.

Figure 2.6 Average house price growth from 1990 to 2009

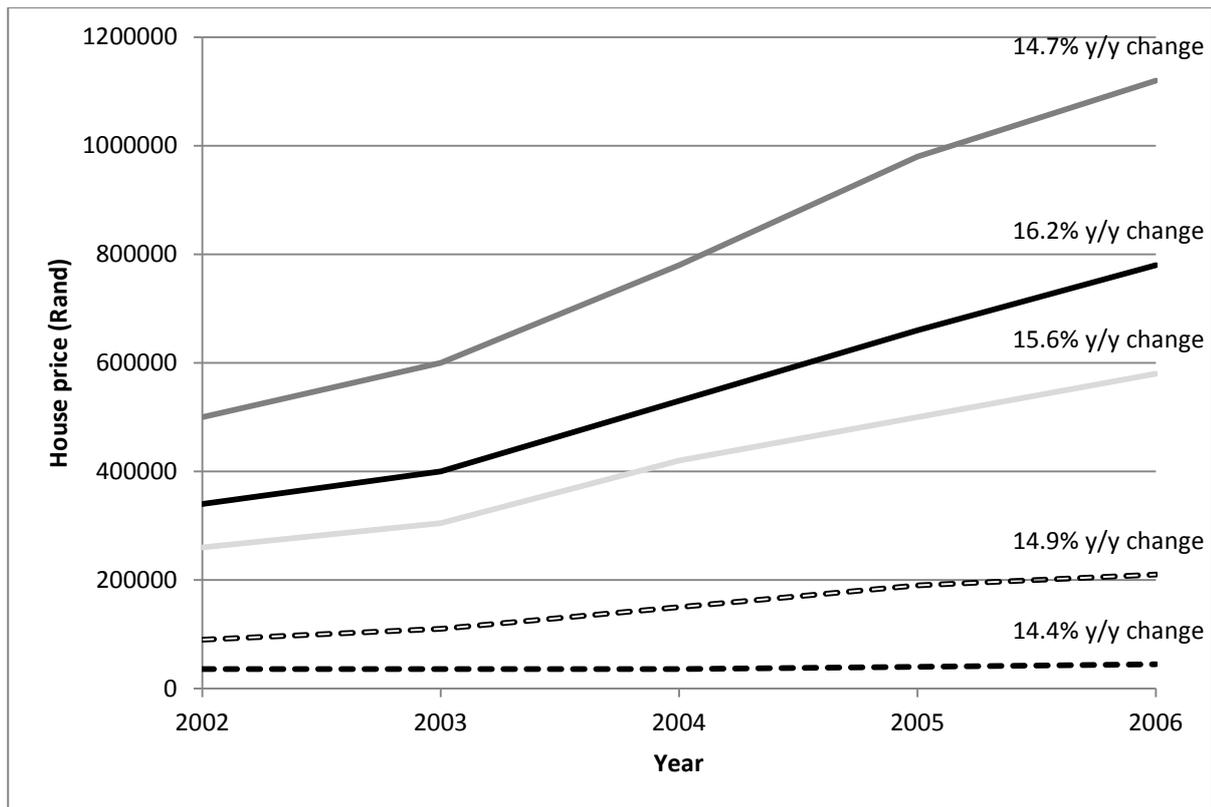


Source: Calculations based on Absa (2013).

Shisaka in Brown-Luthango (2007:17) also points out that where subsidised housing has been sold, it has “often been sold at prices far below the subsidy value”. Therefore the space between the gap market and the subsidy market has widened too. The reason for the depreciation of the subsidy market reckons Shisaka, is due to the lack of incentives for subsidy beneficiaries to improve and invest in their housing asset given that the housing unit “is worth little more than the shelter it provides”. Rust (2007:9) is of the opinion that the subsidy market will deteriorate as residents rather prioritise investments in other goods given the realm of financial pressures they find themselves in. These deteriorating neighbourhoods cause housing to become a “consumptive good rather than a productive good”.

Figure 2.7 below, indicates the stagnant subsidy market at the bottom of the asset pyramid as there has been significant depreciation in sales (formal sales). Rust (2007:4) states that as the “upper end of the market creeps away from the affordable market, so too does the gap market creep away from the subsidised housing market”.

Figure 2.7 House Price Appreciation in South Africa 2002 – 2006



Source: ABSA Residential Property Perspective in Rust (2007:5)

The consequences of a missing middle, widening gap, or missing rungs in the property ladder will affect the housing market in two ways. The first pointed out by Rust (2007:5) is that housing beneficiaries living in RDP/BNG subsidy housing units will find it almost impossible to make the jump into the gap market of the property ladder. The second consequence as Brown-Luthango (2007:17) highlights is the inevitability of downward raiding by those in the “middle”. Downward raiding occurs when “households who do not qualify for a subsidy house, but cannot afford a house in the gap market, buys a subsidy house from a subsidy beneficiary” who has fallen on hard financial times. Downward raiding more often than not results in the subsidy beneficiary moving back into the informal settlement.

2.5.6 Township sub-markets

Black townships in South Africa have a history of exclusion which according to Shisaka (2004b) has had a “direct impact on the nature of residential property markets” that exists in these areas. “During Apartheid, townships operated under closed market conditions, reflecting state intervention which received poor social infrastructure and services. This has directly influenced the way in

which housing is delivered as well as property is valued and traded” today in these areas. The landscape of traditionally black townships in South Africa is made up of a number of sub-markets which can be grouped together to form four distinct sub-markets that can be classified in terms of the type of housing that is available.

Table 2.2 compares the four township sub-markets namely; the informal, incremental, old township and privately developed sub-markets (Finmark Trust, 2004).

Table 2.2 Township sub-markets

	Informal sub-market	Incremental sub-market	Old township sub-market	Privately developed sub-market
Who built the structure?	Informal dwellings erected by the occupants on land without the permission of the owner.	RDP houses built by state while Site and Service stock owner-built on state-subsidised serviced site.	Old rental housing stock built by government between 1948 and 1960 was transferred to private ownership. Household heads average 57 years.	Private sector builds for this sub-market.
Legality of structure	Illegal (no title)	Legal (although delayed transfers)	Legal (less than 50% hold title)	Legal title
Densities	High	-	-	-
Access to services	Poor	Poor	-	-
Location	73% perceive location to be good	67% perceived location to be good	-	-
Education levels	Secondary school and below	Secondary school and below	Secondary school and below	Secondary school and above
Unemployment or informal employment levels	53%	53%	-	42%
Bank access	44%	44%	53%	89%
Backyard dwellings	6%	14%	57%	-
Home business activities	20%	13%	-	12%
Funding of home business	60% used their own funding	78% used their own funding	-	88% used their own funding
Improvements on property	42%	Site and service site has 100% improvements	75%	70%
Security of tenure	92% feel secure	91% feel secure	89% feel secure	96% feel secure

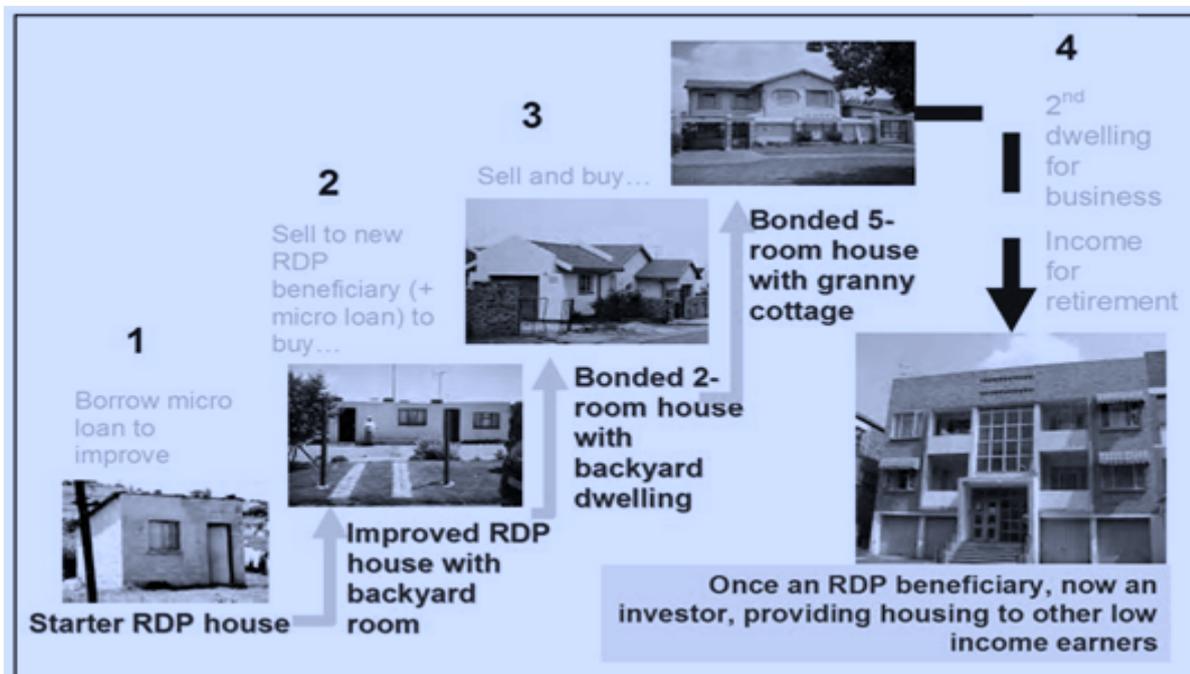
Source: Adapted from Finmark Trust (2004)

2.5.7 The missing rungs most noticeable in the townships

The township property ladder (which is dominated by the affordable market) should have flow, reasons Rust (2007:8). The supposition is that a housing unit appreciates over time while the owner pays the bond instalments. Equity (“the value of the house less the loan amount outstanding”) in the

housing unit (asset) increases over time. When the owner eventually sells the house, he/she might realise a profit from the sale to fund a more expensive house that better suits his/her needs. The process continues until such a time that the homeowner wishes to downscale for retirement in which case the equity realised from the sale of their last home can be used to fund their retirement. Figure 2.8 below (Rust, 2007:13) indicates what the general progression from one rung to the next in the affordable market should be. In reality, however, the gaps between each of these rungs is significant, resulting in homeowners being locked into their market and unable to move to the next available rung.

Figure 2.8 Rungs in the affordable market property ladder



Source: Rust (2007:13)

2.6 THE PRESENCE OF GAP, SOCIAL AND SUBSIDY HOUSING IN THE TOWNSHIPS

Section 2.6 explores the three typical types of housing in the Western Cape, highlighting problematic aspects regarding each type.

2.6.1 Gap housing

As indicated in chapter one and earlier in chapter two, the gap market includes all housing worth between the subsidy house value of R84 000 to R500 000 (or R100 351 to R500 000 in Cape Town) which is affordable to households earning between R3 500 to R16 000 per month respectively (Rust, 2011). The Minister of Human Settlements in the Western Cape, Bonginkosi Madikizela stated in 2011 that people earning between R3 500 and R14 000 a month find it difficult to buy a house, thereby forming the gap market in the Western Cape (2011b). The minister supports Rust's viewpoint. "The gap in the market is between residential units supplied by the state (which cost R100 000 and less) and houses delivered by the private sector (which are more than R250 000)". The City of Cape Town (2010) and Western Cape Provincial Spatial Development Framework (2009) reckons that these households earn between R3 500 and R10 000 per month, which is too little to participate in the private property market but too much to qualify for a state house. Western Cape Provincial Spatial Development Framework (2009) adds that ABSA Bank identifies the gap market as all housing worth less than R226 000 per unit, while Standard Bank defines it as worth less than R250 000 per unit.

Part of the gap market is partially subsidised by the state as indicated in Appendix A. Households earning between R3 501 and R7 000 per month are entitled to state assistance, which is a portion of the subsidy amount. This portion decreases the higher a potential home owner moves up the increment bands (Department of Human Settlements, 2010).

According to the City of Cape Town (www.capetown.gov.za) the demand for gap housing rises and falls according to changes in interest and unemployment rates. Demand also depends on "the number of families who voluntarily choose to make longer term financial commitments".

However, it is estimated that approximately 165 000 (City of Cape Town, 2012b:56) households in Cape Town alone demand and qualify for gap housing. “The province’s gap housing strategy comprises two parts:

- a) The sale of discounted serviced plots to aspirant owner-builders; and
- b) The sale of discounted land to institutions (such as development companies, banks, etc.) wishing to deliver housing products at lower prices.

The former tends to serve the lower gap market housing segment, and the latter serves the upper gap market housing segment”.

2.6.2 Social housing

Western Cape Provincial Spatial Development Framework (2009:28) defines social housing as “rental, or co-operative housing, owned and managed by housing institutions. Housing institutions take the form of either non-profit housing associations (registered in terms of Section 21 of the Companies Act), or housing co-operatives (registered in terms of the Co-operatives Act). The target group for social housing is the R2500 to R7000 per month income group”. Since more than half of the tenants who rent accommodation in South Africa, earn less than R3 500 per month, the demand for social housing is extensive. The City of Cape Town (www.capetown.gov.za) indicates that 18 to 21 per cent of rented dwellings in Cape Town are shacks. The City rents social housing apartments to 80 000¹⁶ people. Many more live in rental accommodation in backyards and private dwellings.

According to the Western Cape Provincial Spatial Development Framework (2009:28) social housing has two advantages. The most important “advantage is that it does not have to be a one-house-per-plot” set-up (such as conventional RDP housing), but can be denser by the way of flats and cluster homes”. Also, the distribution of housing units can, in the long-term, be managed by the social housing institution ensuring that the units are supplied to the target income group only. The disadvantages of social housing, is that a registered social housing company must take ownership and manage the units. Or, a new institution would need to be formed which is a lengthy process. Also, the operational costs of social housing projects are comparatively higher than equivalent

¹⁶ This data conforms to figures in the City of Cape Town’s Built Environment Performance Plan 2012/2013 (City of Cape Town, 2012b).

housing projects. Operational costs include: typical administrative costs such as “bookkeeping, annual audit fees, stationery/office expenses (for maintaining records)”, as well as costs of maintenance, insurance, and establishing a reserve fund.

2.6.3 Subsidy housing

Department of Human Settlements (2009, 2010) indicates that South African citizens earning below R3 500 per month qualify for a free RDP/BNG home. The free home, worth approximately R84 000 (R100 351 in Cape Town), is referred to as low-cost housing, as well as RDP/BNG and subsidy housing. South African citizens who qualify for a free home are entered on the City’s waiting list.

2.6.4 The landscape of gap, social and subsidy housing in the Western Cape

The primary focus of social housing is residential densification in the urban core.¹⁷ Appendix B indicates the areas chosen for social housing projects and highlights the absence of social housing projects in the townships (City of Cape Town, 2008).

Witbooi (2007), however, points out that although phase one of social housing on the N2 Gateway in Langa has been completed, it was notably fraught with delays, slow delivery, poor workmanship, high rents and overall dissatisfaction (inefficiency). Phase one consisted of 705 subsidised rental units (social housing) while phase two consisted of 35 credit-linked bonded gap houses. Tissington and Vartak (2009) also highlights that Councillor Gophe originally informed Joe Slovo informal settlement residents that were removed to Delft, that once the flats were constructed, rentals would range between R150 to R300. These rates were acceptable to most residents. However, on completion of phase one, rentals actually ranged from R600 to R1050 – clearly out of range for many of those removed to Delft to make way for construction.

The increased rents have been attributed to the higher costs of construction associated with higher density housing. Subsidies used for social housing are three times higher than those used in contractor built RDP housing, thus pushing rentals higher. Also, the high cost of well-placed land

¹⁷ Urban nodes are characterized by the intensity, mix and clustering of activities or land uses (including commercial and business development and associated employment opportunities and higher-order services) at points of maximum accessibility, exposure, convenience and urban opportunity (City of Cape Town, 2012b).

(which according to Appendix B is sought for social housing projects) pushes costs and subsequent rentals higher than the majority of the poor can afford (Tissington and Vartak, 2009).

Gap housing, like social housing, often takes place on expensive land and is notably absent from the townships, with the one exception of the development in Langa (City of Cape Town, 2008, 2010). The City of Cape Town's strategy with regard to gap housing is to urge the "private sector to reach down lower in the housing market" (City of Cape Town, 2010:36). The City does this by releasing "suitable land to institutions such as building companies or banks at lower than market value" for this purpose. Several well-located sites in Maitland, Kensington, Elsies River, Rugby, Athlone and Hanover Park have already been made available to banks (and their development arms) for the construction and sale of low-cost bondable units that otherwise would not have been built.

The City of Cape Town (www.capetown.gov.za) further mentions that additional sites have been made available in the City, in areas such as Wetton, Ottery and Silvertown. Every site has been awarded to a bank, and they are required to "build low-cost units at medium to higher densities". As the banks are the sellers, they are responsible for allocation. Preference is given to those families longest on the City of Cape Town's housing waiting list. The buyers are required to take up 20-year home loans with the banks developing the site. Government hoped to improve finance to the affordable market by involving banks in the development process, but banks are not development experts. With the exception of Langa, none of the gap housing projects mentioned by the City of Cape Town (2008, 2010), are to occur in the townships.

Department of Human Settlements (2010) indicates that, unlike social and gap housing, subsidy housing is significantly evident in the townships of the Western Cape as indicated in Appendix C (Greenfield full subsidy projects). Subsidy houses are more profitable for developers in the townships due to the low land values in the townships - R6000 per stand nationally.

From the evidence presented above it is clear that townships are generally the focus of subsidy housing which is administered by government, while gap and social housing which has a high level of private sector involvement, avoids development in the townships.

2.7 MOBILISING PRIVATE SECTOR INVESTMENT IN TOWNSHIP DEVELOPMENT

Training for Township Renewal Initiative (2009) explains that creating opportunities for capital formation by township residents, and re-channelling some consumption expenditure, and externally placed savings into local investment opportunities, are key economic objectives of township development. Successful township developments demand the maximisation of small and medium-scale property investments in the retail, general commercial and residential sectors.

To understand how development projects can succeed in catalysing private investment, it is necessary to discuss the basics of how private property investment works. Private sector investment decisions (TTRI, 2009) are typically based on four variables: knowledge, risk, profitability and timing. These factors are discussed below:

a) Knowledge

Risk perception, a subjective factor, can prevent possible development even reaching the feasibility stage. Untried, uncharted, unfamiliar environments are mostly regarded as risky with developers preferring to duplicate success stories (TTRI, 2009). Developers were initially averse to building shopping centres in the townships, but after a few successful shopping centres, a subsequent flurry of similar developments have occurred. Gugulethu Square with anchor tenants such as Shoprite, SuperSpar, Foschini, Spur and Clicks serves as an example (www.Gugulethusquare.co.za).

b) Risk

Rode & Associates Property Consultants (2008) and TTRI (2009:68) points out that since fixed long-term investments, such as property investments, cannot be “packed up and moved elsewhere”, developers tend to analyse their risk according to the “trade-off between risk and profitability”. TTRI (2009) mentions that risk analysis would include issues such as crime (crime patterns and the ability by authorities to manage the problem), neighbourhood cooperation in development, regulation and development control (the ability to regulate illegal activities such as brothels with neighbouring properties outside of the potential development already engaged in such activities), maintenance (authorities’ provision and maintenance of infrastructure and services), as well as

issues mentioned by Rode & Associates Property Consultants (2008), such as location, idiosyncratic risk (design of the building and the covenants) and systemic risk (overall risk that cannot be diversified away).

c) Profitability

The profitability calculation includes development costs, land costs, building costs, cost of capital, net income returns, rental or sales rates, vacancy assumptions, running costs, rates, utility charges and maintenance costs (TTRI, 2009). Figure 2.9 outlines the process followed to investigate the feasibility of a property investment.

Figure 2.9 The research method

THE PROPERTY RESEARCH METHOD							
Step 1	Mega trends in the property market						
Step 2	Economic activity and profile						
Step 3	<table border="0"> <tr> <td>Supply analysis</td> <td>Demand analysis</td> </tr> <tr> <td>• Existing inventory</td> <td>• Existing demand</td> </tr> <tr> <td>• Forecast supply</td> <td>• Forecast demand</td> </tr> </table>	Supply analysis	Demand analysis	• Existing inventory	• Existing demand	• Forecast supply	• Forecast demand
Supply analysis	Demand analysis						
• Existing inventory	• Existing demand						
• Forecast supply	• Forecast demand						
Step 4	Equilibrium/gap analysis <ul style="list-style-type: none"> • Rentals • Vacancies • Type of market 						
Step 5	Marketability of the site/development <ul style="list-style-type: none"> • Characteristics of site/development • Fit of the development in the market • Potential market share • Potential acquisition • Size of the development 						

Source: Viruly in TTRI (2009:69)

d) Timing

“Property investments generally follow the business cycle through boom, recession and recovery” (TTRI, 2009:70). If investments are timed correctly, profitability can be maximised (Rode & Associates Property Consultants, 2008). TTRI (2009:70) reckons that cycles can vary in duration and may be different for the residential, retail and industrial segments of the market. “A recession period can be used for land assembly, securing statutory clearances up front, market research, preparing the investment offering etc. The pre-recovery period can be used to execute communications with the private sector, engage investors in planning, prepare offerings for the market etc.”

2.8 BARRIERS TO MOBILISING PRIVATE SECTOR INVESTMENT IN THE TOWNSHIPS

2.8.1 LAND AND ITS ASSOCIATED LEGISLATION, PROCESSES AND GOVERNMENT INEFFICIENCIES

In section 2.8.1, land, as a barrier to affordable housing development, is discussed. Land has many associated issues which are unpacked in this section of the research, and which contribute to it being a significant barrier.

2.8.1.1 The Municipal Finance Management Act, No. 56 of 2003 and the tendering for land

According to the Municipal Finance Management Act (MFMA), No. 56 of 2003 the municipality may dispose of an asset once it has “considered the fair market value of the asset, and the economic and community value to be received in exchange for the asset”. Transfer of ownership must furthermore be competitive. This Act therefore prohibits the City from giving land to developers for the purpose of developing affordable housing. Land must be sold on the open market, through a tender process, to attract the highest bid.

“Immovable property must be sold at market related prices” according to supply chain management regulations, which enforce the MFMA, “except when public interest or the plight of the poor demands otherwise”. The poor refers to indigent people in terms of the indigent policy of the municipality, which defines the poor/indigent as people who earn a joint income of less than R3 000

per month (www.capetown.gov.za). Therefore, not all people within the affordable housing market fall within the category of the poor, in terms of the municipality's indigent policy. It can then be said that land cannot be sold below market related prices or donated to private developers for the benefit of the poor if those household earn above R3000 per month.

Municipalities are hesitant to donate land to private developers for affordable housing as in the past affordable housing was not developed on such land. Also, municipalities can sell land to private developers through a Land Availability Agreement at below market prices to enable them to provide housing to the affordable market.

The MFMA, which requires government land to obtain market related prices on tender, is a barrier to affordable housing development, because market related prices will be too high to build affordable housing. Affordable land results in affordable housing. Market related (expensive) land will result in housing above the affordable market ceiling.

2.8.1.2 Rezoning of land

According to the City of Cape Town (www.capetown.org.za), the collectively known Land Use Management system (a system integrating the Land Use Planning Ordinance Act, No. 15 of 1985, other applicable planning laws and the City's related operational policies and requirements) "ensure that all land and properties in Cape Town are used only according to their permitted land-use or zoning rights". Permission to change zoning, land use and specific land restrictions requires an application to the City of Cape Town.

The zoning categories are:

- a) "Residential zones (eg. single residential dwellings, group housing schemes or blocks of flats);
- b) Open space zones (eg. public open spaces, parks, sports fields, cemeteries, or private open spaces);
- c) Business commercial zones (eg. shops or office blocks);
- d) Community use facility zones (eg. schools, clinics or places of worship);
- e) Industrial zones (eg. factories, motor repair garages or warehouses);
- f) Utility zones (eg. electricity substations or water treatment plants); and

- g) Transport zones (eg. public roads, railway lines and public transport interchanges)”
(www.capetown.org.za).

All rezoning applications must be in line with the Land Use Management System. This system together with spatial development frameworks, plans, zoning schemes and related regulations and policies, “stipulate where development may or may not happen in future” (www.capetown.org.za).

City of Cape Town (2008, 2010) states that land use application (involving township establishment, zoning and engineering design) is a significant constraint to rapid land release. Land that requires alterations to the planning frameworks will be delayed due to all the administrative requirements. Since approvals must be granted by provincial and local spheres of government, two years is generally required before land becomes available for development.

2.8.1.3 Environmental Impact Assessment (EIA)

The City’s Urban Edge Policy which “defines the borders of the urban part of the city, beyond which no urban development may take place” restricts urban sprawl to protect the City’s natural floral kingdom, one of six in the world (City of Cape Town, 2008:28). Significant tracts of land are unavailable for development, and the competition that is now developing between the need to preserve such areas and the human demands for the limited undeveloped land within the urban edge, is increasing.

Townsend (n.d.) mentions that the balance between protecting the environment and developing housing requires the use of Environmental Impact Assessments, or EIAs, which are a “key tool in effective environmental management”. Section 24 of the Constitution of the Republic of South Africa, 1996, calls on the State to secure “everyone the right to an environment that is not harmful to health or well-being”. Therefore, environmental impact assessments (EIAs) are carried out “to analyse and predict the nature and extent of the consequences of a particular activity or development on the receiving environment”. Such assessments further consider the effects on the socio-economic and cultural heritage environment. EIAs are necessary to inform decision-making and to present possible alternatives to provide a healthy trade-off between development and the environment. Glazewski (2005) reckons that the success of an environmental assessment depends on three fundamentals that have been carried out successfully; namely: public participation, inter-sectoral coordination and the consideration of alternatives to specific development proposals.

Townsend (n.d.) further mentions that the EIA regulations require that developers must employ their own Environmental Assessment Practitioner (EAP) to administer the developer's application. "The EIA regulations require that an EAP must:

- a) Be independent;
- b) Have expertise in conducting EIAs including knowledge of the relevant law;
- c) Perform the work objectively;
- d) Comply with the relevant law;
- e) Take into account all the matters required by the National Environmental Management Act (NEMA) in compiling the report; and
- f) Disclose all material information that may influence the decision on the application or that may influence the objectivity of the report".

Townsend (n.d.) and Glazewski (2005) agree that EAPs must determine whether a *basic assessment* or a *full scoping report* is required. For both activities the EAP must conduct a *public participation procedure* (PPP), and must compile a list of all interested and affected parties.

Ridl and Couzens (2010) explain that a basic EIA involves conducting a *basic assessment* of the environment and compiling a report which is submitted to the necessary authority. A decision to grant or refuse the application is taken and an appeal procedure is available.

The content of a basic assessment report according to Townsend (n.d) includes:

- a) "A description of the activity and the environment that may be affected;
- b) A summary of the issues raised in the public participation process;
- c) A description of the need and desirability of the activity;
- d) An identification of any alternatives to the proposed activity that are feasible and reasonable, including the affect the alternative activity will have;
- e) An assessment of the significance, nature, duration, extent, probability and reversibility of the environmental and cumulative impacts and whether these impacts can be mitigated;

- f) Environmental management and mitigation measures that should be taken - specialist reports;
- g) A draft environmental management programme; and
- h) A reasoned opinion as to whether the activity should or should not be authorised and any conditions that should be made in respect of that authorisation”.

Ridl and Couzens (2010) states that a *full scoping report* requires a plan of the study to be submitted before a scoping report can be conducted, considered and approved. With approval, the EIA is performed and a report is compiled which is given to the “competent authority”. Authorisation is granted or refused and an appeal procedure is available.

The content of a full scoping and environmental impact report, according to Townsend (n.d.) should include:

- a) “A description of the activity, any feasible and reasonable alternatives, the need and desirability of the activity, the property on which the activity will take place and the environment that may be affected;
- b) A description of environmental issues, potential impacts and cumulative impacts;
- c) Details of the public participation procedure and responses to representations, comments and views;
- d) A description of the potential alternatives to the proposed activity including all advantages and disadvantages of the activity and alternatives for the environment and communities that may be affected;
- e) Minutes of meetings with I&APs and other role players; and
- f) A plan of study for an EIA”.

In addition, Townsend (n.d.) indicates that the methods used by the EAP to assess the impact of the planned development needs to be given in a detailed report. Furthermore, all interested and affected parties are to be informed about the possible development and provided with an opportunity to raise their concerns through a *public participation process*. Such a process involves written notice to land owners where the development will take place, the adjacent neighbours of the proposed development, the municipality and other relevant organs of state. Notices in various newspapers are also required. All comments are documented and submitted to the “competent authority”.

EIAs significantly hamper rapid land release and take approximately two years (including township establishment, zoning and engineering design) (City of Cape Town, 2010). According to Muller (2006) it takes three years. Research undertaken on behalf of BASA in 2005 found that to convert raw land into registrable stands took up to five years (Rust, 2006). Therefore, although the City of Cape Town estimates that it takes two years to unlock land, research indicates that it takes much longer. EIAs are only a barrier to development due to the lengthy processes; the process itself is necessary and not unreasonable.

2.8.1.4 Land pricing

City of Cape Town (2008, 2010) estimates that 8 000 to 10 000 ha of land is needed in Cape Town to meet the housing backlog. The land required for affordable housing is exacerbated by the high land values in Cape Town. Cape Town has the highest land values in South Africa due to scarcity. Land costs in excess of R1m/ha, and some areas over R2m/ha. But despite the high land cost, it is still relatively poorly located.

Pockets of land that are better located, such as Youngsfield (which is owned by national government), require even higher prices, which according to Bonginkosi Madikizela, MEC, Provincial Department of Human Settlements, is justified due to its good location (2011). Bruce Oom, spokesperson for Madikizela, stated that the City had enough land available to spend its human settlements budget for the next three years and therefore did not need land to be made available at a lower price (Ndenze, 2011). Unfortunately, Oom's statement only considered land availability for government housing projects and ignored private developer's (affordable market) land needs. High priced land in the Western Cape is a barrier to private sector affordable market housing development.

Berrisford (2008:23) indicates that Land Availability Agreements (LAA) is often used to mitigate the high cost of land in Cape Town. "A Land Availability Agreement (LAA) is a comprehensive agreement or contract concluded between an organ of state, and typically, a group of beneficiaries, or sometimes, a developer, in terms of which a specified land parcel is secured for the benefit of the beneficiaries or developer while the ownership resides with the organ of state. Normally, the LAA will include a process by which the ownership of the land will pass from the organ of state to the other party once a specified set of criteria have been met". Often LAAs require developers to only

pay for the land once the housing unit has been sold and transferred to the end-user, providing a less risky environment for the developer.

2.8.1.5 Financing land

According to Muller (2006), Michael Jordaan (CEO of First National Bank) stated that the shortage of affordable housing delivery is due to the shortage of zoned development land. Michael Jordaan was quoted as saying: “Nothing would hold banks and developers back to tackle large scale affordable housing projects if the legislative process involved in turning raw land into zoned land could be fast-tracked. Banks and developers simply can't afford to wait three years to get their projects off the ground”. Lengthy approvals (EIAs, town planning, etc) which increased the holding costs for developers, and rendered the land “useless” for approximately three years, were the reasons why banks refused to finance raw land. Raw land that still needed approvals was too risky for banks. The legislative requirements to get incorrectly zoned land correctly zoned, and the related EIAs complete, takes too long. Rust (2006) indicates that it can take up to five years to unlock land which not only delays actual delivery, but increases the cost of the affordable housing project and therefore the risk – and banks are risk adverse.

2.8.1.6 Land owned by provincial or national government

Davies (2009) mentions that Provincial Housing Minister, Bonginkosi Madikizela stated that two deals to transfer land from provincial government to national government, free of charge, transpired just before the elections on the 22 April 2009, “without informing the public or the City of Cape Town”. The largest transfer of provincial land to national government was more than 1 000ha, worth approximately half-a-billion rand, and large enough to accommodate 100 000 houses. The second transfer of 391.7 ha of land was transferred to the Housing Development Agency¹⁸ (HDA).

The second land transfer to the HDA, according to Davies (2009), was highly unusual because it involved a deed of sale. Usually a Land Availability Agreement (LAA) allows the department to retain ownership, while giving the LDA permission to develop the land. This LAA provided for full transfer of ownership to the HDA. A term of the agreement allowed the HDA to take five years to

¹⁸ “The HDA is a national public development agency established to fast-track the acquisition and release of state, private and communally owned land for human settlement developments” (www.thehda.co.za).

decide whether to develop the land for housing, meaning that the province has no say whether the land can be used for housing or not. Essentially, the massive land transfer resulted in a loss of assets for the province and appeared to be designed to “undermine” the then new DA led province in housing delivery – potentially done for political reasons.

Some national departments have refused to release or “unlock” land for close to two decades – also potentially done for political reasons. Fifteen years of negotiations to release the Wingfield site for development, have been unsuccessful (Ndenze, 2011). In the Western Cape, the HDA has not made any land available for housing development other than land along the N2 corridor, which is an initiative with local, provincial and national government. In other parts of the country the HDA has made large tracts of land available for development (www.thehda.co.za). A more collaborative approach between local, provincial and national government is needed to fast-track the release of land for affordable housing delivery.

2.8.1.7 Land invasions

The City of Cape Town (2008, 2010) has acknowledged that poor people are often desperate for accommodation and invade land illegally. These invasions have a range of negative consequences: At community level there is the perception of queue-jumping; eviction legislation makes it difficult to reverse the situation; and conventional civil engineering is no longer possible once the site is occupied. Therefore, significant steps have been taken by the City of Cape Town in the last three years to counteract this phenomenon, including the appointment of more land monitoring and protection staff; remaining directly in touch with community leaders; and streamlining public call-centre processes.

According to the City of Cape Town (www.capetown.gov.za), in order to prevent illegal occupation of land owned by the City and the Province, the Anti-Land Invasion Unit (ALI), mandated by the City’s Human Settlements Department, monitors land occupation on a daily basis. The ALI is responsible for enforcing the rule of law when land is illegally occupied, stopping “illegal shack building” and providing “backup to housing officers during evictions, relocations and demolition of illegal structures”.

2.8.1.8 Land titling

In *The Mystery of Capital*, the Peruvian economist Hernando De Soto writes:

“Poor people save ... but they hold these resources in defective forms: houses built on land whose ownership rights are not adequately recorded and unincorporated businesses with undefined liability ... Because the rights to these possessions are not adequately documented, these assets cannot readily be turned into capital, cannot be traded outside of narrow, local circles where people know and trust each other, cannot be used as collateral for a loan, and cannot be used as a share against an investment ... hence their investments are dead capital” (De Soto, 2003:6).

Rust (2007:9) states that Finmark Trust in 2004 interrogated De Soto’s thesis that title deeds create wealth. The findings revealed that in South Africa the townships were indeed “dead capital”, but not for the reasons De Soto thought them to be. Finmark Trust found the townships to be dead for the following reasons: “townships had not become the financial assets envisaged by housing policy, the market was significantly depressed compared with non-township areas and houses were worth significantly less” than other non-township areas. Therefore De Soto’s argument that the townships were dead was correct, but they were not dead due to a lack of title deeds. According to Rust, De Soto’s thesis depended on “four factors additional to title deeds” which are not in place in the South African housing market, more especially in the affordable market, namely “a functioning secondary property market, sufficient affordable housing stock, affordable mortgage finance and mortgage lenders willing to go down market”.

Furthermore, Kingwill *et al* (2007:58), using Joe Slovo Park residents in Milnerton as an example, explained that residents who received free subsidy homes did not necessarily feel more secure due to receiving land title. For many of these residents land title resulted in a “decrease in security of tenure, as ownership was now registered in the name of only one member of each household”. The registration of only one household member as the property owner, “reduced security for women and members of the extended family, as the owner could claim new legal rights to use and dispose of the property”.

Jacobsen in Kingwill (2007:58) further argues that five years after the project was completed in Joe Slovo Park, an estimated 30 per cent were sold. Most of the new house sales were informal since

the formal land registration system had collapsed. In some cases, “people who legally owned houses were unable to occupy them, as street committees had decided who should be the occupier”. Also, some people were renting out houses they did not own. Yose in Kingwill (2007:58) points out that the “small size of the houses also meant that landlords were unable to accommodate extended family members or tenants upon whom the landlords had relied on for rental income”. The Joe Slovo Park case reveals that individual title can sometimes reduce *de facto* security of tenure and provides clear evidence of how housing projects revert back to informality.

Rust’s finding that land title (believed to be secure tenure) did not create wealth in South Africa, does not justify approximately half of all state subsidised properties not registered in the deeds office (Seekings, *et al*, 2010). Lack of title registration has been seriously hampered by a lack of township registers. For example, some problems were initially experienced in the township of Langa with authorities unable to disaggregate land since the whole of Langa only had a single deeds registry (Shisaka, 2004a). Rust (2006:38) adds that transfers have been delayed due to municipal valuations of township properties being a lengthy process. Rust also indicates that uncollected arrears, which accrue to the new owner, need to be collected in order for transfer to take place. Municipalities furthermore require a “property valuation (for the valuation role) before a clearance certificate can be issued which can delay transfer for a number of months”.

Despite the challenges to register land title and findings that indicate that land title in South Africa does not create wealth, Shisaka (2004b) and Rust (2006) do agree with De Soto that land titling is important for secondary market transactions, formalising informal settlements, facilitating town planning and general plan approvals. Rust also concedes that if homeowners are able to realise the asset value of their homes it would be possible for them to access finance because of it. Land titling would also relieve the burden of provincial and local government departments to manage and maintain housing stock that resides under them.

2.8.2 FINANCE

Since no development is possible without finance, section 2.8.2 puts finance under the spotlight. Issues regarding finance that hamper development in the affordable housing market are discussed.

2.8.2.1 Development finance

Development Bank of South Africa (2010) and the Business Report (7 July 2007) indicates that private developers developing in the subsidy market have access to a host of government subsidy schemes, but developers developing in the gap housing market, found finance from mainly two sources – International Housing Solutions (IHS) and Old Mutual Investment Group South Africa (OMIGSA).

According to the Development Bank of South Africa (2010), IHS launched the South African Workforce Housing Fund, a private equity fund worth approximately R1.9 billion in 2008. Profit generating funds are invested in low and moderate income housing in South Africa with private sector money. The fund provides equity for affordable housing for rent and for sale in South Africa and beyond. Investors in the fund are mostly North American, and also include the Development Bank of Southern Africa (DBSA), the Public Investment Corporation (PIC) and Citi SA. The fund will run for ten years and the first close was in 2008. The aim of the fund is to finance 50 000 units. Approximately one third of the funds are already committed. IHS acts as a partner to source, negotiate, close and manage projects and works with developers and financial institutions, such as Absa, Nedbank, Standard Bank and the DBSA, to fund projects and work through developing projects, both for sale and for rental. The thirteen committed projects to date will provide 23 000 units for families, for sale and for rental, and 82 per cent of these units are compliant with the Financial Sector Charter (FSC), although this is not a requirement. IHS always works with a developer, as the IHS is the financier only.

A project in Soweto costing R1.5 billion was financed R80 million by the IHS. The IHS unlocks projects because they are willing to put down the equity. Providing equity is the first-risk position where most senior debt lenders will not lend because they are not equity players, but debt players. Banks require the security and a sensible loan-to-value ratio. Another project in Soweto, costing R1 billion was financed R35 million by the IHS (Development Bank of South Africa, 2010).

Another major source of affordable housing finance, according to the Business Report (7 July 2007), is Old Mutual Investment Group South Africa (OMIGSA) Alternative Investments. OMIGSA, which targets South African households earning less than R15 000 per month, has raised R9 billion to provide mortgage loans to finance the construction of affordable homes for both the

rental and ownership market. The aim of OMIGSA is to bridge the gap between government assisted housing and those households who are able to obtain bank finance, by targeting groups that have been neglected due to their high risk profile. OMIGSA is currently involved in the construction of approximately 70 000 affordable housing units, and is targeting building a total of 120 000 units.

2.8.2.2 End-user finance

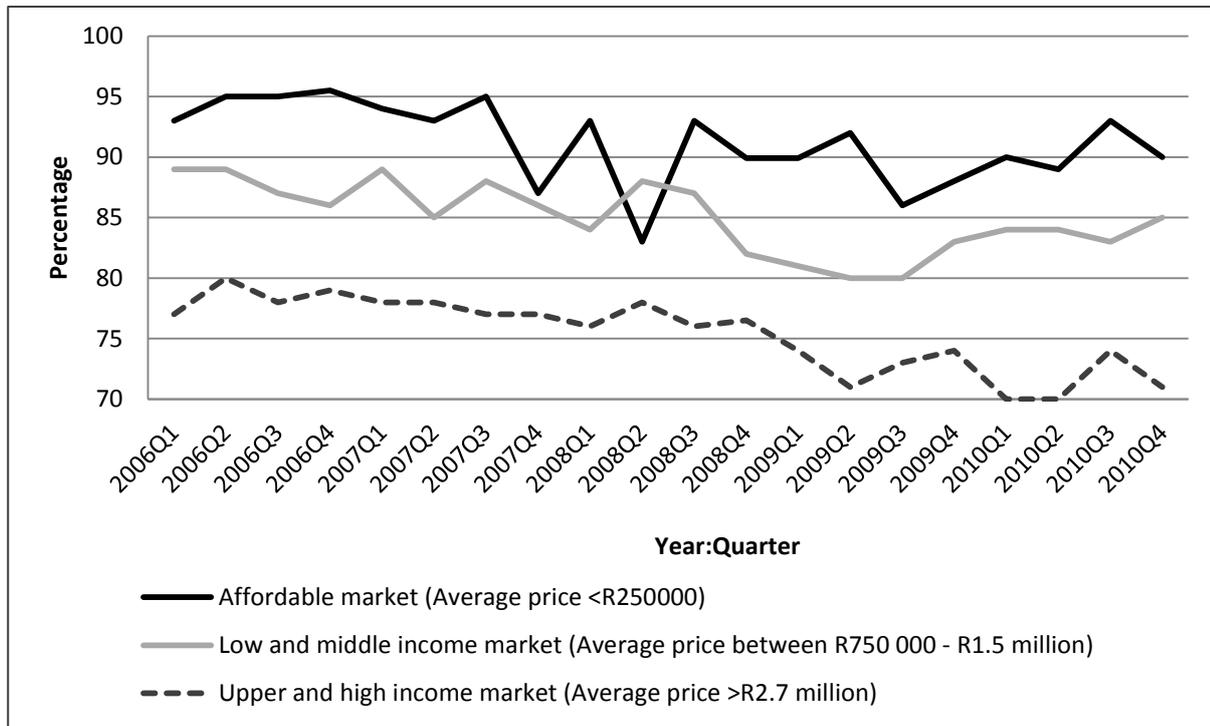
Lightstone (2011:1) mentions that South Africa's four major banks, "at the height of the property boom in 2006, were approving an average of over 30 000 new home loans every quarter. During 2009 this number had dropped to well below 8 000 as banks tightened their lending criteria considerably in response to the global financial crisis, as well as factors like interest rate increases, high household debt ratios and the effect of the National Credit Act, 2005. However, with sharp cuts in the repo rate over the last couple of years, all indications are that banks have been slowly relaxing their lending criteria again – with the result that the number of new home loans approved is on an upward trend again, having increased by 10 per cent" between 2009 and mid 2011.

Financial and Fiscal Commission (n.d.:13) states that an upward trend in the number of new home loan approvals, is hampered by the level of credit indebtedness, which according to the National Credit Regulator's Credit Bureau Monitor, is the most critical issue facing the affordable market. In the second quarter of 2011 just over half "(53.3 per cent) of the 18.84 million credit active consumers¹⁹ were in good standing. The number of consumers with impaired records stood at 8.8 million, while only 39.1 per cent of all consumers were current with their credit. A further 14.2 per cent were between one and two months in arrears, 18.5 per cent were in arrears of three or four months, and just under a third had adverse listings, or was under judgement or administration orders. With such high level of indebtedness, households in the gap segment of the market will struggle to obtain finance, while those in the traditional market may find themselves falling into the lower market segments".

Lightstone (2011:2) explains that households that manage to obtain bank finance in the upper and high income market are accessing home loans of over 70 per cent loan-to-value (LTV) ratio, while affordable market households are accessing home loans of over 90 per cent LTV ratio. Upper and

high income market buyers have “cash on hand to put down a deposit when buying a new home”. Some have made a profit from a previous home sale. However, much of the bad debt also occurs in this group. This was due to the downturn in property values and rising interest rates which caused many homeowners to default.

Figure 2.10 The average LTV by segment



Source: Lightstone (2011:2)

Higher priced homes in the upper and high income market, according to figure 2.10 access loans that require a lower LTV ratio, while affordable market applicants who have lower deposits, require a higher LTV ratio. However, figure 2.10 also indicates that the affordable market LTV ratio was lower than the LTV ratio in the low and middle income market in 2008, when the property market value dropped. Affordable market applicants therefore had to pay larger deposits (4 per cent more) than the low and middle income market.

Large deposits assist banks to mitigate risk, therefore the riskier the client (or market), the larger the deposit required. A major issue for commercial banks has been liquidity during the recent recession and the current challenges facing the market with regard to long-term loans. During these times

¹⁹The figure, 18.84 million, is the total figure for credit active consumers in South Africa (not just the affordable market).

banks typically raise their funding in short-term investments from the market. Banks withhold mortgages either because people are overextended and indebted, or for their own interests (Development Bank of South Africa, 2011). Table 2.3 (Mortgage Alliance, 2011) below compares the different bank policies in the affordable market. Three of the four major banks have policies which provide a 100 per cent LTV ratio in the affordable market, yet research done by Lightstone (2011) in the same year (figure 2.10) indicates that the actual LTV ratios were lower (approximately 10 per cent lower) than the bank policies.

Table 2.3 Consolidated Bank Policies – Affordable Housing

	Standard Bank	Absa	Nedbank	FNB
Salary	< R15 498	< R15 498	Maximum loan amount based on salary	R2500 – R16000
Minimum Employment Period	12 months – not limited to the current employer	12 months – not limited to the current employer	2 years minimum employment	12 months – not limited to the current employer
Loan to Value	100% (if applicant/s first time home buyer, 104% may be considered)	Up to 70%	Nedbank Clients: Up to R1.5m – 100% Up to R3m – 90% Over R3m – 80% 60% for non-Nedbank clients	100%
Minimum to maximum Loan Amount	Maximum loan: R500 000	Maximum loan amount based on salary	Maximum loan amount based on salary	R20 000 - R500 000
Loan Term	Up to 30 years	Up to 30 years	20 years recommended	Minimum 5 years, maximum 20 years
Limitations	--	Only residential property finance	Vacant land applications only by exception	--
Termination Age of Bond	65 years – next birthday	65 years – next birthday	65 years – next birthday	65 years – next birthday
Pricing	Fixed or variable rates	Fixed or variable rates	Fixed or variable rates	Variable rate or 5 year fixed rate option
Borrowers Education	Compulsory	Compulsory for all customers with bonds in excess of 80% of the Property Valuation	Compulsory	Compulsory for all 1 st time home buyers
Home Owners Cover	Compulsory	Compulsory	Compulsory	Compulsory
Life Cover	Compulsory	Home Loan Protector Plan compulsory	Compulsory for loans less than R450K	Compulsory
Loan Cover	--	Refer Collateral - CRIS	--	Cover 35 – 60% Property Value

Source: Mortgage Alliance (2011)

Comparatively, Vandevyvere and Zenthofer (2012) explain that the LTV ratio in the Netherlands stood at approximately 120 per cent in 2009 as end-user finance was more innovatively structured in the Netherlands. For mortgages on primary residences, the interest payments are income-

deductible, for tax purposes, for a maximum period of 30 years. Consequently, paying off mortgages is often postponed until the loan matures. “Interest-only” mortgages which involve monthly payments of interest require the homeowner to repay the principal amount at the maturity date only.

Another innovative financing scheme to assist people purchase homes in the United Kingdom, according to www.shareto-buy.com is referred to as shared ownership. Through housing associations owners purchase a share in a property (ranging from 25 to 75 per cent) and pay below market rent on the remaining share still owned by the housing association (similar to Social Housing Companies in South Africa). Once the bond on the ownership share is paid off, the rental share can be purchased escalating to full ownership of the property. Such funding initiatives make end-user finance more easily available to those that need assistance in purchasing property.

2.8.2.3 Affordability

According to First National Bank (FNB) (www.fnb.co.za) the 30 per cent income rule is applied to all home loan applicants. FNB states that “households should not be paying more than 30 per cent of their income towards their housing/accommodation needs”. Rawson (www.rawson.co.za) also indicated that 30 per cent of household income was an acceptable bond-to-income ratio and stated that it was generally applied by all banks. Therefore a house worth R200 000 will require a household income of R6 000 per month, given an interest rate of 10 per cent, resulting in a monthly bond repayment of R1 800 per month. RSA (2006) indicates that banks will not; however, finance 30 per cent of household income if the household’s disposable income is too little. The National Credit Act, 2005 requires bond affordability calculations to be based on a household’s net disposable income.

Appendix D indicates household affordability levels according to the 30 per cent bond-to-income ratio (not net disposable income). A household with a combined income of R3 500 per month can afford a bond to the value of R108 000 (30 per cent of income) with a monthly instalment of R1 050 (given a 10 per cent interest rate). Ruiters (2009), however, indicates that households are discouraged from buying a home worth R108 000 as these households qualify for a free subsidy home (with no monthly bond repayments). Therefore even though these households can “help” themselves they are discouraged from doing so. Thus, the demand is low for privately developed homes worth approximately R108 000.

On the other hand the demand for the government's free subsidy homes is significant. Hence, government intervention, through means of free subsidy houses, results in private developers focusing on building homes worth R100 351 for the subsidy market, instead of developing homes on the open market for individual clients. Government intervention of this nature has brought about the situation where taxpayers are paying for homes that could have been paid for by many of the owners themselves. Also, the notion that 'government must provide' is entrenched by government policies which penalise households who try and provide for their own housing need as illustrated by Eglin (2011) in section 2.5.1 of this chapter where people were removed from the government waiting list because they purchased land. According to Eglin (2010), a strong campaigner of the LandFirst approach, communities want to provide for themselves as they realise it will take years before they are assisted by government (assuming they qualify to be assisted).

Those households that are assisted by government receive a free subsidy house most often built by a private developer. Therefore, since private developers are already providing for this income group on contract to government, it is not unreasonable to expect developers to provide for this income group on the open market. Also, if developers are already providing homes worth R100 351 to the subsidy market, then it is reasonable to expect developers to be able to provide homes worth more than the subsidy house for the gap market. Shisaka (2004a) and Dan Smith (2006) explains that the supply of housing units in the gap market is, however, insignificant which has resulted in many civil servants, who have stable permanent incomes, like teachers, nurses and policeman, unable to purchase property. Not because they could not afford it, but because of the lack of housing supply.

2.8.2.4 Red-lining

Red-lining is the "refusal by financial institutions to offer home loans to borrowers on account of the neighbourhood" in which they wish to purchase property (www.ghostdigest.co.za). According to Bill Rawson of Rawson Properties in Sectional Title South Africa (2010), two major banks are redlining sectional title units that do not have parking bays inside the apartment complex. Bill Rawson states that this is illogical as South Africa is working towards "higher densities, greater use of public transport and reduction in commuting time". South Africa needs and wants fewer cars on the road and fewer parking areas in the City. The redlining of sectional title units without parking bays will diminish the value of such properties. "The irony of the situation is that the banks

themselves are often investors in these as they have financed the bondholders”. Also, the two banks that are prepared to issue bonds for units with parking bays can in fact monopolise the situation. This is not a favourable scenario.

The fickleness of financial institutions, according to Shisaka (2003), is further evident in the historically white middle-income suburb of Muizenberg (which is redlined by banks). Potential home owners who wish to purchase homes in culturally heterogeneous areas, particularly those with significant numbers of black immigrants (often labelled as ‘Zimbabweans’ or ‘Nigerians’), are particularly disadvantaged when it comes to bond applications.

The redlining of a culturally heterogeneous suburb like Muizenberg increases the likelihood that the townships of the Western Cape are also redlined. Research done by Shisaka (2003) in Joe Slovo Park in Milnerton, Cape Town, also points to re-informalisation of RDP housing as a cause for automatic redlining by banks. Re-informalisation incorporates corrugated iron extensions to RDP houses and backyard shacks.. Re-informalisation leads to banks automatically redlining the property.

Shisaka (2003) further argues that the invasion of shacks in the 1990s on land immediately adjacent to Settler’s Way homes (middle-income homes bought by wealthier black people in the 1980s) in Langa, resulted in a significant drop in the value of the Settler’s Way homes. House values dropped and banks immediately redlined this relatively up-market township development.

Finmark Trust (2011a:93) is of the opinion that township developments and the affordable market in general are not served well by South Africa’s sophisticated banking industry. The 36 registered banks, including the four that dominate the market: Absa, First National Bank, Standard Bank and Nedbank, “serves the upper-income segments of the population” better. For this reason, the signing of the Financial Sector Charter (FSC) in 2003 “promoted access to goods and services of the banking industry for those who were previously excluded”. Through the FSC, the financial sector committed themselves to providing low-income earners (R1 500 – R7 500 monthly income) with R42 billion for housing finance. The allocated amount of R42 billion was exceeded within five years which had a significant impact on low-income housing finance seeing that a number of people still refer to the FSC market despite it no longer existing.

According to Finmark Trust (2011b:8) FSC loans appear to have “performed slightly better than all mortgages in general”, but the FSC target market still only comprises approximately 3 per cent of the overall mortgage book. Also, default rates are fairly low in the FSC market, statistically highlighting incorrect perceptions of this market, and more importantly, making a strong argument to stop red-lining.

2.8.2.5 Bank fees

IC Growth Group (2012) highlights that initiation fees for the affordable market is R5 700 for all four major banks. SA Home Loans indicates that most homebuyers can expect to pay between R3 500 to R5 700 for initiation fees (www.sahomeloans.com). Any fees incurred over and above the purchase price of the housing unit, reduce affordability levels of potential home owners.

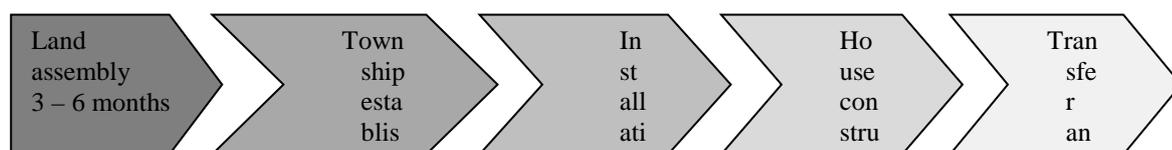
2.8.3 GOVERNMENT INEFFICIENCIES

Section 2.8.3 explains the significant effect government has on housing delivery. Local, provincial and national government are highlighted as barriers to private housing development in townships in the Western Cape.

2.8.3.1 An uncoordinated approach – different spheres of government

Financial and Fiscal Commission (2012:21) highlights that the “delivery of human settlements in South Africa is a shared responsibility among the three spheres of government, public entities and the private sector which includes commercial banks”. These institutions “lack coordination and do not have clear, distinct roles in the process” of housing delivery. Such lack of coordination creates bottlenecks which stalls housing delivery. Figure 2.11 illustrates the housing value chain, showing how long housing delivery takes from land assembly to handover.

Figure 2.11 The Housing Value Chain as cited by National Treasury



Source: Financial and Fiscal Commission (2012:21)

From the above figure it is clear that the “complete housing delivery process takes on average more than three years, which escalates costs for housing delivery”. According to Mabula (n.d.) providing housing is a process that justifiably takes two years, but now takes about six years due to all the red tape. The drawn out process is further broken down:

Pre-construction:

- a) The town planner identifies land and produces a layout plan;
- b) A technical study on the land is conducted (geological, soil, ground water table and slope analysis);
- c) An environmental study to ensure that the development does not negatively impact on vegetation and animals, for example, destroying endangered species, is conducted;
- d) An Environmental Impact Assessment certificate is issued (legally required before process can move forward);
- e) Conducting lab tests to ensure that the land does not have “harmful toxic substances dangerous to the settlement”;
- f) Social feasibility studies which requires consultation with all relevant parties; and
- g) Compiling a business plan (along with a draft budget) so as to secure funding for the project. This needs to be approved by the Department of Human Settlements (Mabula, n.d.).

Implementation:

- a) Sites are surveyed and pegged, ERF numbers are issued, boundaries are demarcated and a township is registered. The process should take approximately two months.
- b) Sites are serviced (roads, water systems and sewerage). This process should take about 8 to 12 months.
- c) House foundations are dug, inspected and cast. The erection of the structure of the house takes approximately one month. Thereafter it is plastered, plumbed, electrified and painted. It takes approximately fifteen days to build a 40sqm house.
- d) House inspections are carried out by the NHBRC to ensure they meet the required standard before they are handed over to beneficiaries.

- e) Municipality selects beneficiaries and the beneficiary database is submitted to the deeds office in Cape Town for transfer to take place. The deeds office should take about two years to issue title deeds to beneficiaries as proof of ownership (Mabula, n.d.).

2.8.3.2 Capacity constraints of officials and municipal offices

According to Ensor (2008), when Treasury proposed to transfer the responsibility of housing from provinces to municipalities, the then Housing Minister, Lindiwe Sisulu, objected as the Minister felt that municipalities and their respective staff lacked capacity and technical expertise to deliver housing.

Mabula (n.d.) also refers to this lack of capacity as being problematic. Mabula reckons that the problem already occurs in the first step – acquiring land. Acquiring land for housing is a major challenge due to municipalities not having coherent strategies for the process. The reasons why municipalities struggle is twofold: “they have only been responsible for it since 2000 and because of a disjuncture between spatial plans and housing strategies”.

To overcome the land for housing issue, Mabula (n.d.) suggests that the Department of Human Settlements should audit all parastatal and state-owned land throughout the country. “Then categorise it by type, appropriateness for residential use and quality (serviced or not), and capture the data on an effective and accessible Geographical Information System (GIS)”.

The Financial and Fiscal Commission (2012:7) reports that the Department of Human Settlements has set up the Housing Development Agency (HDA) “to assist municipalities to purchase and access land for housing development”. The aim of the agency is to reduce the red tape involved with acquiring land. “70,000 hectares of state-owned land have been identified for housing developments nationally, but none have been made available for this purpose. This is largely because of land assembly problems, including the costs of and difficulties in accessing well-located state land, and acquiring well-located private land due to a lack of appropriate fiscal instruments and incentives”.

“Once land has been made available for housing developments, municipalities are fraught with delays in township establishment and approvals, installation of services, house construction, and

transfer and handover. The delays experienced in tender processes, zoning approvals and issuing development rights (due to capacity issues), create risks, add substantially to the cost of development, and ultimately have a negative impact on the affordability of the housing product” (Financial and Fiscal Commission, 2012:26).

2.8.3.3 An uncoordinated approach – local municipality level

The Financial and Fiscal Commission (2012:28) indicates that the City of Cape Town is an “accredited municipality approved to undertake similar functions to provincial government, i.e. receiving, evaluating and approving or denying applications for subsidies, preparing a local housing strategy and setting housing delivery goals”. However, municipalities who are accredited are only partially accredited, thereby still requiring provincial department involvement. Since municipalities have a significant role to play in economic development, municipalities require full accreditation in order to contribute to the outcomes required by national government.

National government’s outcomes are hampered by municipalities’ uncoordinated approach. By way of example, Mabula (n.d.) indicates that “the duplication of effort and resources in subjecting projects to both planning and environmental assessment, when the two processes increasingly deal with identical issues, is wasteful”. Mabula (n.d.) calls for rationalisation of these two requirements. Also, it is never clear whether the feasibility studies will be completed within the planned time frameworks and supplementary funds are often required to cover the increase in costs due to unnecessary time delays.

Rust (2006) argues that costs increase as delays are experienced with developers having to work around the required municipal red-tape that concerns resolving ordinances and jurisdiction problems, lack of township registers, rates and service charges arrears, lengthy building plans, subdivision, rezoning procedures and issuing of clearance certificates, etc. The Financial and Fiscal Commission (2012:26) reckons that red-tape of this nature is estimated to force “ ... house prices upwards by 30 per cent on average, which is exacerbated by further delays due to poor intergovernmental relations”.

The Commission (Financial and Fiscal Commission, 2012:26) also argues that further delays (and costs) are caused by a lack of clear municipal policies and procedures. Integrated developments

experience the most severe delays in housing development as they consist of government subsidy housing units and bonded open-market affordable housing units. “Certain costs for the internal reticulation (connections of water, electricity etc.) to the subsidised housing units in integrated developments are regarded as unfunded mandates by municipalities that, however, routinely fund bulk connections for pure subsidy housing projects. While many municipalities traditionally finance bulk infrastructure through imposing development charges, the cost of internal reticulation has always been for the account of the developer who recoups it when the house is sold to the end user”. Developers cannot, however, recoup the cost of such internal reticulation from subsidy beneficiaries as they do not pay for the housing unit. Therefore, the unfunded mandates are passed on from the municipality to the developer, and eventually onto the buyers of the bonded units, within the integrated development. Therefore, bonded units cross-subsidise subsidy units in integrated developments, which increases the final price of the bonded affordable units.

Development Bank of South Africa (2011:69) indicates that integrated developments therefore require a single, simplified subsidy system for land, services and houses. The “silo approach” found in municipal systems is contrary to what integrated developments require. Departments focus on accountability for compliance and their individual budgets, instead of accountability for outcomes that require integrated planning and a pooling of resources to meet government’s strategic objectives.

The Financial and Fiscal Commission (2012:27) explains that the MFMA is a good example of how a municipality’s silo approach hampers government’s strategic objectives. The MFMA does not allow “public resources of ratepayers to be used on private land”. Therefore, in integrated developments (which is often private land that government subsidy housing is built on) the municipalities cannot finance tarred roads despite it being cheaper than providing dirt roads (from a lifecycle cost-of-asset perspective). Furthermore, “municipal capacity constraints result in the existing infrastructure being inadequately maintained, while the limited rates base and balance sheet restrict access to finance”.

2.8.3.4 The City of Cape Town is perceived to be anti-development

Such a perception was highlighted by stakeholders in the Financial and Fiscal Commission (2012:26) who “urged the state to champion projects that encourage, not hinder, participation by

other role players”. The Commission further says that the affordable market is in itself a risky and difficult market. Participation in the affordable market means that “developers have to forgo other more lucrative ventures”. Developers may also not be able to obtain the “presales that are typically a source of finance for affordable housing developments”. Municipalities therefore should not further discourage developers from operating in the affordable market by creating an environment of uncertainty and protracted delays which creates financial risk.

An enabling development environment was created in the past through successful partnerships between the private and public sector, but stakeholders in the Financial and Fiscal Commission (2012:26) reported that a notable number of “public-private partnerships, regulated by National Treasury, are so cumbersome that they are not worthwhile for either party”.

2.8.3.5 An uncoordinated approach – national, provincial and local government

Department of Human Settlements (2009b:29) indicates that the “Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005) establishes the framework for the three spheres of government to promote and facilitate intergovernmental relations. The Act provides mechanisms and procedures to facilitate the settlement of intergovernmental disputes”. In addition to the Act, the Department of Human Settlements acknowledges that “greater participation between the spheres of Government to deliver on housing needs is required”. The Department has implemented strategies to achieve this through simplified and combined planning and budgeting for integrated developments, increased cooperation and information sharing between the three spheres of government and increased cooperation between the Department and the other entities of government.

The Financial and Fiscal Commission (2012:28), however, highlights that despite the Intergovernmental Relations Framework Act, 2005, the national Department of Human Settlements has been criticised for dictating a “one size fits all approach”. Often “practical design and administration of housing grants comes with restrictions that limit the ability of provincial or local government” to implement such housing. By way of example, the BNG policy encourages human settlements, but the subsidy instrument for BNG housing stipulates a “one house per plot” requirement which is not in line with the BNG policy. Development Bank of South Africa (2011:69) indicates that the funding source for integrated projects is disjointed (as it comes from

different spheres of government) and needs to be developed into a single simplified subsidy system for it to be better coordinated between the different spheres of government.

2.8.3.6 Government officials fearful of taking decisions

Mabula (n.d.) states that government officials are able to avoid taking decisions and delay the decision making process because targets are open-ended. Since there are no deadlines to be met, no urgency is exercised and decisions are postponed and delayed. Also, government officials are often scared to take decisions as they could lose their job if they take the wrong decision. By way of example, Boyle Walford (2012) mentions that government housing officials resisted taking decisions at Ethekwini Municipality after five top officials resigned or were suspended. Officials were afraid to take decisions or use their initiative as it may be construed as going against regulations.

2.8.3.7 High staff turnover rates in government

RSA (2007:5) reasons that officials' lack accountability due to the high turnover in staff in both the engineering and administrative professions. High turnover in staff compromises public sector delivery capacity at national, provincial and municipal level. High rates of staff turnover are concerning given the amount of contracts that need to be processed. RSA (2007:5) further highlights that "a high turnover in administrative workers will exacerbate the administrative burden in the system", causing further inefficiencies.

2.8.4 PROFIT MARGINS

Thin profit margins, in section 2.8.4, are highlighted as a significant barrier to private housing development. This section explains why developers avoid the gap market, and rather focus on the subsidy market.

2.8.4.1 Profit margins thin in affordable market

Comparatively, development in the subsidy market has far outstripped development in the gap market (Financial and Fiscal Commission, 2012, Sexwale, 2010a, Dan Smit Development Capacity,

2006:27). The large scale delivery of subsidy houses has occurred because the subsidy market is a less risky environment. Private developers operating in the subsidy market gain access to the subsidy grant once transfer of their built units takes place (RSA, 2007) and are therefore always assured payment as subsidy units are allocated to beneficiaries, so there is always a 100 per cent take-up.

On the other hand, RSA (2007) highlights that payment is not assured in the gap market as private developers have to sell the housing unit before payment is received. Sales in this market rely on affordable prices, therefore profit margins are low and easily lost if the slightest thing goes wrong, for example through theft or vandalism. Rust (2009) too explains that the gap market is a risky market due to the environment in which developers are required to develop. Rust (2009) cites lengthy approvals and a politically charged environment as resulting in financial losses. In this regard, private developer's participation in the market is about keeping their company and its employees occupied rather than making a profit or growing their business. On this basis, however, their participation is likely to be short term until they find other, profitable opportunities.

Gap and subsidy housing developments are only profitable opportunities due to economies of scale (Financial and Fiscal Commission, 2012). The Commission further argues that profit margins are small in both the gap and subsidy market, but the risk is significantly less in the subsidy market. Therefore, if profit margins are not substantial enough in the gap market to mitigate the risk factor, developers will avoid developing in this market, especially in areas where the risk factor is more severe.

2.8.4.2 Building Industry Bargaining Council (BIBC)

According to the Building Industry Bargaining Council (BIBC) (www.bibc.co.za), the BIBC is a “sector and area specific Bargaining Council created in terms of the Labour Relations Act (1995)”. The Labour Relations Act (LRA) allows for collective agreements within an industry covering “any areas of mutual interest” between employer and employee representative organisations. “If the representative organisations are sufficiently representative of the industry, the Minister of Labour can gazette the collective agreements and extend them to bind non-parties as well”. Collective Agreements is re-negotiated yearly with effect from 1 November each year. Thereafter, all parties within the BIBC area have to comply with the terms of the agreement, whether they signed the

agreement or not. The BIBC is funded by both employers and employees levies. Any person engaged in building activities in certain demarcated areas of the Western Cape is required to be registered with the BIBC and to comply with the collective agreement. Currently, there are approximately 50 000 people active in the building industry in this area.

The four main functions of the BIBC (www.bibc.co.za) are:

- a) To offer a forum to negotiate a collective agreement between employer and employee representative organizations on an annual basis;
- b) To administer the collective agreement entered into between employer and employee representative bodies in the building industry. The agreement covers standard terms and conditions of employment, ie. rates of pay, benefits, holidays etc;
- c) To resolve labour disputes in the building industry rather than referring them to the CCMA; and
- d) To administer social benefit funds for employees (ie. retirement, medical aid, sick pay and holiday pay) (www.bibc.co.za).

All developers, builders, contractors and so forth need to be registered as an employer with the BIBC, register new employees within a 60 day period and provide all employees with the minimum prescribed wages and benefits as detailed in the Collective Agreement. Apart from the moral obligation to pay a fair wage and to compete fairly, the Minister of Labour by gazetting the Collective Agreement has made these legal obligations for the building industry, and the Council is empowered to enforce compliance with the agreement (www.bibc.co.za). Naturally, from a developer's perspective, if minimum prescribed wages and benefits increase the labour rate substantially, then the profit margins for the developer will be further eroded.

2.8.4.3 Developer's contributions (DCs)

City of Cape Town (2009:5) indicates that Section 42 of Land Use Planning Ordinance (LUPO) permits the imposition of conditions (normally payment of money or cession of land) "which is directly related to requirements resulting from the said authorisation, exemption, application or appeal in respect of the provision of necessary services or amenities to the land concerned". Such conditions (for land or money) must be proportionate to the public facilities and infrastructure

required due to the development. If it is necessary to collect a larger contribution permitted by Section 42 of LUPO, then such a requirement must be made by a separate agreement. However, when submitting the report for approving an application, the separate Agreement must be finalised and included.

The Supplement to the Interim Policy on Development Contributions MC 45/09/04, according to the City of Cape Town (2011), states that housing units in the gap market, specifically households earning between R3 500 to R10 000 per month) will be charged 50 per cent of a residential unit levy. Subsidy housing aims to provide subsidised housing opportunities to the low income group (R0 to R3 500 per month). Where the housing type complies with the definition of subsidy housing, and the required bulk infrastructure is provided through national programmes, a maximum discount of 100 per cent on the appropriate housing type can be granted. Development contributions can be waived or additional conditions can be imposed at the discretion of the provincial Minister or the municipality.

The Western Cape Bill provides a basic enabling framework for development contributions, envisaging not only the provision of engineering infrastructure and cession of land, but also aspects such as the provision of social facilities, conservation, energy efficiency, and agricultural and heritage preservation. Municipalities are expected to make decisions within this broader framework (www.ldphs.org.za).

2.8.4.4 Value Added Tax (VAT)

Webb (2011) indicates that VAT on the sale of new affordable homes under R500 000 adds approximately 12 per cent to the purchase price. Webb (2011) argues that VAT should be minimised in the affordable housing market segment because VAT is a regressive tax which disadvantages the poor the most. Also, associated revenue raised from additional new development activities (such as EIAs) could compensate the Treasury. And, additional temporary and permanent jobs could be created as a result of the development activity.

A subsidy, equivalent to the VAT portion paid by the new home owner, could be paid via the state as a deposit into the bond, mitigating some of the risk banks are concerned with. Such a process could reduce the bond repayments of the new home owner by approximately R450 per month on a

house worth R400 000 (Webb, 2011). The subsidy (equivalent to the VAT portion paid by the new owner) would act as a huge incentive to banks to lend more extensively in the affordable market as homeowners would immediately have equity in their bonds. Such equity would have to be closely controlled by the banks. Naturally the “VAT subsidy” would have to be weighed against the total subsidy for the housing units in question.

2.8.4.5 National Home Builders Registration Council (NHBRC)

The National Home Builders Registration Council (NHBRC) (www.nhbrc.org.za) is a regulatory “body of the home building industry which assists and protects housing consumers who have been exposed to contractors who deliver housing units of substandard design, workmanship and poor quality material”. In accordance with the provisions of the Housing Consumers Protection Measures Act (Act No. 95 of 1998), the NHBRC (established in 1998), aims to protect housing consumers by ensuring that builders/developers comply to the regulated building industry standards. “In terms of The Housing Consumers Protection Measures Act, any person in the business of building homes is required by law to register with the NHBRC”. The NHBRC ensures that builders who meet certain technical, construction and financial criteria are certified.

Since the NHBRC is a regulatory body, its scope and mandate, is governed by The Housing Consumers Protection Measures Act, 1998 (Act No. 95 of 1998). “The Act states that the NHBRC’s role is to:

- a) Represent the interests of housing consumers by providing warranty protection against defects in new homes;
- b) Regulate the home building industry;
- c) Provide protection to housing consumers in respect of the failure of home builders to comply with their obligations in terms of the Act;
- d) Establish and promote ethical and technical standards in the home building industry;
- e) Improve structural quality in the industry;
- f) Promote housing consumer rights and to provide housing consumer information;
- g) Communicate with and to assist home builders to register in terms of the Act; and
- h) Assist home builders, through training and inspection, to achieve and to maintain satisfactory technical standards of home building” (www.nhbrc.org.za).

The NHBRC's fee is 1.3 per cent on the selling price of the housing unit for the affordable housing segment (www.nhbrc.org.za) which impacts on the developer's final profit margins.

2.8.4.6 Alternative building technologies (ABT)

Sanya (2010) states that alternative technology is aimed to be environmentally friendly, affordable, and to offer people greater control over production processes. Despite the State's vocal support of alternative building technologies (ABT), the widespread application of innovation in subsidised housing developments has been limited. A review by the National Department of Human Settlements research directorate in 2010 reported that, while the policy space does not prohibit the use of ABTs in government housing projects, most ABTs have limited production capacity as a result of beneficiary perceptions and institutional or developmental issues. Results revealed that housing beneficiaries tended to feel devalued by the State, and felt that they had been provided with an inferior product when ABT methods were used. Greve (2012) indicates that of the "2.9 million housing units delivered for low income earners between 1994 and 2010, only 17 000 were constructed" using innovative systems.

Greve (2012) stressed that government's resistance to ABTs was concerning. Stephen de Blanche, CEO of Imision, a Housing Technologies Company, stated that ABTs were almost always completed in less time, were cheaper, and depending on individual application, usually better quality. De Blanche noted that not all banking institutions have amended their drawdown processes to accommodate the anomalies associated with ABTs – particularly the speed of delivery and the extent to which some components are pre-manufactured. However, since ABTs were seen to require less labour (due to faster construction) it did not meet government's social agenda of job creation and the transfer of building skills employable in the wider market.

Financial institutions, government and communities chose rather to build with brick and mortar which was more costly, required more labour and took longer to build. Resistance to ABTs has resulted in a rigid approach to housing delivery reducing profit margins for developers.

2.8.4.7 Cross-subsidisation of subsidy units

The Financial and Fiscal Commission (2012:17) highlighted that integrated developments such as Cosmo City gained “project approval based on an agreed amount of subsidised units within the project”. The model of integrated developments is an attempt to ensure that a wide range of income groups are accommodated within one housing project. Integrated developments include subsidised, gap, CRU, social, open-market housing and sometimes commercial and industrial enterprises. Therefore, within one development, some housing units will be subsidised by government and some units will be bonded by banks.

The viability of an integrated development “depends on getting the right mix” of government subsidised and bank bonded housing units. In order to make these projects attractive to developers, the ratio of bonded to subsidised housing units needs to be 60/40 (Financial and Fiscal Commission, 2012:17). The Commission further argues that integrated developments requires the subsidy unit to be upgraded, at the expense of the private developer, to better fit in with the rest of the housing project as cheap, inferior looking subsidy units will bring down the values of the rest of the development. The subsidy house upgrade therefore requires a cross-subsidisation from the bonded housing units which results in the poor subsidising the very poor, and a portion of the profits that developers ordinarily would have received, go into the subsidy units further eroding developer’s profit margins.

2.8.4.8 BNG subsidy houses distort the affordable market

The Financial and Fiscal Commission (2012:23) reckons that the subsidy house, which qualifying beneficiaries who earn less than R3 500 per month receive for free, is worth approximately R140 000 with all the hidden subsidies. Assuming mortgage finance was available, a household earning R5 000 per month (slightly above the subsidy income threshold) could afford to purchase a subsidy house valued at approximately R140 000 (excluding all the bank charges), and assuming a 10 per cent interest rate. “However, the R140 000 house is not available for sale, as borrowers expect better housing than that what is available in the subsidy market”. The distortion the subsidy house creates in the market, discourages “desirable levels of investment and participation by the private sector and households themselves”. Rust (2009) explains that the specifications applied to

the government subsidised house, price the next level up house, out of the affordability of the target market.

2.8.4.9 Escalation in the cost of building materials

Rust (2006) states that the Production Price Index for the Building and Construction Materials Prices peaked in 2008 and dropped significantly in 2009 and 2010. A slow recovery was seen in 2011 (Medium-Term Forecasting Associate, 2011). Prior to the peak many building materials rose above inflation. The Bureau for Economic Research showed that the price of cement had increased by 143 per cent between February 1998 and February 2005. The escalation in price and reduced availability of building materials will have a negative impact on the supply of affordable housing due to it eroding already small profit margins.

2.8.5 TOWNSHIP/AFFORDABLE MARKET ENVIRONMENT

The township and affordable market is highlighted, in section 2.8.5, as a risky environment. Aspects which increase the risk factor in this market are discussed.

2.8.5.1 Crime

According to the SAPS (2011) the combined statistics of the older townships in the Western Cape, including Khayelitsha (the biggest township in the Western Cape), Langa (the oldest township in the Western Cape), Guguletu and Nyanga, reflects that crime in those areas is high. The combined total of murders (in the above townships) for the period April 2010 to March 2011 was 723 out of the Western Cape's total number of murders being 2311. More recently developed townships are not included in the figure of 723 (which is only accounting for four townships, but there are 223 informal settlements in the Western Cape) (City of Cape Town, 2008). In comparison, the district of Wynberg (a suburb comprising many different income groups) had three murders during the same period (SAPS, 2011). Statistically it is clear that crime is hugely problematic in the townships of the Western Cape. The above statistics are supported by Kynoch (n.d.) who states that townships are still fraught with violent crime and vigilantism.

Kynoch (n.d.) states that popular explanations of township crime in South Africa refer to poverty, unemployment, a constitution which supports criminals, corrupt policing, inefficient policing, and African immigration. Township crime, according to Zonke (2006), is attributed to the dense construction of shacks, making it difficult for the police to patrol these areas effectively which is escalated by the proliferation of shacks. According to Griggs (2007) many dwellings do not have street numbers making it difficult for the police to locate the scene of a crime or to apprehend criminals. Roads are poorly lit making the environment conducive to crime. Large open areas facilitate violent crimes like rape. Youth who frequent illegal shebeens are often involved in crime under the influence of alcohol.

Lemanski (2011) points out that these high levels of crime result in banks refusing to finance properties in the township areas. Banks refusal to finance in turn makes properties less affordable as nobody can obtain finance. And since nobody can secure finance to purchase property in the crime inflicted townships, the values of the properties decrease. Overall, high levels of crime can be a pertinent barrier to private development in the township areas as no private developer would build homes in the townships if the banks were not going to finance them. Developers would end up with vacant properties which could attract illegal invaders or vandalism (especially in the townships).

2.8.5.2 Lack of law enforcement

The Centre for the Study of Violence and Reconciliation (n.d.) explains that “vigilante justice is common in townships” where poor policing spawns deep frustration. Police statistics reveal that 5 per cent of all killings in South Africa are as a result of vigilantism. Vigilantism occurs from communities “organising themselves around violence when they feel the justice system is failing them” and when they have little trust in the police themselves.

Enoch (2012) states that mistrust in law enforcement was highlighted as legitimate by the Manase Report 2009/10. The Manase Report indicated that “numerous metro police officers were found to have had interests in the taxi industry, as well as being involved in corrupt activity that included maladministration and sexual harassment. Also 30 trainee constables bought their driver's license in order to work in the department”.

2.8.5.3 Shebeens

Criminal activities such as illegal shebeen operations, according to Griggs (2007), are a causal factor in other crimes. Shebeens are often open 24 hours and many rapes, murders and armed robberies are planned and originate from shebeens. Griggs (2007) goes on to say that if shebeens can be regulated, overall crime can be reduced and will result in an environment less conducive to criminality. TTRI (2009) points to this type of crime as being a problem for property developers if the authorities are not able to manage the problem. New developments situated next to criminal shebeen activity will experience negative externalities for developers during the construction of the development (theft of salaries, theft of building equipment and materials) as well as for homeowners who have to live with the criminal spill over. Such crime results in lower property values and overall is a significant barrier to township property development.

2.8.5.4 Intimidation and community forums

RSA (2007) explains that the project specific nature of construction often results in workers losing their employment after the project is completed. Each project generally sources its own local labour (www.capetown.gov.za) with the help of a Community Liaison Officer (CLO) who works with developers and communities in deciding who should work on the project.

Political leaders representing local labour often insist on developers employing only local residents in new housing projects, to the exclusion of non-residents. Exclusionary labour practice makes it difficult to sustain any job creation exercise flowing out of low cost housing programmes. Large developers are forced to let go of good skilled staff if they wish to develop in a new area and have to constantly train new staff each time they change location. For small emerging contractors the constant need and cost to train new staff, does not allow them to initiate projects in new areas. Often they are forced to wait for projects to be initiated in areas in which they operate.

2.8.5.5 Illegal protest action

Criminal illegal violent protest action is also a form of crime often taking place in townships regarding housing issues. Kakaza (2009:115) highlights that illegal violent protest action on the N2

regarding problems with the N2 Gateway Housing Project increased the risk profile of the project and led managers on the project to “lose confidence in the success of the project”.

Eviction protests in Protea Glen highlighted the risks banks take in financing township properties. SABC News (2004) explains how Protea Glen residents protested against the eviction of bond holders who had defaulted on their payments. “The march followed action by the sheriff, who assisted by “red ant” security guards, removed residents and their belongings”. Lindiwe Sisulu, the then Housing Minister, stated that the sheriff was acting on bank instructions and asked residents “to understand the implications of signing housing bonds”. The Protea Glen scenario does not encourage banks to finance township properties as the risks are too high.

2.8.5.6 Hijacking of buildings and illegal sub-letting

RSA (1998) indicates that the Prevention of Illegal Eviction from and Unlawful Occupation Land Act, No. 19 of 1998 provides procedures for the eviction of unlawful occupiers. Evictions, according to the Act, should be carried out in a “fair manner while recognising the right of land owners to apply to a court for an eviction order in appropriate circumstances”. Therefore, evictions and house demolitions should not take place without a court order. The Act states that special considerations should be given to the “rights of the elderly, children, disabled persons and particularly households headed by women”.

The City of Johannesburg (2011) is working hard to stop the illegal occupation of abandoned buildings – something which is a significant problem in the Johannesburg area. In a bid to prevent building hijackings, the City of Johannesburg “takes over ownership of abandoned buildings, as building owners run away because they still owe the City money for its services. The number of bad buildings on the City’s database has escalated from 800 to 1 380, with legal action being taken in 460 cases”. Even the City of Johannesburg has stated that the eviction process of illegal occupants in hijacked buildings is a lengthy process mostly because the City has to find alternative accommodation for the illegal occupants.

Broughton (2012) explains that evictions are also lengthy in Durban. Sohco Property Investments, who have built a R75 million quality affordable social housing estate in Durban, are still waiting to evict 230 rent defaulters from their one development after applying to the courts two years ago. All

three of Sohco's developments in Durban have been hijacked. Building hijackings starts with a rent boycott and ends up with the forceful removal of paying tenants by the hijackers, potentially financially ruining the social housing company. The hijackers then move in new tenants who pay rent to them and not the social housing company. For this reason subletting of these units is illegal.

Illegal subletting is a problem highlighted by Ndaba (2011) in Gauteng where tenants were forced to pay exorbitant rents to their landlords who were the legal tenants of the houses owned by the Gauteng provincial government. "Some of these houses were legally leased by the government to South Africans, but the legal tenants became landlords, altered the houses and sub-let them to mostly illegal immigrants". Some houses were converted into shebeens or drug dens causing social problems for the neighbourhood. In some houses partitions were used to create extra rooms, also shacks were erected in the backyards which were also sub-let for further rent.

Although Cape Town has not experienced buildings being hijacked or serious sub-letting issues, such problems still seem to discourage development in the Western Cape. Developers are risk averse, and consider potential hijackings and sub-letting as increasing the risk profile of their projects.

2.8.5.7 Corruption of officials and corrupt tender processes

RSA (2011) highlights that 258 cases of alleged corruption were reported to the Director-General of the Western Cape Province as indicated in table 2.4. Approximately R62 million had been recovered in the Western Cape in cases where officials were found guilty of corruption. Table 2.4 compares the amount of cases of alleged corruption reported with Gauteng having the highest reported cases.

Table 2.4 Cases of alleged corruption reported (September 2004 – August 2010)

Province	Cases of alleged corruption reported
Gauteng	1223
Mpumalanga	796
Eastern Cape	428
Kwazulu Natal	417
North West	316
Limpopo	303
Western Cape	258
Free State	203
Northern Cape	72

Source: Adapted from RSA (2011)

Corruption occurs at all levels of government throughout the country (RSA, 2011) but is more significant in the affordable market since this is the market in which tender processes are carried out and where developers are reliant on officials to perform. Enoch (2012) explains that the Manase Report 2009/10 investigated why “irregular expenditure and general financial mismanagement had spiked 158 per cent” in the eThekweni municipality. Results from the report implicated “several senior eThekweni officials, three municipal managers, the former city mayor and metro police officers for the R1.3 billion overspend due to financial mismanagement, tender fraud and corruption”.

The Manase Report, according to Enoch (2012), found that:

- a) “161 councillors were found to have had private business interests that benefited from dealings with the eThekweni Metro Municipality (EMM).
- b) The municipality's former mayor irregularly and unlawfully influenced a waste volume reduction tender intended for Bisasar Road Landfil Site.
- c) Over R536 million was spent on contractors who did not meet the criteria of supply chain management regulations. Of that amount, R428 million was spent on the EMM's housing unit.
- d) A former municipal manager did not report fraudulent and corrupt activities amounting to R1.1 million to police, even after a similar investigation (the Ngubane report of 2010) had presented him with the findings.
- e) A housing project estimated to cost R18 million over 550 low cost homes, eventually cost the municipality R57 million and the project was not open to public tenders”.

Enoch (2012) indicates that the Manase Report found that tender documents were often not completed in full or signed by contractors despite being awarded. The Report accused managers specifically “in the Treasury, Infrastructure and Housing sectors of not taking all steps to ensure that irregular expenditure was prevented and for failure to exercise due care and diligence”.

In Cape Town, three Housing officials at the City of Cape Town have had disciplinary action brought against them regarding waiting list corruption. Two of them were charged with negligent conduct and recommended for corrective action. The third official was charged with gross dishonesty, gross negligence and improper conduct (www.capetown.gov.za).

2.8.5.8 Illegal and informal sales

Shisaka (2011:13) states that an eight year restriction clause, preventing subsidy beneficiaries from selling their homes within the first eight years of ownership, was introduced to prevent downward raiding, by people able to purchase their own homes. The restriction was introduced in terms of the Housing Amendment, Act 4 of 2001. Section 10A of the Act, inserted by section 7 of Act 2 of 2001, relates to restrictions on the voluntary sale of subsidised housing. Essentially, the Act says that subsidy beneficiaries “may not sell or otherwise alienate their subsidised dwelling or site within a period of eight years” from the date of acquisition. Therefore renting out subsidised units, as well as informal sales, is considered illegal.

Despite informal sales being considered illegal, approximately 30 per cent of subsidy homes in Joe Slovo Park in Milnerton were estimated to be informally/illegally sold five years after they were handed over to beneficiaries (Kingwill, 2007). The tendency for such illegal sales to be worth significantly less than the amount government paid for it to be built (Adebayo, 2010) aggravates the risk factor of developing in the affordable market as no developer would build a house on the open market that could not be sold for a profit.

2.8.5.9 Objectors

The Democratic Alliance (www.da.org.za) argues that objectors can potentially delay projects during the “land-use zoning applications and environmental records of decision, even when their objections have very little merit”. Objectors who cause delays are not affected, but entire

communities suffer as the provision of housing delivery is delayed. The right to object must be upheld to appeal against bad decisions, but it should not “permit undue delays in the delivery of services”. Legislation needs to prevent the abuse of these rights and those that abuse their rights should be held accountable. Delays of this nature contribute to the risk factor of developing in the affordable market as delays result in substantial loss of profit for the developer and increase the final price to the consumer.

2.8.5.10 Skill level of workers

Mabula (n.d.) states that the “quality of contractors employed in the housing projects is substandard”. The poor quality of contractors results in housing projects experiencing significant delays. All types of contractors (surveyors, engineers and bricklayers) are found to provide substandard work. “Consequently, poor craftsmanship results in schedules running behind set targets, or completed work having to be redone. According to the Sowetan newspaper, thousands of houses need to be demolished. Since 2006, Gauteng identified 80 648 houses for demolition of which 65 767 have already been rebuilt with a budget of R147 million to complete the project. The Eastern Cape identified 20 000 subsidised houses that need to be fixed or rebuilt. At least 1 506 houses have been targeted in the first phase of the project, which has a budget of R100 million”.

RSA (2007) states that the need to rebuild houses due to substandard workmanship has occurred according to Mabula because of the shortage of skilled workers in the construction industry. RSA (2007) goes on to explain that the construction industry has experienced increases in the number of jobs created due to increases in infrastructure investment since 2003. The increase in infrastructure demand has resulted in a shortage of the necessary skills, made worse by the lag in graduation rates in the construction industry compared to construction spending. RSA (2007:4) further supports Mabula (n.d.) by stating that the “shortage of experienced managers, engineers, supervisors and qualified artisans is threatening to stall service delivery”. Shortages are most noticeable in the public sector “at the point of delivery in local government” and equally noticeable in the private sector where lack of experienced workers undermines delivery in terms of expected time, cost and quality requirements. RSA (2007:4) highlights the significance of such capacity constraints by explaining that these shortages undermines the delivery of the public sector’s contribution by approximately 60 per cent of the government’s R372 billion infrastructure investment target.

2.8.5.11 Temporary Relocation Areas (TRA)

City of Cape Town (2012:107) indicates that Temporary Relocation Areas (TRA) was originally formed by the City of Cape Town due to pressure to “find short-term housing relief for poor families who find themselves in emergency situations”. These emergencies include flooding, fire and other disasters, as well as cases where the City was ordered by the court to provide alternative accommodation to evicted individuals/households.

The Financial and Fiscal Commission (2012:25) explains that alternative accommodation, provided by the City of Cape Town, comes by way of an informal structure being a corrugated tin shack, container or serviced site. Informality is a “reality and a point of entry into the housing market”. Households earning less than R2000 per month will not be given finance and therefore account for most of the shack population, which according to Rust (2006), makes up the bottom rung of the property ladder.

Shack dwellers, which make up the bottom rung (or point of entry) on the property ladder, should, in theory, be included in integrated developments, which according to the Financial and Fiscal Commission (2012), is made up of various income groups. But if TRAs are included in integrated housing areas or situated close to integrated affordable housing developments, the property values of the affordable housing units will depreciate. According to the City of Cape Town (2008, 2010) subsidy and gap housing is often rejected by surrounding property owners who feel that their properties will depreciate in value (Not In My Back Yard - NIMBY factor). With the introduction of integrated housing projects, negotiations with the surrounding community are smoothed over, except if integrated projects include informal housing.

TRAs (informal housing) placed by government close to affordable housing developments creates a risky environment for developers. Demand for the affordable units will drop and banks will refuse to finance such units due to its close proximity to informal TRA settlements.

2.8.5.12 Dense construction of shacks

Informal settlements are often so compact that de-densification is necessary before development is possible. The City has adopted land banking to address the challenge which often requires

relocation for de-densification purposes before development can begin (City of Cape Town, 2008, 2010).

2.9 THE IMPORTANCE OF PRIVATE DEVELOPERS BUILDING AFFORDABLE HOUSING FOR PRIVATE CLIENTS IN THE TOWNSHIPS

Mobilising private investment in housing in the townships is important for the following reasons:

- a) Upper and lower gap market rungs can be provided by the private sector which according to Rust (2006) will result in better linkages between the different rungs and an overall healthier property ladder.
- b) The private sector can contribute to reducing the housing backlog which is currently 500 000 housing units in the Western Cape (Madikizela, 2011a).
- c) The provision of private sector gap housing will allow for upward mobility of subsidy house beneficiaries making the subsidy house available to other low-income earners without further assistance from government (Rust, 2006).
- d) Shack dwellers can purchase subsidy homes from subsidy beneficiaries who have moved up the property ladder, thus reducing informal settlements of which there are 223 in the Western Cape alone (City of Cape Town, 2008).
- e) Increased housing mobility will improve the secondary (resale) housing market in the townships which according to FinMark Trust (2004) is limited.
- f) Private sector gap housing developments in townships will increase supply in the market which will prevent downward raiding (Brown-Luthango, 2007, Rust, 2006).
- g) Subsidy beneficiaries are a burden on municipalities as they are exempt from paying rates. Upward mobility of subsidy beneficiaries into the gap market (where rates are collected) is important to strengthen municipal revenues (Rust, 2006).
- h) Private sector gap housing developments in townships will contribute to township upgrade catalysing further investment in these areas.
- i) Gap housing developments, where people pay for their homes, will lead to the regeneration of township neighbourhoods as homeowner will look after their investment.
- j) Private sector housing developments in townships, driven by profits, will aim towards densification which is in line with the City of Cape Town (2008).

- k) In the affordable market, new build house values is consistently lower than resale property values, therefore private sector housing developments in the townships will broaden access to housing (Rust, 2010).
- l) A wider range of housing price options can be offered by the private sector, perhaps lower than the subsidy house, further widening access to housing.
- m) Gap township housing developments would not have any limitations on sale thereby acting as a better safety net than the subsidy house as owners could sell when faced with financial trouble (Shisaka, 2004b).
- n) Finance would be more easily accessed with private sector gap township developments as houses with no limitations on its sale are more attractive to banks.
- o) Private sector housing developments in townships reduce the fiscal demand on government, thereby making human settlements more financially sustainable.

Overall the above points are just some of the reasons why the involvement of the private sector in housing developments in the townships is vital. The above points clearly indicate that private housing development in the townships is a win-win situation for all stakeholders concerned.

2.10 CONCLUSION

The housing subsidy has affected the affordable housing market to such an extent that the normal linkages which connect one rung to the next on the property ladder are broken for all housing units valued below R500 000. Subsidy-eligible households can often afford finance, or provide for their own housing situation to some extent, but are discouraged to do so in the hope that a “free” house is on the horizon. Also, the subsidy house is often far better or equal to what the individual can provide for themselves. Therefore, government provided subsidy housing is in high demand since it is given to subsidy beneficiaries, while privately developed affordable housing has little demand as it carries a price, for essentially a similar product to the subsidy house.

The distortion is not only evident in the subsidy market but rather has a ripple effect up the property ladder, most noticeably in the rungs immediately above the subsidy rung. The gap market appears to be suspended far from rungs below or above it, which hampers mobility, thereby causing the market to be dead, and therefore, more risky for developers.

Furthermore, to add to the risk, developing in the townships, the only financially feasible areas to develop affordable housing come with its own challenges. These challenges have been grouped together as five main barriers to township housing, namely: land, finance, government inefficiencies, profit margins and the township/affordable market environment. All the barriers encompass a number of sub-barriers. Such township development challenges along with the market distortions leads to a significantly under-supplied affordable market. Households therefore shift their investments elsewhere while living in informal settlements, backyard shacks and overcrowded rooms waiting to be given a house.

The market distortions and the township barriers outlined in chapter two have given a clear framework for the research to follow. Furthermore, chapter two has highlighted the importance of creating an enabling environment for private development to take place in the affordable market in the townships.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The previous chapter presented the theoretical framework for the study, providing an overview of the background information related to the topic under discussion. Given the existing literature described in chapter two, it is clear that a shortage of housing units in the gap market exists. More specifically, the literature reveals that the most cost effective way for developers to cater for the gap market would be to develop affordable housing units on affordable land, which in the Western Cape is most prominent in the townships. Therefore, the primary objective of the study is to identify and explore barriers that private developers encounter when building in townships in the Western Cape. Once identified, the barriers could then be addressed to promote private development in townships in order to develop a healthier property market with more rungs in the property ladder.

3.2 PARADIGMATIC PERSPECTIVE: INTERPRETIVIST QUALITATIVE PARADIGM

A common sense understanding of science according to Terre Blanche, Durrheim and Painter (2006:4) is that “progress occurs through a process of falsification: incorrect theories are rejected on the basis of empirical evidence, leaving over time, correct theories that stand for truth”. While this research approach has been dominant during the twentieth century, it is now understood that there is far more to social science than this. To be more than a mere technician, researchers need to have a broader understanding of the social and political environment in which their research is taking place. More specifically, researchers need to understand the major paradigms that shape social science practice today.

Terre Blanche, Durrheim and Painter (2006:6) explain how “paradigms are all-encompassing systems of interrelated practice and thinking that define for researchers the nature of their enquiry along three dimensions: ontology, epistemology and methodology. Ontology specifies the nature of reality that is to be studied, and what can be known about it. Epistemology specifies the nature of

the relationship between the researcher (knower) and what can be known. Methodology specifies how researchers may go about practically studying whatever they believe can be known”.

An intersubjective or interactional epistemological stance was adopted, as most barriers to private township housing developments were made up of “peoples’ subjective experiences of the external world”. Some barriers were, however, objective. Interviewing was the methodology used as it was the best method given the overall subjective nature of the topic. Terre Blanche, Durrheim and Painter (2006:7) explains that the interviewing methodology relies on the “subjective relationship between the researcher and subject”. Such methodology is “characteristic of the interpretive approach, which aims to explain the subjective reasons and meanings that lie behind social action”.

Interpretivists, according to De Vos, Strydom, Fouche & Delpont (2011:308), “believe that the subject matter of the social sciences is fundamentally different from that of the natural sciences. Therefore a different methodology is required to reach an interpretative understanding (*verstehen*) and explanation that will enable the social researcher to appreciate the subjective meaning of social action”. Maree (2007) believes that the interpretivist and subjective approach both fall under the umbrella term, qualitative research.

De Vos, Strydom, Fouche & Delpont (2011:308) explains that qualitative research “requires the design of the research to be more than a set of worked-out formulas”. The qualitative researcher focuses on understanding, naturalistic observation and the insider’s subjective exploration of reality.

Maree (2007:50) adds that qualitative research “attempts to collect rich descriptive data in respect of a particular phenomenon or context with the intention of developing an understanding of what is being observed or studied”. Research of this nature focuses on how “individuals and groups view and understand the world and construct meaning out of their experiences”. Qualitative research aims to understand the processes and contexts which lie beneath certain behavioural patterns and explores why behavioural patterns exist. “Qualitative research typically studies people or systems by interacting with and observing the participants in their natural environment and focusing on their meanings and interpretations. The emphasis is on the quality and depth of information and not on the scope or breadth of the information provided as in quantitative research”.

Throughout the research process the study aimed to form a holistic view of the private developer's context. The holistic view was developed by exploring developer's experiences, views and feelings regarding the barriers and challenges they faced when developing housing units in the townships of the Western Cape.

3.3 RESEARCH METHODOLOGY

Terre Blanche, Durrheim and Painter (2006:297) explains that an interview is a far more natural form of inquiry as it involves interacting with people and is therefore best suited for the interpretive approach to research. Maree (2007:87) describes an interview as a “ ... two-way conversation” which allows the interviewer the opportunity to collect data about the participants' ideas, beliefs, views, opinions and behaviours, ...” not easily done using other forms of data collection. Interviews allow researchers to “see the world through the eyes of the participant” and can therefore be a valuable form of collecting data. The goal is to obtain “rich descriptive data that will help the interviewer to understand the participant's construction of knowledge and social reality”. If participants think the topic is important, and they trust the researcher, they will give the researcher information in the interview that could not be collected using any other form of data collection method.

Greenfield (1996) states that the rationale for using interviews, as a type of data gathering technique, must be considered in terms of its strengths and weaknesses. The main strength of interviews is that a face-to-face dialogue facilitates cooperation from the participant which results in obtaining large amounts of expansive and contextual data quickly. Data can immediately be clarified with the participant in an interview and further verified during the analysis and triangulation process after the interview if necessary. Also, interviews are useful in discovering complex interconnections in social relationships, nuances in culture, and uncovering the subjective side of the topic. Interviews allow for data to be collected in a natural setting which may lead to the detection of nonverbal behaviour and communication.

Interviews have several weaknesses as a data gathering technique. Greenfield (1996) explains that data is open to misinterpretation in an interview and is dependent on the ability of the researcher to be honest and unbiased, which is difficult to measure as an interview is difficult to replicate. Also, data in an interview situation is subject to obtrusive and reactive effects which can distort the

accuracy of the data. Accurate data gathering is further reliant on the honesty of the participants, which with interviews, is generally made up of a small group of key informants.

Face-to-face interviews with key informants unlocked large amounts of expansive and contextual data, through uncovering the subjective understandings of the private developers, who operate in the townships. Interviews resulted in rich in-depth data. During the analysis phase of the data, when working with peoples' subjective accounts of experiences, the natural scientist's concerns with objectivity were constantly reflected upon. Semi-structured interviews allowed for divergent input in a systematic order which highlighted any contradictions in the data, increasing the objectivity of the data analysed.

Semi-structured interviews are the most popular kind of interview, according to Terre Blanche, Durrheim and Painter (2006:298), and entails developing an "interview schedule" in advance. Smith, Harre & Van Langenhoven in De Vos, Strydom, Fouche & Delport (2011:351) explains how semi-structured interviews are used in order to gain a "detailed picture" of a participant's beliefs about, or perceptions, or accounts of a particular subject area. Researchers and participants are able to be more flexible in following up interesting avenues that emerge using semi-structured interviews. Also, semi-structured interviews are more suitable when one is interested in a subject area that is too complex, personal or controversial to be asked in a questionnaire. A semi-structured interview schedule requires the researcher to follow an outline of predetermined questions which will guide the interviewer, not dictate, the flow of the interview. In this instance, participants will also shape the direction of the interview and can introduce topics that the researcher was not aware of. Using the semi-structured interview, participants are perceived as the experts on the subject and should be allowed maximum opportunity to express themselves.

3.4 SAMPLING

Terre Blanche, Durrheim and Painter (2006:133) states that a sample is compiled from a "larger group", referred to as a population. "The population is the larger pool from which our sampling elements are drawn and to which we want to generalise our findings". Put more simply, Maree (2007:79) states that sampling refers to the "process used to select a portion of the population for study".

Nonprobability sampling is the process of selecting a portion of the population “not determined by the statistical principle of randomness” (Terre Blanche, Durrheim and Painter, 2006:139) as is required by quantitative research. Maree (2007:79) adds that qualitative research uses nonprobability sampling and purposive sampling as a basis rather than probability or random sampling.

Purposive sampling, according to Terre Blanche, Durrheim and Painter (2006:139), depends on the availability and willingness of participants to participate, and on cases that are typical of the selected population. Maree (2007:79) further explains that purposive sampling means that participants are selected because of some defining characteristic that makes them the holders of the data needed for the study. Babbie (2010) states that purposive sampling allows the researcher to select participants who would provide the richest information while stratified purpose sampling selects participants according to a list of criteria. Maree (2007:79) concludes that the purpose of sampling decisions is to obtain the “richest possible source of information” to address the research questions.

Maree (2007) and Babbie (2010) explain that obtaining the richest possible information in qualitative research normally requires using smaller sample sizes than quantitative research studies. Qualitative research sampling is more flexible and can continue until the data is saturated and no new topics are brought forward. Strauss & Corbin in Terre Blanche, Durrheim and Painter (2006:50) states that “theoretical saturation marks the point when one stops collecting new material because it no longer adds anything to one’s unfolding analysis”. At the point of saturation, any additional enquiry becomes repetitive with no new information emerging. This is referred to as “sampling to redundancy”.

Maree (2007:79) cautions that sampling to redundancy is not always achieved when using stratified purposive sampling which selects participants based on a pre-selected criteria relevant to the research. Stratified purposive sampling can therefore be flawed as very often the research is not carried through to the point of data saturation but rather ends after the sample size has been addressed. Maree (2007:79) suggests that stratified purposive sample sizes should be “determined on the basis of theoretical saturation (the point in data collection when new data no longer brings additional insights to the research question)”. Therefore, for purposive sampling to be successful, data review and analysis should be done together with the data collection.

A stratified purposive sampling method, which selects participants “according to pre-selected criteria relevant to the particular research question” (Maree, 2007:79), was used to select participants in this research. The participants selected were private developers in the Western Cape who targeted the affordable market in the townships either on contract to government, or for private clients. Firms who chose not to operate in the affordable market in the townships were, however, not excluded from the study in order to ascertain the reasons for not operating in this segment of the market. Additionally, managers from two Social Housing Companies and managers from the City of Cape Town (both subsidy and gap housing) were interviewed. All the private developers that operate in the affordable market in the Western Cape were interviewed.

Table 3.1 Interview list

	Development company	Interviewee	Position in organisation
1	Power Construction	Percy Knight	Senior Manager
2	Asla	Pierre Blaauw	Manager DevCo
3	Motlekar Cape	Rieger Van Rooyen	Managing Director
4	Calgro	Willem Steenkamp	Managing Director – Regional Head
5	New Age Developments	Anver Essop	Manager and owner
6	Amdec	Themبisa Jensana	Manager – Affordable Housing
7	MSP Developments	Johannes Theron Kobous Fouche	Development Manager Development Manager
8	Warrior Group	Lucas Prinsloo	Contracts Manager
9	Cape Town Community Housing Company (CTCHC)	Wynand Ferreira	Project Development Manager
10	Social Housing Development Company (SOHCO)	Rob Sprong	National Property Manager
11	City of Cape Town	Heinrich Lotze	Manager of subsidy housing for the City of Cape Town
12	City of Cape Town	John Sterne	Manager of gap housing for the City of Cape Town

Source: Compiled from all the developers interviewed in this study

3.5 QUALITATIVE TECHNIQUES

3.5.1 Face-to-face interviews

Appointments were made with each of the participants in order to conduct the interviews. Each participant was presented with an introductory letter from the University of Stellenbosch,

explaining the need for the research and a consent form requiring written permission for the interview to take place. The individual semi-structured interviews which were interactive in nature (Ritchie and Lewis, 2003) were between two and three hours, and were based on open-ended questions allowing for flexibility.

Despite the flexible design of open-ended questions, the interview schedule was structured and developed in accordance with the literature review which aimed to obtain in-depth descriptions (Ritchie and Lewis, 2003) on the barriers that private developers experienced when developing housing units for the affordable market in the townships of the Western Cape. Ritchie and Lewis (2003) explain that this flexible, yet structured interview style could possibly generate new thoughts from the in-depth descriptions given by participants.

Participants gave in-depth descriptive information in all the interviews, because a relationship of trust was established between the interviewer and participant. The strategy of the interviewer was to highlight the significant role that the private sector had in housing delivery which was always confirmed (with passion) by the participant. Establishing trust in the interview enabled the researcher to obtain honest in-depth data. Participants felt comfortable to ask for an explanation of the questions if they did not understand a question which facilitated accurate responses.

A relationship of trust further enabled the interviewer to audio-tape all interviews for which proper ethical clearance, and the participant's permission, was obtained. The audio-tapes were transcribed verbatim before commencing with the data analysis. Handwritten notes, which outlined the overarching barriers to housing development in the townships that each participant experienced, were used to support the recordings.

3.5.2 Transcriptions

Mouton (2006) emphasises the importance of accurate and detailed documentation of the data collection process. An historical record for other researchers, for the purposes of secondary data analysis, has become increasingly important in recent years. Therefore a meticulously documented and recorded process is essential for every aspect of the research. Keeping track of the fieldwork is furthermore a form of quality control. By keeping a record of the main decisions and events during the fieldwork process, the researcher constructs a historical record of the whole process to which the researcher can return to later if necessary. Hence the process was documented and recorded.

Key information was consistently written down at the beginning of each interview to provide background to the interview data. The mentioned is suggested by De Vos, Strydom, Fouche & Delport (2011) to help contextualise the process and data obtained in the interview. The following key information was recorded in the research:

- a) Dates when interviews were conducted;
- b) Participant details;
- c) Job title of participants;
- d) Turnover of business and number of employees in business to establish size of business;
- e) Locations of developments; and
- f) Whether developers worked for the public or private sector.

3.6 DATA ANALYSIS

Maree (2007:99) states that qualitative data analysis, based on an interpretative philosophy is “aimed at examining meaningful and symbolic content of qualitative data”. Therefore it analyses participants perceptions, attitudes understanding, knowledge, values, feelings and experiences of a specific phenomenon to roughly estimate how those phenomenon are constructed. Qualitative data analysis is not simply a number of steps that need to be followed but rather an interrelated, continuous iterative (non-linear) process of data collection, processing, analysis and reporting.

3.6.1 Coding

Babbie (2010) states that the aim of data analysis is to identify patterns in the data which point to understanding. Maree (2007:105) explains that “coding is the process of reading carefully through the transcribed data, line by line, and dividing it into meaningful analytical units (patterns)”. When patterns are identified they should then be coded. Coding is merely the allocation of symbols or unique identifying words to segments of the data. Therefore, when a segment of data is identified, a code or label should be allocated to it.

Terre Blanche, Durrheim and Painter (2006:324) explains that “coding entails marking different sections of data as being instances of, or relevant to, one or more themes”. The researcher begins

with identifying “bits” of text that relate to specific themes. These “bits” may relate to more than just one theme and should be labelled accordingly.

Initially open coding was used in this study. Open coding according to Babbie (2010) is the classification and labelling of data. The researcher suggests the use of codes in open coding, after a process of examining and questioning the data. The whole data analysis process is, however, fluid (Maree, 2007:107) which eventually resulted in the researcher having to “move back and forth between steps as new insights and understanding emerged from the data”. Therefore, a reanalysis of the results of the open coding took place which is known as axial coding (Babbie, 2010).

3.6.2 Themes or categories

Once the coding was completed related codes were organised into themes (also known as categories). Each category was given a title or label. As suggested by Maree (2007:109) titles or labels should consist of descriptive phrases or words from the text to ensure that it is clear what each theme covers, and to direct the grouping of each set of codes within the appropriate category. Recurring themes emerge when the codes are worked through (Maree, 2007:109). Such an approach allows the categories to emerge from the data and is known as inductive coding and categorising. The aim of using inductive coding was to identify the barriers (and sub-barriers) which private developers experienced developing in the townships of the Western Cape.

3.7 INTERPRETATION OF DATA

After coding and categorising the researcher moved towards putting the analysed data into context. Maree (2007:111) explains that this is the point in which your analysed data must now “be brought into context with existing theory to reveal how it corroborates existing knowledge or brings new understanding to the body of knowledge”. To interpret the data the researcher searched for “emerging patterns, associations, concepts and explanations in the data”. Maree (2007:112) further explains that at this point the researcher will constantly move between existing theory and the insights from the data to find those aspects in the data that corroborate theory and those aspects that may enhance or question existing theory.

3.8 ROLE OF THE RESEARCHER

Within the interpretative field of research, the role of the researcher entails taking an active and involved stance in interviewing, which is a vital part of qualitative data collection. Initially the researcher's role involved making telephone calls to all the necessary parties to arrange interviews. Then interviewing the willing participants face-to-face and documenting the interviews, transcribing the recorded interview verbatim and eventually coding, analysing and triangulating the data. During the face-to-face semi-structured interviews the researcher's role was to observe and gain a clear understanding of the participants' responses. Furthermore, the researcher had to follow up on responses and explore further where needed.

3.9 CRITERIA FOR QUALITY ASSURANCE

Terre Blanche, Durrheim and Painter (2006) points out that standards of correctness need to be established at the level of interpretation. In certain circumstances it is possible to argue that certain truth claims are more correct than others because some conclusions have been carelessly constructed, or are not as properly thought through, as other claims. The strategies and criteria that were applied to the data in order to verify the results will now be discussed.

3.9.1 Triangulation

Denzin in Ritchie and Lewis (2003) highlights that triangulation through multiple analysis is using different observers, interviewers, analysts to compare and check data collection, and interpretation. Terre Blanche, Durrheim and Painter (2006) explain that triangulation is the use of multiple perspectives against which to check one's own position. Stake (2000) adds that triangulation seeks to verify and clarify meaning. Terre Blanche, Durrheim and Painter (2006:380) states that data triangulation is referred to as the use of a "variety of data sources" in the study.

Data was collected and triangulated from various sources for this study. Interviews were held with private developers developing at regional and national level, on contract to government, and for private clients. From the affordable market to the high income market, in the townships and in the suburbs. Data was also collected and triangulated from managers of Social Housing Companies and the relevant municipal officials.

3.9.2 Validity

Two main forms of validity are distinguished, namely internal validity (credibility) and external validity (transferability/generalisability).

3.9.2.1 Credibility (internal validity)

Mayan (2001) describes internal validity as the accurate representation of a situation Glaser and Strauss in Ritchie and Lewis (2003) defines internal validity as checking accuracy which involves testing hypotheses across different data sources and contexts.. De Vos, Strydom, Fouche & Delpont (2011) states that credibility involves testing the veracity (truthfulness) of knowledge claims in a dialogue with either the respondents or the general public or the scientific community of scholars possessing the requisite theoretical and methodological competence to evaluate the research. Throughout the study the researcher aimed to establish credibility by identifying discrepancies in the data and applying triangulation to the different data sources. The semi-structured interview schedule was furthermore assessed by the researcher's supervisor who is an expert in the field.

3.9.2.2 Transferability/Generalisability (external validity)

Terre Blanche, Durrheim and Painter (2006) states that generalisability relates to the extent to which the interpretive account can be applied to other contexts than the one being researched. Maree (2007:115), however, explains that the "goal of qualitative research is not to generalise findings across a population", but rather provide understanding from the participant's perspective. Rich, descriptions of the participants and their respective contexts were generated (Maree, 2007) by obtaining a large amount of clear, specific and detailed information about the views of private developers as well as information on the setting in which they work. Through such rich descriptions this study has provided understanding from the participant's perspective which could be applied to other contexts in certain respects.

3.9.3 Trustworthiness

Maree (2007:113) emphasises that trustworthiness is paramount in qualitative research. "Assessing trustworthiness is the acid test of data analysis, findings and conclusions". Accordingly, the

procedures used for assessing the trustworthiness of the data analysis need to be kept in mind. During this study confidence in the research was established as data from different sources pointed to the same conclusions. Raw data and participant understanding were verified during the interviews to further establish trustworthiness. Confidentiality and anonymity of participants have also been maintained throughout the study.

3.10 ETHICAL CONSIDERATIONS

Brynard and Hanekom (2006:85) argue that the researcher has a professional obligation to search for the truth. The “search for the truth is implicitly a type of moral contract that is not negotiable” as the imperative of the truth serves as a universal regulatory principle by which scientists abide. Mouton (2006:243) points out that research involving the acquisition of material and information provided on the basis of mutual trust, requires the rights, interests and sensitivities of those studies to be protected. Participants have the “right to privacy (including the right to refuse to participate in the research), the right to anonymity and confidentiality and the right to full disclosure about the research (informed consent)”.

The researcher conducted the research in accordance to the Ethics and Research Policy of Stellenbosch University. Ethical principles relevant to this study will now be discussed in more detail.

3.10.1 Informed consent and voluntary participation

According to Brynard and Hanekom (2006) the aim of the research investigation should be communicated to the informant as comprehensively as possible. At the beginning of every interview participants were presented with a letter which briefly described the aim and reason for the research. The details of the letter were also explained verbally and participants were given an opportunity to ask questions to gain clarity. Participants were informed that they could withdraw from the study at any time. Furthermore, the researcher obtained verbal and written informed consent from each participant to participate in the research, and to allow the researcher to record the interviews.

3.10.2 Privacy, confidentiality and anonymity

All the information and responses shared by the participants in this study were and will be kept private until this study is finalised. Once finalised, all raw data (including written notes and audio recordings) gathered during this study will be destroyed for confidentiality purposes (Mouton, 2006). Since informants have the right to remain anonymous (Mouton, 2006:243) results were “presented in an anonymous manner in order to protect the identities of the participants”. Such a right “should be respected both where it has been promised explicitly and where no clear understanding to the contrary has been reached”. Participants in this study were clearly promised explicitly that their identities would be protected.

3.11 CONCLUSION

Chapter three in conclusion then sets the background to the research methodology of this study. Given the interpretivist, qualitative paradigm, the methodological approach was justified.

From a broader population of private housing development companies in South Africa, companies developing in the Western Cape were selected through a purposive method of sampling. The sample further included national developers, social housing companies and the City of Cape Town.

The instrument, through which data were collected, was face-to-face semi-structured interviews. These interviews were meticulously documented and recorded before and during the process. Interviews were further conducted in accordance to the Ethics and Research Policy of Stellenbosch University.

Open coding of the collected data initially applied, but as the analysis developed, a reanalysis (axial coding) followed. Related codes were then sorted in themes/categories with a title/label consisting of descriptive phrases. The data was analysed for emerging patterns, associations, concepts and explanations. The data were triangulated from various sources (managers of private housing development companies in the Western Cape, national developers, social housing managers and relevant municipal officers). To ensure internal validity the researcher aimed at identifying discrepancies in the data throughout the study. The study provided an understanding from the participant’s perspective, which ensured external validity.

The research is further trustworthy because data obtained from different sources pointed to the same conclusions. Data and participants' understanding were also verified during the interviews which further highlights trustworthiness.

CHAPTER 4

DATA ANALYSIS AND FINDINGS

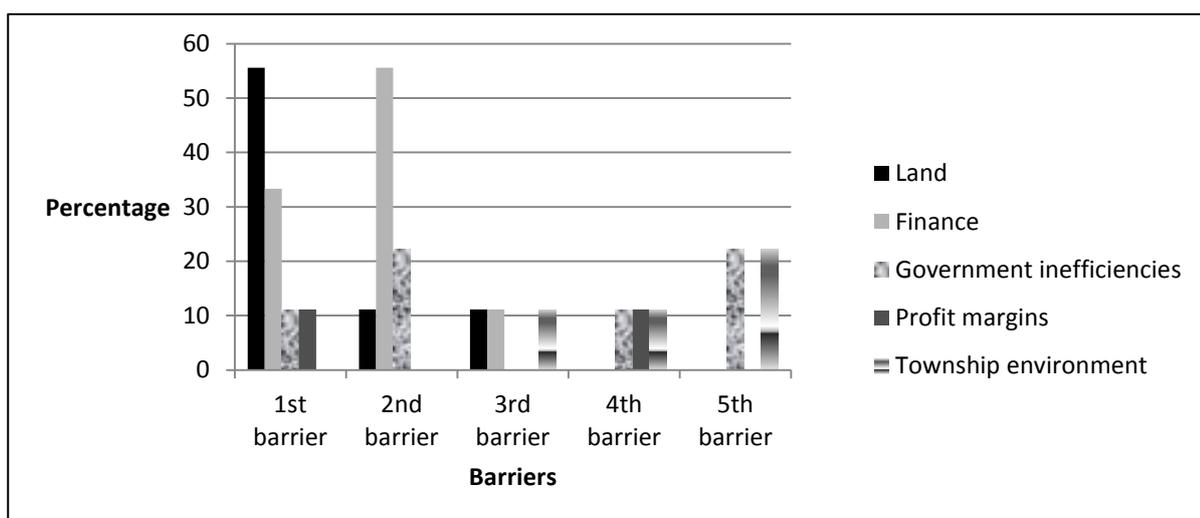
4.1 INTRODUCTION

The preceding chapter described the research design, methodological approach and the process followed in the study. Chapter four presents the qualitative data gathered by means of face-to-face interviews. The data are analysed, triangulated and interpreted in conjunction with existing literature.

4.2 BARRIERS IDENTIFIED

Through coding, which is explained by Maree (2007) in chapter three (p.93), five significant themes or categories were derived from the interviews, namely; land, finance, government inefficiencies, profit margins and township environment. Figure 4.1 below indicates that the majority of the respondents felt that land was the most significant barrier, followed by finance, then government inefficiencies, profit margins and finally, the township environment. Sub-categories were also identified under each of the five categories above.

Figure 4.1 Barriers to private housing development in the affordable market



Source: Compiled with developers' responses in this study

4.2.1 BARRIER 1 - LAND AND ITS ASSOCIATED LEGISLATION, PROCESSES AND GOVERNMENT INEFFICIENCIES

The majority of respondents (56 per cent) felt that land was the most significant barrier highlighted by the respondents. A closer look at the points below, however, indicate that it is government's involvement in making land available that is the real problem. Developers indicate that government's involvement in making land available for the affordable market is significantly inefficient, with a significant whole in the bucket (Okun's experiment, detailed in chapter two, p. 13).

4.2.1.1 The Municipal Finance Management Act, No. 56 of 2003, and the tendering of land

According to the Municipal Finance Management Act, No. 56 of 2003, government will not allow land to be given to private developers even if it is for the purpose of affordable housing. Therefore, private developers can either purchase land from private individuals/organisations, or tender for land from government.

Most developers felt that getting land to tender was a lengthy process. Some developers said that it took approximately five years to get government land to tender. A developer who develops in both the affordable and low to high income market (all segments of the housing market) explained why government owned land takes a long time to get to tender as follows: *"Firstly a developer proposes to buy land from government. Then government will tell you that it must go to tender. The internal process to get land to tender, takes government approximately three years as they first have to verify what it is earmarked for, and if there is no land claim involved, etc)."*

An official at the City of Cape Town confirmed that government processes in getting land to tender, were lengthy and complicated. The official explained that school sites in Belhar (at least 10 such sites) had excessive²⁰ land allocated to them which required rezoning. *"You have to go to Public Works and ask them if there is really a need for these excessive school sites. If not, they will probably say that the land must go on tender (even though they were not aware of the excessive land as it was zoned as Public Open Space). The Environmental Department will also be involved, seeing that they manage Public Open Space. The Environmental Department will request all the*

various departments' input over a period of one year. Thus, even the municipality's internal processes are lengthy and complicated."

A developer, who develops in all segments of the housing market, supported the general sentiment that getting land to tender is a lengthy process. He explained that they had been requesting a piece of land in Somerset West for the last five years. *"Every six months the municipality says it is going out on tender, but it never does."*

The price of land purchased through tender, is too high for affordable housing development. A developer developing in all segments of the housing market, explained why the tender process failed to make land available for affordable housing: *"Next to my development, there is a piece of land owned by provincial government on which I could build another 600 houses (and I have already provided the bulk services), but that land must be made available on tender. I had to provide bulk services through their land to get to my land. After a year and a half they acknowledged that we have improved their land, but still stated that the land will have to be made available on public tender. There is therefore no loyalty. When it is made available on tender, they will take the highest price, making it impossible to erect affordable housing on the land."*

A developer, who develops nationally, explained that tendered land had further challenges. *"A developer lost approximately 50 per cent of his land after he was awarded the government tender, due to environmental approvals. The municipality should have ensured that all approvals were in place before the land was made available on tender. The first developer, who was awarded the tender, withdrew. To have a developer withdraw from a tender, is a major red flag. It proves that government has done something very wrong."* Most developers felt that government failed to go through the correct procedures before land was made available on tender, increasing the risk for the developer.

4.2.1.2 Rezoning of land

The rezoning of land, whether it was private or public land, was considered to be a lengthy process by all developers. Private land that needs to be rezoned (normally from agricultural to residential),

²⁰ In the past school sites were allocated much more land than required. As a result schools do not use the land and very often fence off only the part of the land which they use, as it is too costly to maintain the whole site.

or public land with no zoning, requires lengthy EIAs and public participation processes. Lengthy rezoning procedures were confirmed by the City of Cape Town (2008, 2010) which estimates that it takes two years for the zoning, town establishment and engineering design alone.

A large developer, who develops in all segments of the housing market, explained how it took five years to rezone land from undetermined to residential in Mitchell's Plain. *"It took 36 months for the approval period alone. Then the City had to advertise. In total it took approximately five years to rezone 800 housing units from undetermined to residential."*

The same developer explained that the professional team required to rezone 800 housing units from undetermined to residential, cost R2.5 million in fees to professionals (town planners, environmentalists, engineers, surveyors, architects, etc) to provide the necessary services for the approvals to be passed. *"You should just be able to submit a sketch plan to council, indicate your intentions, and request the land to be rezoned. Once it is rezoned, then you can spend money on services which require professionals. But now you have to spend the money before you have your approvals, essentially meaning that you are spending money before you even know if your project is viable."*

Previously, developers would obtain clearances prior to installing the bulk services. They did not first have to spend money on services to obtain approvals. Early clearances allowed developers the opportunity to do presales and installation of bulk services simultaneously, which according to a developer who develops in all segments of the housing market, *"got the project off the ground far quicker."* The same developer explained that the City of Cape Town, however, changed the rules a few years ago, and now requires developers to install the bulk services first, as well as green and plant the development's public open space. *"Only then can developers obtain clearance. A project of 400 houses will take approximately 16 months to get the services and greening done, before the actual building can start. During those 16 months, all the costs for the services and greening (including the holding costs) are for the developer's account. For the developer of affordable housing the risk is too great."*

Developers try to mitigate the risk by selecting land parcels which are less risky. A developer who develops nationally stated that they had three requirements for purchasing land. Land had to be located within the urban edge, services had to be available on the land, and only a basic EIA was

required by the municipality. *“If all three of these requirements are met, it takes approximately 18 to 24 months for all the approvals. If one of the requirements is not complied with then approvals can take many years, I know of a developer who is still waiting for approvals after seven years.”*

Developers assessed land according to risk. Therefore, proper due diligence (from services to rights, etc.) was carried out on all land that developers wished to purchase. Developers agreed that amendments to existing approvals, or new rights, were often required. Studies done on the land were often inadequate and needed to be redone. The services available on the land were insufficient for the number of units the municipality wanted on the project. On many occasions not all the information was disclosed to the developer. For these reasons developers had to investigate all the approvals on the land they were interested in buying, which, if done correctly, was a lengthy process.

4.2.1.3 Environmental Impact Assessment (EIA)

Rezoning land requires an Environmental Impact Assessment, which according to Muller (2006), takes approximately three years. The manager of a large development company flagged environmentalists as not easy to convince that development is important. *“On a particular piece of land consisting of 40 hectares environmentalists claimed almost 23 hectares. This land is a dune system with strandveld. Rubble and household waste is dumped there. A meeting was held with the City of Cape Town and its Environmental Department, and we agreed to off-set profit from the development to rehabilitate other sensitive ecological land in Cape Town. Environmental issues are therefore significant.”*

Furthermore, environmentalists were not business or development driven, which according to a Social Housing Company manager, based in Cape Town, is the reason why EIAs take longer than necessary. *“EIAs simply take too long and there is no urgency around it. Property development is like any other business; you can't get something ready for five years and hope the market is similar to what you have based your feasibility studies on. Developers are now focusing on redevelopment instead of new developments, because of the lengthy approvals. Also, the system has turned to favour the public with regard to public objection. The public can object during the rezoning, again during the EIA process, and then again you can object to Provincial Government once the*

municipality has taken their decision.” Overall, developers were frustrated that approvals (EIAs, rezoning, etc.) took as long as they did and felt it created a more risky environment.

Developers who developed nationally all agreed that the above challenges in the Western Cape, regarding approvals, were not experienced in other provinces. A national developer explained that bulk services were not a requirement for approvals to be passed in other provinces. Another national developer stated that EIAs were much quicker in the Northern Cape, as officials did not defend their land to the same degree as in the Western Cape.

4.2.1.4 Land pricing

The Municipal Finance Management Act, No. 56 of 2003 does not allow government to give land to private developers. Therefore land is made available on tender and the municipality obtains the highest bid for it, which essentially makes it too expensive for affordable housing. Developers felt that affordable housing could only be affordable (less than R500 000) if the land obtained, was priced low enough to eventually be able to sell the housing unit within the affordable market bracket. Since land in the Western Cape is expensive (City of Cape Town, 2008, 2010), obtaining well priced land for the purpose of building affordable housing, is a challenge, and can delay housing development.

A manager of a Social Housing Company based in Cape Town, suggested that land be sold to private developers for a nominal fee and benchmarked R11 per square meter (approximately R1200 per plot) according to his organisation’s feasibility study. Developers all felt that it was almost impossible to purchase land from another developer (who had originally purchased it for development or speculative purposes), as it was too expensive and therefore not feasible. Also, developers stated that land must almost not have a value for a project to be financially viable.

Another manager of a large development company developing in the affordable market also benchmarked R11 per square meter, which is approximately R1600 per plot according to his project, but further explained that from experience, his organisation knew that affordable land in the townships should not cost more than R20 000 (including the whole basket of rights being in place). *“If the land costs (including all the rights, professional fees and holdings costs for approximately three years) are more than R20 000 per plot, you are out of the affordable market. Some developers*

pay R700 000 to R800 000 per hectare and maximize their yield on it in terms of the number of opportunities (70 to 80 units per hectare, possibly more), which costs then R10 000 to R12 000 per plot. Add to that the holding costs and professional fees and it costs R20 000 to R25 000 per plot. R25 000 for a plot is still viable, but it is tight.”

Developers believed that affordable land was not readily available. The perception held, was that ample private land was available by distressed sellers, but not at an affordable price. A developer, who develops in all segments of the housing market, explained that land bought five years ago cost a lot more than they could sell it for. Holding costs and interest also needed to be included in the selling price of the land. *“It is not possible to pay high prices for private land in the present economic climate and still make a profit. If you are lucky to make a profit, the profit margins are too small. Therefore, no developer will buy land at high prices as the risk is too high.”*

All developers agreed that land should be made available for free or at a nominal price for the affordable market. Developers stated that their feasibility studies show a financial model that can only work if land is made available for free, or almost free. They also felt that more could be done to make government land available to developers on what is currently known as a Land Availability Agreement (discussed in chapter two, p.49), where the developer pays the municipality for the land once the built house/unit is sold to the end-user.

4.2.1.5 Financing land

Banks were hesitant to finance land in general due to their burden of repossessed land which they could not sell. All developers agreed that raw land was especially difficult to finance as the rezoning processes were too lengthy, which caused the holding costs (and opportunity costs) to be too high and the returns too far away. Therefore, developers did not purchase land for the purposes of future development (also known as land banking). Lengthy rezoning processes were confirmed, in chapter two (p.50) by Michael Jordaan, CEO of First National Bank (Muller, 2006), as the main reason for banks resisting financing raw land.

Furthermore, developers predicted that land with rights would soon be seeing a large default. RODs (Record of Decisions, which are the environmental approvals) expire after five years, which result in approvals lapsing, further slowing down the development process.

4.2.1.6 Land owned by provincial or national government

Municipal officials and developers were all under the perception that land in the Western Cape was mostly owned by national or provincial government. The process to transfer land from one sphere of government to the next, was a lengthy process. Developers felt that land would be unlocked quicker if all land owned by provincial and national government were transferred to local government (even if developers were not interested in it). A large developer, who develops nationally, highlighted political agendas at play with regard to land in the Western Cape. *“In our opinion, national government has a drive to acquire land in the Western Cape to delay development in this province for political reasons – it makes the ANC look bad when the Western Cape delivers in terms of housing.”* Developer’s sentiments of political battles, were confirmed in chapter two (p.50) by Provincial Housing Minister, Bonginkosi Madikizela in Davies (2009), who explained how two deals to transfer land for free, from provincial to national government transpired just before the elections on 22 April 2009, “without informing the public or the City of Cape Town”.

4.2.1.7 Land invasions

The manager of a Social Housing Company based in Cape Town stated: *“Developers don’t bank land anymore for future developments, due to the threat of land invasions which result in costly legal battles, and even the risk of losing the land entirely.”* A large developer who develops in all segments of the housing market added: *“When I bought land from the City in Site C, Khayelitsha, it was vacant. As soon as the community heard a private developer had bought it, invaders moved onto my land. It took me five years to move 57 squatters at R10 000 a household. Fortunately the City was building in the area, so they moved into the City’s housing. We offered the invaders R2 000 to move; they wanted R20 000 so we settled on R10 000, and we had to use our trucks to help move them. It therefore cost more than R10 000. It is almost a business to invade land.”* Many developers experienced land invasions with one developer paying 30 invaders as much as R50 000 each to move off their land in Muizenberg (approximately 5 years ago). Developers all agreed that land invasions created a risky environment for purchasing land for the purposes of future development.

An official at the City of Cape Town stated that invaders were under the impression that if they invaded land, they would be assisted with housing sooner. *“Invaders have the mindset that if you*

want to develop the land you have to help the people on the land.” Such a mindset was proven accurate in Happy Valley where 1350 units were built by the municipality for the people of Happy Valley only (no single person on the waiting list was assisted). Many of those receiving housing units were non-qualifiers (in terms of the subsidy scheme), and some had already received a house.

Officials at the City of Cape Town explained that land invasions created an unfair scenario, where invaders were assisted with housing before those on the official housing waiting list. Furthermore, invaders prevented developers from developing their own land, which in extreme cases, was returned to the municipality with its occupants. The Anti-Land Invasion Unit, discussed in chapter two (p.51), is suppose to prevent such land invasions, but did not protect private land. This unit, however, appeared to be successful as no new informal settlements were established in the last year since the unit started. But, an official at the City of Cape Town felt that the unit’s success was questionable. *“Informal settlements have not grown in number but have mushroomed from within, so if you want to provide basic services, you have to move people. And where do we move them too?”*

Developers that experienced land invasions felt that their private land was a target, as invaders hoped that they would receive housing sooner, or be compensated for moving. The same developers stated that invaders on their land always benefitted in some way from invading the private land. While invaders benefitted from invading land, developers had to pay the price for their benefit. All developers agreed that to avoid having to pay out land invaders, and deal with the associated problems, land was no longer purchased for the purposes of future development – the environment was too risky.

4.2.1.8 Land titling

Most developers felt that the lack of land titling was not a barrier to housing development in the affordable market/townships. However, those developers operating predominantly in the subsidy market acknowledged that they had numerous problems with allocating title deeds to subsidy beneficiaries as many of the owners were no longer living in their subsidy house. The large number of informal sales (without title transfer) supports Rust’s (2007) argument (counter argument of De Soto’s theory) that formal title does not give owners a sense of security. Therefore land titling,

although a problem at operational level, is not a barrier to private developers entering the affordable market.

4.2.2 BARRIER 2 - FINANCE

Finance was considered the second most significant barrier with 56 per cent of the respondents choosing it to be the second barrier. 33 per cent felt it was the most important barrier reasoning that without finance, no project could be launched. The reluctance of banks to provide finance to the affordable market was highlighted as a problem but, on the balance, was understood by developers, given the current economic climate and the risk profile of the market.

Government was again implicated as a barrier, within the barrier of finance. Government's unwillingness to guarantee payment or withholding payment did not create an enabling environment for development. Finance was considered a barrier in the following ways:

4.2.2.1 Development finance

Developers felt that development finance overall was not a problem. They obtained funding from International Housing Solutions (IHS) worth approximately R1.9 billion (Development Bank of South Africa, 2010), Old Mutual worth approximately R9 billion (Business Report, 7 July 2007), government, parastatals, pension funds, Investec, etc. All developers agreed, however, that obtaining finance from the four major banks was hugely problematic due to the current economic climate. Banks preferred to finance smaller pockets of development rather than larger developments, as larger projects carried greater risk. Raw land was especially difficult to finance due to the lengthy approval processes which delayed actual development (and return on investment) for approximately five years. Banks furthermore gave developers with a history of rental development preference, when rental projects required finance, making it more difficult for other developers to obtain finance.

Banks did not necessarily reject developer's applications, but rather imposed difficult conditions on their approvals, such as pre-sale conditions or equity contributions as high as 50 per cent. A developer developing in all segments of the property market stated that the banks conditions were seldom feasible. "*Finance is worth nothing if the banks want you to give 50 per cent equity.*"

Obtaining development finance was further problematic with social housing projects. The social housing company (who is the client of government), employs the developer to build housing units. The developer therefore is the executor; the social housing company is the client of government. According to a manager of a Social Housing Company in Cape Town, the Social Housing Regulatory Authority (SHRA) should therefore give developers a guarantee that they will make payment. *“SHRA refuses to give developers a guarantee and expects developers to carry the risk. To expect a developer to build a R300 million development without a guarantee is ridiculous.”* Banks refuse to finance developers if SHRA does not guarantee payment. Also, banks cannot accept a guarantee from government even if they do provide it, because there is no guarantee that SHRA will hand over the money from national government to the developer.

Furthermore, government withholds 20 to 30 per cent of payment to the developer for up to two years after the social housing project is completed. The same Social Housing Company manager explains that payment is withheld despite the project being handed over to the Social Housing Company. *“So, the Social Housing Company gets their full product up front, but the executor, the developer has to wait 1 to 2 years for full payment and carry the cost of 20 to 30 per cent of construction.”* Banks refuse to finance under these conditions.

4.2.2.2 End-user finance

Developers agreed that banks would not finance households who earned between R3500 to R7000 per month. Households, who earned above R7000 per month, were exposed to harsh criteria which some developers understood to be necessary due to the high risk profile of the clients. For every ten bond applications the average success rate was two, meaning that 80 per cent of applicants were declined. The high rate of unsuccessful applications was affirmed by Lightstone (2011) in chapter 2 (p.55) which states that the four major banks were only approving 8 000 bonds per quarter in 2009, while almost 30 000 bonds per quarter were approved in 2006.

Blacklisting was the main reason for the rejection of bond applications. Developers explained that potential home buyers were often not aware that they were blacklisted. They were blacklisted for not paying TV licences, cell phone accounts, clothing accounts, furniture accounts, etc. Essentially the affordable market clients were mostly blacklisted for not paying trivial goods, but were overall

good paying clients. Developer's research indicated that the affordable market prioritised housing and education and made payment on them, so even if they were blacklisted for unpaid cell phone accounts, it would be unlikely that they would default on their bonds.

Developers felt that bank officials seldom investigated the circumstances around the blacklisting, and were seen as unsympathetic robots that generate pages of information, only to reject applicants on the basis of them being blacklisted. Little effort was made to assess why the person was blacklisted, how much the person owed, and why they did not make payment. Banks did not assist with rehabilitating clients, so developers often took on that responsibility.

Furthermore, banks resisted allocating 100 per cent bonds to large segments of the affordable market. Developers experienced banks to refuse 100 per cent bonds to households earning less than R10 500 per month. Therefore, government's view that a household income between R7 500 to R15 000 per month was sufficient to obtain a 100 per cent bond, was misguided. Developers felt that they lost their market from R10 500 downwards as banks regarded those clients as high risk clients.

Approved bonds to households who earned below R10 500 per month had difficult conditions that needed to be met for the bond to be finalised. A national developer, who develops in all segments of the market, explained that often a 30 per cent deposit was required. *"A 30 per cent deposit, in the affordable market, is almost impossible, as people earn too little to save."* Such conditions were confirmed by Mortgage Alliance (2011) in chapter two (p.55) where some banks only gave 70 per cent loan-to-value (LTV) thereby necessitating a 30 per cent deposit.

Large deposits required by banks did not conform to the sentiment expressed in the Financial Services Charter (FSC), discussed in chapter two (p.60), which encouraged banks to lend more extensively to the affordable market. Developers showed annoyance with the banking sector as clients were often rejected for a bond of R250 000 to buy a property (over 30 years), but were approved a week later to purchase a car for R180 000 through Wesbank.

The sentiment that the FSC expressed, was further contradicted by banks which penalised high risk clients with higher interest rates, resulting in the end-user paying a premium. Developers experienced that the premium often caused the client to not qualify for the bond. For example, if a

bond was assessed at 10 per cent, the client would have qualified, but if it was assessed at 12 per cent, thus a two per cent premium included, the client would not qualify. All developers agreed that banks increased their own risk when they charged a premium interest rate because the end-user was required to pay more, heightening the risk of the end-user defaulting.

Banks were also viewed as inconsistent. A developer who develops in all segments of the market explained that one month a bank would grant bonds and then suddenly stops. *“Banks only show interest when they lose market share, which makes them look bad, so then they make a deal with the developer to grant development finance on the condition that 80 per cent of the development’s bonds are theirs ... banks play these games.”*

The general opinion from developers was that banks needed to develop more innovative funding options for the affordable market. A manager of a social housing company explained that oversees funding options, discussed in chapter two (p.57) were numerous and assisted the poor into house ownership. *“In some countries the social housing companies sell their properties below market value, but require a share in the profits when the house is eventually sold on the open-market. Or, the new owner buys a portion, as well as rents a portion of the property from government. Once the purchased portion is paid off, the rented portion is refinanced. The South African Banking Industry is just not innovative enough in assisting the affordable market to buy houses.”*

4.2.2.3 Affordability

Developers who operated nationally highlighted the disparity in affordability in the different provinces. End-user affordability was more problematic in Cape Town, because land in the Western Cape, was the most expensive in South Africa (City of Cape Town, 2008, 2010). To aggravate the situation, the earning potential was lower in Cape Town compared to some other major cities like Johannesburg. Therefore, in some instances, Cape Town residents had lower incomes, but had to pay more for housing.

Research conducted by a national developer, based in Cape Town, but who develops affordable housing outside of the Western Cape, identified that South Africans expected more than they could afford in terms of housing. *“South Africans must be realistic about what they can afford.”* In Cape

Town, expectations had to be significantly altered as residents needed to pay substantially more for the same product found in other parts of the country.

A national developer who develops in the affordable market, explained how in other parts of the country, there was a significant take up of houses worth just above the BNG house (worth approximately R160 000²¹). Such housing units are called RDP plus homes, and are not built like subsidy homes, but rather take the form of “walk-up” apartments. The significant take up of a housing unit valued just above the BNG house, was in line with Rust’s (2006) research emphasising the missing rungs currently in the affordable market. Providing an RDP plus unit worth R160 000 in the Western Cape, is problematic because of the high land values, however, a house worth R200 000 would also fill a significant gap in the housing ladder.

Developers agreed that there was no supply of housing units worth approximately R200 000 in Cape Town (which is affordable to a household earning R6 000 per month, given a 10 per cent interest rate). And, even if there were, developers explained that banks would resist financing households who earned less than R10 500 per month. Furthermore, the same developer explained that officials at the City of Cape Town resisted RDP plus “walk-up” type properties that is so popular in other parts of the country, which then requires educating officials to the huge success of such properties. Developers overall felt that affordability was not a significant barrier, and added that they could reach down lower into the R3 500 to R7 000 income range if banks could provide 100 per cent bonds.

However, a few developers felt that affordability in the subsidy band, was a significant barrier, and agreed with government policy that such households were unable to assist themselves, suggesting an increase in the R3500 household income ceiling. But, those developers were proven incorrect as social housing projects were already working with households earning from R2500 per month (www.capetown.gov.za) proving that government housing policies underestimated people’s ability to assist themselves and pay something (albeit small) towards their housing. Therefore, despite earning less than R3500 per month, tenants in social housing projects were assisting themselves to meet their own housing needs, refuting affordability as a significant barrier.

²¹ In other parts of the country the BNG house is worth less as the land value is worth less.

4.2.2.4 Red-lining

All developers agreed that banks red-line certain areas that they deem to be high risk despite banks protestations to the contrary. Obtaining bond approvals for property in the townships were the most difficult. A large developer developing in all segments of the property market, explained how one bank rejected a bond application on his Kuils River development, but approved the same client's bond application on his Mitchell's Plain development. Banks regarded Mitchell's Plain as an area with good infrastructure and good returns on investment. *"In Mitchell's Plain you can convert a garage to a granny flat and get R3000 rental income per month."* Kuils River, however, is populated with many other affordable houses. Therefore, should the owner default on payment, the sale of the defaulted property would be one of many properties for sale at that price in Kuils River.

Some banks red-lined properties they deemed to have too small an erven size, in accordance to their small erven policy (which was not in line with government's goal of densification). Contrary to their small erven policies, developers highlighted that the same banks would finance sectional title properties which share an erf. Sectional title units were red-lined (Sectional Title South Africa, 2010) if they did not have allocated parking bays available inside the complex (discussed in chapter two, p.59).

Properties have also been red-lined by banks if they were built using alternative technologies. A municipal official explained how a well-known bank refused to finance a gap house that was built with sand bags. The bank not only refused to finance the sand bag house, but also refused to finance the house next door to the sand bag house, because the sand bag house would bring down the value of the brick and mortar house. Banks determined the value of a property by looking at the value of the neighbourhood; alternative technologies were seen by banks to bring down the neighbourhood and therefore the value.

Reinformalisation of properties, which is the attachment of shacks to already built homes, was considered by banks to lower the value of the overall neighbourhood (Shisaka, 2003), discussed in chapter two, p.60. Therefore, banks red-lined areas that experienced reinformalisation. Banks did not only look for risk in declining neighbourhoods, but also assessed clients according to their risk

profile. Households, who earned less than R7 000 per month, were refused finance and no innovative funding mechanisms were available to accommodate such income earners.

Overall, developers agreed that banks continued to red-line if they felt they could not recoup their investment when bond defaults occurred. In some instances developers believed banks to be responsible in their lending criteria, but for the most part, banks were considered to be unreasonable and often discriminatory.

4.2.2.5 Bank fees

Banks charge an initiation fee on each transaction, as well as a deal fee of 1 per cent on the selling price of the property. On the development side, banks charge another 1 to 2 per cent deal fee. Bank fees thus influence developer's profit margins negatively and it also influences affordability for end-users. According to IC Growth Group (2012) in chapter two (p.61), initiation fees for the affordable market is R5 700 for all four major banks. Assuming that a property sells for R350 000, then the deal fee amounts to R3 500. Therefore banks alone are loading another R9 200 on a property that sells for R350 000. End-users in the affordable market pay the R9 200 off over 20 to 30 years. All developers felt that the bank fees were excessive for the affordable market.

4.2.3 BARRIER 3 - GOVERNMENT INEFFICIENCIES

Government inefficiency was considered the third most significant barrier by developers, and went hand-in-hand with all the other barriers. But since it is clear that government inefficiencies and intervention is the underlying problem in most of the barriers indicated, it is reasonable to assume that many of the other barriers would not be as significant a problem if government were not involved. Possibly if government were not so inefficient, land would not be considered as big a barrier as it currently is. The following areas were highlighted as government inefficiencies:

4.2.3.1 An uncoordinated approach – different spheres of government

A national developer explained that developing integrated projects was a complicated process because different spheres of government needed to be dealt with. Integrated developments are made up of BNG, gap, CRU, social and open-market units that all have different funding sources, which

according to the Development Bank of South Africa (2011), should be simplified into a single subsidy system (discussed in chapter two, p.65). *“Our current integrated project obtains funding from provincial government, the Department of Energy, the municipality, Eskom and SHRA, and we as developers have to play facilitator between the different funding bodies to ensure that all of them do what they need to do at the right time, because if one of them does not do what is required, then we can’t have our next critical path commence.”*

The same developer stated that coordination between the different spheres of government was lacking. *“We have to facilitate all the different line departments to know what the other departments are doing. And they don’t know. The private sector is caught in the middle of an inefficient system that is not coordinated.”* The Financial and Fiscal Commission (2012) confirmed the frustrations faced by the developer and stated that institutions involved with housing delivery, lacked coordination as they did “not have clear, distinct roles in the process” (discussed in chapter two, p.61).

4.2.3.2 Capacity constraints of officials and municipal offices

All developers agreed that government officials (environmentalists, town planners, administrators, etc.) did not understand the business side of development. Officials were seen to delay projects with little concern or urgency about the costs incurred to developers. Building and Planning Department officials were the most criticised by developers for delaying projects, which a social housing manager explained, would persist as long as officials got paid whether they approved 10 or 100 plans.

Planning officials at the City of Cape Town enforced parameters in a national developer’s designs. These parameters had huge cost implications, and rendered the project financially unviable. *“The cost implications of the way the municipal official wants us to build the BNG units (which is not in line with national policy) is R20 million extra for approximately 500 units. He wants a Rolls Royce BNG house. We are cross-subsiding the units and they will be much nicer than the typical BNG units, but he is not happy, so we go to the City and ask for the extra R20 million which they won’t give because they can build many more BNG units with R20 million. They tell me to go ask the planner for the extra R20 million. We try and explain that the extra R20 million will sink the project, and the two officials argue with each other. So we have a meeting with the Executive*

Directors, a big forum, we brain storm, and four weeks later we get the minutes, but you still don't know where you stand. You can't have two officials fighting with each other for the same purpose, especially when private sector is cross-subsidising into the government product. 90 per cent of the delays on this project were due to planning officials."

Planning officials were often not up to date with new developments in housing policy, which is what a national developer experienced with an official at the City of Cape Town. The official delayed a project for eight months because the official was not clear on the procedures to be followed for Council Rental Units (CRU), as these types of units had not been built for forty years.

The same developer stated that City officials did not understand the City's own densification plan. *"Recently, the entire social housing component of an integrated development has been turned down by City. Social Housing is where housing should be going, but it has been turned down because there is no vision. Town planners can unfortunately play a detrimental role in housing delivery."*

Municipal officials, who lacked capacity, affected service delivery in municipal offices and for the municipality in general. The significance of the lack of capacity was highlighted by Ensor (2008) who refers to the then Housing Minister, Lindiwe Sisulu's objection to municipalities being accredited as developers, because she felt that municipalities lacked capacity to deliver housing (discussed in chapter two, p.63).

Lack of capacity in municipal offices was a source of frustration for all developers. A subsidy house developer felt that all municipal offices lacked capacity. *"They are all useless."* But most felt that there were marked differences between municipal offices based in the affordable areas (eg Khayelitsha) versus municipal offices based in the more affluent suburbs. A developer, who develops in all segments of the market, explained that the quality of officials based in Khayelitsha, was significantly different to officials based in Kraaifontein. Processes move quicker in older municipal offices where officials have been working for many years, compared to new municipalities in areas where they have never had municipal offices before (such as Khayelitsha and Blue Downs). *"The average official at the Khayelitsha branch does not know off the top of his head that there is a pipe running under the ground on a particular erf. He was not around then and does not understand the planning that was done twenty years ago, and this causes delays."*

The same developer explained that developers avoided developing in areas like Khayelitsha, because delays in the newer municipal offices were more likely, which increased holding costs for developers. *“We lost R3 million in Blue Downs because the plan approvals and subdivision approvals were delayed by the municipality in those areas. Also, the Khayelitsha municipal office struggled to issue fees for 43 single residential plans (fees are normally given the next day). Municipal officials claimed that they could not calculate the fees as they ran out of yellow envelopes to put the plans in so the municipal office could calculate the fees. The Khayelitsha municipal office furthermore lost our plans three times which resulted in huge reprinting costs.”* Plans that normally took two weeks to pass in the Helderberg municipal office, took 18 months to pass in Khayelitsha. Both municipal offices fall within the City of Cape Town, but the level of service delivery differs significantly.

Service delivery disparities were caused by disparities in workloads. A manager of a Social Housing Company stated that workloads in municipal offices in affordable areas, differed to workloads in municipal offices located in suburban areas. *“The work load has shifted from typical white affluent areas where the property market has collapsed, and the area is already mostly developed, to areas like Khayelitsha where one developer will build 900 units at one time. Ten people thus cannot be looking at 900 plans in Khayelitsha, while 50 people in the CBD look at two complex plans in Camps Bay. You need to put the resources where it is needed and it is needed where development is taking place.”*

A developer developing in all segments of the housing market explained that Khayelitsha also did not have all the required officials. Officials for rain and storm water are based in Somerset West, while other officials are based in Kuils River and so on. *“So everything has to be circulated. The courier comes through, picks up disorganised heaps of paper (maybe) and it gets lost along the way. So we have a person that walks the documents from one department to the other himself, otherwise it is a mess.”* A further problem in Khayelitsha and other township municipal offices is that they experienced higher levels of staff turnover, as trained staff moved to other offices once the opportunity arose, further hampering service delivery in municipal offices situated in affordable market areas.

A developer developing in all segments of the housing market, complained that service delivery was hampered, as the Kraaifontein, Khayelitsha and Athlone offices all had different plan approval

systems. *“You would think that within one City plan approvals would all be the same, but it appears that each municipal office head decides what is more convenient for them.”* Newer municipal offices appeared to struggle to align their processes with each other and the older municipal offices.

Newer municipal offices further struggled with the volume of developments, as they did not have the capacity for bulk approvals for developments of a large size. Often developers handed in 1200 BNG plans for approval, but the municipality could not administer the volume. Therefore, blanket approvals are often given and the municipality “catches up”.

Developers therefore chose to operate in areas with the least resistance and cost. Developers avoided developing in the affordable market, more especially in the townships, because the lack of capacity of officials in the municipal offices, incurred extra problems and costs for developers.

4.2.3.3 An uncoordinated approach – local municipality level

A developer, who developed affordable housing outside of the Western Cape, explained how the City of Cape Town was extremely difficult on a commercial project developed in a township in Cape Town. *“Nothing was right for them; we had to submit applications to a number of different municipal offices who simply don’t communicate with each other. At one point we had to go to Province to get our Site Development Plan (SDP) approved, because the City said that the area in which we wanted to develop, fell under the old Black Areas Act which was repealed and never replaced with another Act. Thus, the City felt it resorted under Province. Province justifiably thought that was ridiculous, and sent it back to the City.”*

Furthermore, the municipality’s uncoordinated approach was further highlighted by a national developer who complained that there were no linkages between different municipal departments. *“To get the Department of Environmental Affairs and Development Planning to work together with the Department of Human Settlements, and understand the urgency of a pipeline needed on our projects, is virtually impossible – those links don’t exist.”*

A local developer who develops in all segments of the market, emphasised the importance of the links between the different municipal departments, and explained that a developer submitted his

application to 13 different departments. All these departments had to provide feedback to their project manager. *“It took three months for just the first stage of approvals to come back to us. And this is a presidential project.”*

4.2.3.4 The City of Cape Town was anti-development

Those developers, who developed throughout South Africa, agreed that it was more difficult to develop in the Western Cape because certain requirements were imposed on developers by the City of Cape Town that was not imposed on developers outside of the Western Cape. For example, in Cape Town, bulk services were imposed on developers in the tender. These same requirements were not imposed on developers in other parts of the country, but would still need to be done by the developer if they wanted to develop on the land. Developers' sentiments were considered by the Financial and Fiscal Commission (2012) who encouraged the City to “champion projects that encourage, not hinder, participation by other role players”. Developers overall saw the City of Cape Town as anti-development.

4.2.3.5 An uncoordinated approach – national, provincial and local government

Since the City of Cape Town was accredited as a developer by National Treasury, there was no need for the City, in theory, to apply for funds from provincial government. However, as a national developer explained, the Provincial Department of Human Settlements, who was still trying to hold onto their mandate, insisted on being the technical reviewer of the project. *“The developer instructs his architect to design the plans according to what the municipality wants, so that the plans will be approved. In the meantime, a portion of the funds is still with provincial government which the municipality (who is the accredited developer) will request. But provincial government will not transfer the funds until they have reviewed the project. This means that you then have to resubmit everything, your plans change, you essentially go back to the drawing board.”*

The decision to accredit the City of Cape Town as a developer was highlighted by a national developer as an example of how national government's decisions were not practical. The same developer criticised the “one size fits all approach” (Financial and Fiscal Commission, 2012, discussed in chapter two, p.66) and complained that the private sector was never consulted when principles, guidelines, policies and legislation were passed down from national government to other

organs of state. If the private sector were consulted, the practicalities around accrediting the municipality as a developer would have been addressed.

Developers also experienced instances where officials in the municipality and provincial government were not able to work together. Some developers experienced three month delays on their projects, because officials were fighting over whose mandate it was to issue a cheque.

4.2.3.6 Government officials fearful of taking decisions

Most developers agreed that government officials, despite having the authority, chose to avoid taking decisions for fear of losing their position or upsetting their political leaders, which was confirmed by Boyle Walford (2012) in chapter two (p.67). A developer who develops in all segments of the market explained that a form that should take ten minutes to complete takes eight months, because officials avoid giving authorisation. A national developer who only developed affordable housing outside of the Western Cape, sketched the following scenario to explain how decisions were avoided in the municipality, and how the accountability was passed on to junior staff. *“Imagine you are a junior town planner and you are required to tick a number of boxes on a sheet of paper. You take it to your boss who asks you if you are sure that everything should be ticked. Once you say yes, he asks you to sign the document (something that he should be signing for).”*

Municipal managers, according to a developer who develops in all segments of the housing market, would not support their staff if they took a risky choice or a wrong decision. Should a period of investigation follow due to a wrong decision, the work will also not get done. *“Officials get suspended for five months (with a full salary); go through an enquiry only to be told that they followed the correct procedures and should return to work. Once again nothing gets done during those five months.”*

4.2.3.7 High staff turnover rates in government

Developers attributed the high turnover of staff (more especially after local elections) as the root cause of government inefficiencies. High staff turnover rates resulted in non-payment or late payment of government projects, as well as project delays where staff left before the development

was complete and replaced with new staff. RSA (2007) indicates in chapter two (p.67) that high staff turnover rates exacerbate the administrative burden in the housing delivery system, causing further inefficiencies.

4.2.4 BARRIER 4 - PROFIT MARGINS

Thin profit margins were the fourth most significant barrier to private housing development in the townships. For any project to be viable, profit needs to be possible, and since profit margins in the townships and overall affordable market are so small, profit margins are in itself, a risk.

The fourth barrier to housing development in the affordable market (profit margins) also encompasses government inefficiencies and inadequacies. Government's unrealistic expectations of private developers, erode already thin profit margins, and hamper private housing development in the affordable market. Profit margins were a barrier for the following reasons:

4.2.4.1 Profit margins thin in affordable market

Due to risk factors in the affordable market, profit margins were thin. If something went wrong, for example theft, it eroded profit margins and sometimes almost completely destroyed the profit.

On the demand side, the subsidy market was less risky, because the subsidy house did not have to be sold, but rather handed over to a beneficiary. The gap house, however, needed to be sold so the gap market was seen to be the most risky, with private developers requiring a higher return on investment to mitigate the risk.

While subsidy house developers made a profit of approximately R5 000 per unit, gap house developers were lucky to make a 10 per cent return (despite indicating a 15 per cent return on their finance applications, which otherwise would not be approved by banks). Although indicating a lower per unit profit in the subsidy market, housing delivery figures (Sexwale, 2010a, Financial and Fiscal Commission, 2012) indicated that developers were more enthusiastic to develop in the subsidy market. Developers believed that the subsidy market was less risky (no sales, no land costs, subsidised services, etc) and felt that they could benefit from economies of scale (Financial and Fiscal Commission, 2012) as subsidy housing developments were taken on at an impressive scale.

For the above reasons then, gap housing was avoided by developers due to low profit margins not mitigating the risks in the gap market.

A large developer calculated the costing of a gap house as follows:

Table 4.1 Costing of a gap house	12 000	
Raw land		
Rights on land	20 000	
Internal services	30 000	
Bulk external services	20 000	
Development contribution	25 000	(which is 50 per cent of internal and external services combined)
Electrical internal services	15 000	
Electrical bulk services	10 000	
NHBRC	5 000	(1.3 per cent of selling price)
Building costs	126 000	(which is R2800/m ² , a gap house is approximately 45 m ² , therefore, R2800 X 45 = R126000)
Interest	20 000	(including bank deal fees)
VAT	40 000	(14 per cent)
TOTAL COST	323 000	
PROFIT	32 000	(10 per cent)
SELLING PRICE	355 000	

Source: Author's representation based on an anonymous developer

4.2.4.2 Building Industry Bargaining Council (BIBC)

Developers agreed that the BIBC, discussed in chapter two, p.68 (www.bibc.co.za), was acceptable in theory, as workers injured on duty in the development and construction industry, were remunerated if they were not able to work due to their work injury. In practice, however, the BIBC escalated the labour cost by 38 per cent, which was significant, given the affordable market environment where the profits barely covered the possible risks.

A national developer explained the dilemma developers are in with BIBC demands of a 38 per cent wage increase on the one side and the Department of Human Settlements who capped the allocated subsidy on the other side. *“The BIBC claims that they are mandated to protect the labourers in the industry, and are not concerned about housing delivery, or the housing backlog. The Department of Human Settlements, on the other hand, is not even aware of the BIBC and how it impacts on profits. Over and above the increased labour rate, we are expected to work with thin margins, participate*

in corporate social investment, and cross subsidise into subsidy houses ... some developers have had to let labourers go.”

In addition to the increased wage rate, developers have to pay to register with the BIBC. Developers are fined if they are not registered (www.bibc.co.za) and their projects are shut-down. And, if the developer's sub-contractors are not registered with the BIBC, the developer is liable for the total fine. Registered sub-contractors also have to pay their workers the BIBC wage rate, which according to a national developer *“kills the deal immediately.”*

Developers and sub-contractors are forced to enrol workers as a beneficiary of a pension and medical aid fund in an industry where workers often only work one day. The cost and administration burden is too high. *“Sub-contractors suddenly need to fulfil all this red-tape for staff that constantly turns around, instead of focussing on delivering on a project. Sub-contractors are good at their required skill; writing reports and administration is not what they do.”*

Developers and sub-contractors in other parts of the country were not affected by the BIBC as the BIBC was only implemented in the Western Cape (www.bibc.co.za). A national developer explained that the BIBC's presence made it more difficult to deliver housing in the Western Cape which red-flagged political agendas at play. *“It was an organisation formed to halt housing delivery in the Western Cape – nothing more. In Gauteng you pay less for labour to deliver BNG houses; in the Western Cape you pay more for labour, and, if you or your employees are not registered, they halt your project. Initially they were going to start in the Western Cape and progress throughout the country. They tried it in Bloemfontein, but it was scrapped basically because they could not deliver housing if they implemented the BIBC.”*

4.2.4.3 Developer's contributions (DCs)

According to the Land Use Planning Ordinance Act (LUPO), discussed in chapter two (p.69) (City of Cape Town, 2009), the municipality is responsible for bulk services which is covered by the rates base. But municipalities did not install sufficient bulk services (water, storm water, sewerage, roads, etc.) during the boom period when towns increased in size significantly. Therefore, to alleviate the backlog in bulk services, municipalities charge DCs, which developers feel is now required because municipalities did not manage the problem years ago.

Developers resent that the responsibility of bulk services has been transferred to them and feel that DCs are especially a barrier to housing development in the affordable market. End-users essentially are disadvantaged as DCs are added to the eventual price of the housing unit. For this reason, developers felt that DCs should be waived in the affordable market (not just the subsidy market), which, according to the Supplement to the Interim Policy on Development Contributions MC 45/09/04 (City of Cape Town, 2011), discussed in chapter two (p.70), is possible and lies at the discretion of the municipality or Provincial Minister.

An affordable market developer explained that DCs are seldom waived and stated that the City expected too much from developers. DCs are calculated per unit according to a standard rate for a specific area. Any bulk services provided by the developer are normally written off against the DC that the developer owes to the municipality. If the DC amount that the municipality calculated on a development is higher than the amount of services that the developer installed, then the developer must pay the difference to the municipality. But if the developer pays more for installing bulk services than the municipality calculated, the municipality will not reimburse the developer.

Different municipalities calculate DCs differently which has become a sensitive issue in areas such as George, Hermanus and the Southern Cape. George municipality therefore started calculating DCs on a sliding scale, meaning that the DC for a two bedroom house is less than the DC for a five bedroom house (thinking that a smaller house would use fewer services). As a result, a wealthy pensioner in Hermanus, who builds a small two bedroom retirement home, now pays the same DC as a gap house. In George, DCs are approximately R60 000 per opportunity which is why the manager of a social housing company stated that “[w]e have now reached a point where we simply can’t develop in George due to the DCs.”

4.2.4.4 Value Added Tax (VAT)

Developers felt that VAT should be zero rated for the affordable market, but had little hope of this happening. The reasoning behind zero rating VAT was to make housing more affordable to reach people earning in the lower gap market. According to Webb (2011), as discussed in chapter two (p.70), VAT adds approximately R450 per month to bond repayments on a house worth R400 000 and should therefore rather be collected and used as a deposit to mitigate bank’s risk.

4.2.4.5 National Housing Building Registration Council (NHBRC)

Most developers felt that the NHBRCs 1.3 per cent levy (www.nhbrc.org.za) was not value for money. A number of developers argued that the NHBRC simply delayed development, and increased the price of the unit for the end-user. The NHBRCs influence on profit margins was more noticeable in the affordable market due to margins being so thin. NHBRC was paid for by government in the subsidy market, but all housing above the subsidy house, had to pay the NHBRC levy.

4.2.4.6 Alternative building technologies (ABT)

Alternative building technologies were highlighted by most developers as being more economical and requiring less skilled labour. However, developers were not able to develop houses using alternative technologies, because communities disapproved of it, and banks refused to finance houses built with alternative technologies. Developers explained that a 40m² block and mortar house takes approximately 3 to 4 weeks to build. In comparison, 15 houses can be built a day using alternative fibre cement products that arrive on site in panels with windows already in place for quick assembly. Block and mortar houses required more labour who often made errors, and materials are wasted when using block and mortar. Fibre cement houses look identical to block and mortar houses, and are well insulated. According to Stephan De Blanche (Greve, 2012), discussed in chapter two (p.72), ABTs were almost always completed in less time, were cheaper, and often of a better quality.

4.2.4.7 Cross subsidisation of subsidy units

Integrated developments consist of BNG, gap, social, CRU, and open-market unsubsidised units, and often commercial nodes are also present. Developers who have been involved in developing integrated developments, have found that it is difficult to sell an unsubsidised unit on the open market for R700 000 if it is located next to a typical government BNG house. Therefore developers are forced to upgrade (commonly known as up spec) the BNG house so that it looks more in place within the development.

Municipalities also encourage developers to upgrade the specifications of the BNG house by scoring developers according to the amount of extras they can include in the house. The more extras a developer can offer (eg a boundary wall, a solar powered geyser, etc.) the greater the chance they have of being awarded the tender. Therefore developers offer higher specifications hoping to be awarded the tender resulting in a high specked BNG house.

In integrated developments, the upgrade of specifications, in the BNG houses is not at government's expense but rather for the private developer's account, and is referred to as cross subsidisation, where the higher end private properties subsidise the lower end government properties. Cross subsidisation into the government house has created a high specification BNG house which is almost identical to private gap houses worth R290 000.

As a result of the cross subsidisation, developers find it difficult to sell a R290 000 gap house as people can get almost the same house for free. Developers are thus forced to make a distinction between the BNG house and the gap house. With the BNG house already being upgraded, the gap house too has to be upgraded (without increasing the price), further compromising profit margins. As a result of the upgraded specifications of the BNG house (through cross subsidisation) all the rungs above the BNG house also need to be up specked (while keeping the pricing constant) as gap house buyers want to see that they are getting more than what the subsidy house offers, because they are paying for it.

Overall, developers felt that the affordable market was distorted due to the BNG subsidy house being worth more than it should, due to its high specifications. Cross subsidisation into the subsidy BNG house enabled the free government house to improve in specifications. Since cross subsidisation was sometimes required for 40 per cent, (discussed in chapter two, p.73, Financial and Fiscal Commission, 2012) of an integrated development, the cost to the private sector was significant.

4.2.4.8 BNG subsidy houses distort the affordable market

BNG developments obtain a subsidy for land, services on the land, electricity, NHBRC levy, and VAT is not applicable in BNG housing. Therefore BNG developers can build a BNG house for R100 351 (including a profit), because serviced land and the NHBRC levy, is subsidised by

government and VAT is zero rated. However, if all the hidden subsidies were included in the BNG house, the house's true value would be worth approximately R140 000 as discussed in chapter two, p.73 (Financial and Fiscal Commission, 2012).

The hidden subsidies and the high-value of the BNG subsidy house, is hugely problematic for gap market developers who have to pay market related prices for land, services on the land, NHBRC levy, DCs, holding costs and the required VAT. Assuming that gap market developers could build a gap house for R140 000 (including serviced land, NHBRC levy, DCs, holding costs and VAT), it would have to be better specked than the subsidy BNG house for it to sell, as discussed in chapter two, p.73 (Rust, 2006). For these reasons the BNG subsidy house, which subsidy beneficiaries receive for free, is a barrier to gap housing developments, as gap developers are only able to develop for the top end of the gap market. The bottom end of the gap market is therefore distorted by the subsidy house.

4.2.4.9 Escalation in the cost of building materials

Escalation in the cost of building materials is something that private developers find very difficult to predict. The Bureau of Economic Research, as indicated in chapter two, p.74 by Rust (2006), cited cement as having increased by 143 per cent between February 1998 and February 2005. Developers felt that even the Construction Index was wholly inaccurate, and that building materials constantly changed – and not by small amounts. Also, certain materials were suddenly not available in South Africa for a few months and needed to be imported during that time increasing the price. Many suppliers were forced to shut down due to the economic climate, which resulted in those remaining suppliers acting like monopolists, further hiking prices.

4.2.5 BARRIER 5 - TOWNSHIP/AFFORDABLE MARKET ENVIRONMENT

The township and affordable market environment was considered the fifth most significant barrier to private housing development. Developers felt that this type of environment increased the risk profile of affordable housing significantly. Again, government involvement along with government inefficiencies, are highlighted as significant under the fifth barrier (township/affordable market environment) to private housing development. The township/affordable market environment was a barrier for the following reasons:

4.2.5.1 Crime

Most developers agreed that crime in and of its own was not a barrier because it could be managed, but all agreed that it increased the cost of the end product influencing profit margins and affordability. Although crime was not a barrier, a large developer explained how it added risk to an already risky environment. *“Criminals constantly steal the window frames out of the buildings. You want to produce an affordable product, but you end up pricing eight windows instead of four windows, because you have to factor in the theft element. The end-user pays the premium.”*

Given the losses experienced during theft, developers were forced to hire private security companies, such as Protea Coin, which costs R75 000 per month, to secure their developments which naturally impacted on the end price of the units in the development. A developer who operates mostly in the subsidy market, stated that they fenced in all their sites due to both theft and protest action. *“We recently spent R1 million to put up a fence around our site. We also have interest in a small security company who does site specific security; we have a little army on site.”* While most developers felt that security companies and fences were required, a national developer noted that on site security guards meant nothing, as legislation prohibits security guards from carrying guns. *“Security guards are useless against 15 gangsters with guns.”*

Gangsters, tik and exponentially high levels of crime (highlighted in chapter two, p.74, by the SAPS, 2011) in the townships, deterred building material suppliers from delivering materials to the township areas. Building inspectors at the City of Cape Town further avoided conflict in the township areas. When the City of Cape Town received reports of people who illegally demolished five BNG houses, and built a small letting apartment block in its place, the building inspectors refused to go into the township. The neighbours who complained were thus not assisted by the City. Developers felt that crime and its negative consequences, significantly contributed to increasing the risk profile of the township areas, which were therefore red-lined by more than just the banks.

4.2.5.2 Lack of law enforcement

Developers viewed law enforcement in the townships in a negative light. Law enforcement was seen to be willing to assist, where possible, on government projects, but no support was forthcoming on private projects. Some developers furthermore felt that the police were on the

payrolls of the drug lords in the townships. Due to the above reasons, township dwellers were forced to take the law into their own hands, so vigilantism was seen as necessary, as discussed in chapter two, p.75 (The Centre for the Study of Violence and Reconciliation, n.d.).

4.2.5.3 Shebeens

Since shebeens are not regulated (discussed in chapter two, p.76 by Griggs, 2007), they open up at an alarming rate adjacent to large housing projects. A manager of a social housing company complained that shebeens were hugely problematic, both within the development and out. *“Once neighbours realise there is a large workforce next to them, they open a shebeen. Tenants who reside in the development (built in earlier phases), also tend to open up shebeens. Workers and tenants go to the shebeens, because it is convenient, end up drunk and can’t work. It is a social problem.”*

A developer who develops in all segments of the market, estimated that approximately 50 working days a year were lost due to workers visiting illegal shebeens. *“Workers arrive at work drunk, or they go to the shebeens during or after work, and don’t return. Shebeens are established immediately around your building site. This morning my driver arrived drunk at work. Now he has to do five days work in four days, and that simply does not happen.”*

4.2.5.4 Intimidation and community forums

Intimidation was regarded as an employment issue. Developers found this to be especially true in Khayelitsha, due to the Khayelitsha community forums, where developers were intimidated to use local labour (as well as fit and supply contractors) from the area.

Developers explained that they conceded to using local labour to maintain peace in the development environment, yet despite employing a large local work force, sub-contractors still often had their life threatened. Due to gang intimidation a national developer explained that they had requested the MEC to provide protection on site, but the request was unsuccessful. Therefore the same national developer adopted the strategy that used communities (like the old Pagad), which stood together against gangsterism, to assist in protecting the site. *“We engage with the communities before we even start with the development to get their support and buy-in. We explain that if our workers are threatened, then the project will not happen and they (the community) will not get houses. The*

gangsters back-off when you have hundreds of community members standing together against them.”

In order to engage with the communities before projects were started, developers employed Community Liaison Officers (CLO) to smooth the development path with the relevant communities and forums. CLOs are normally respected people from the community, who are able to educate and inform the community with regards to what the development entails.

A national developer explained how a building hijacking in Soweto was smoothed over by their CLO. *“A rumour spread, after Jacob Zuma became president, that because President Zuma was a Zulu, the beneficiaries in our building would all go to Zulu people. ANC members stopped the project. Our CLO made them realise that that was just not the truth and we got the building back”.*

CLOs were furthermore necessary to liaise with all the different community forums in the area. Developers agreed that these forms were significant barriers to development. One developer developing in all segments of the housing market cited the Sir Lowry’s Pass Village area as not being developed due to all the conflict within the different factions. *“We had overseas funding for tourism development; fantastic plans to upgrade the main road, station, infrastructure, and even interest from a steam train company. But there was so much in-fighting between the forums that it became a nightmare. That is why no development has happened in that area.”*

Many developers specifically referred to the Khayelitsha forums as significant barriers to development in the Khayelitsha area. The general sentiment from developers was that there were too many such forums in this area (Khayelitsha Development Forum, Khayelitsha Business Forum, Ward Development Forum, Violent Protection Unit, Ward Councillors from the different political parties, etc), which constantly have issues amongst them. Each forum wanted the labour to come from within their individual organisation, and to reach consensus on such issues, were lengthy.

4.2.5.5 Illegal protest action

Developers felt that protestors targeted any environment within a township where building work happened (on government and private projects), because building sites were regarded as a place where the community had interest. Often, developers had their units stoned due to service delivery

protests or were locked into their site having to negotiate themselves out. Illegal protest action delayed housing developments in the township, discussed in chapter two, p.76, by Kakaza (2009), and therefore increased the risk profile of developing housing in the townships.

4.2.5.6 Hijacking of buildings

According to a large developer, who develops affordable housing, but not in the Western Cape, building hijackers take approximately 6 to 24 months to evict. *“These people are organised and have lawyers.”* The manager of a Social Housing Company said that three of their developments in Durban were partially or fully hijacked. *“Criminals threaten our tenants to stop paying rent to us, and force our tenants to rather pay them instead. Then they literally throw out those people who do insist on paying us, and replace them with other tenants who also pay them instead of us. It starts with a rent boycott, and ends with a hijacking.”*

The same manager went on to explain how their one complex of 330 units had been entirely hijacked. The case has been brought to court. *“We have been battling for 18 months to get to the point where we can evict them, and then we will only be able to evict them out of 230 units as per the court order. When we started legal proceedings, there were only 230 units that were hijacked, but during the last 18 months that the courts have taken to issue eviction notices, the rest of the units have also been hijacked. So now we will still have to go through the legal procedure for the other 100 units.”* Hijackers know how to manipulate the courts and delay the eviction process by claiming that their tenants fall within the Prevention of Illegal Eviction Act (PIE) category.

The Prevention of Illegal Eviction from and Unlawful Occupation Land Act, No. 19 of 1998, discussed in Chapter 2 (p.77), provides procedures for the eviction of unlawful occupiers (RSA, 1998). According to the mentioned manager, hijackers of the Durban social housing project claim that their tenants fall within the PIE category, due to being unemployed and destitute. *“Technically our tenants do not fall within the PIE category, because they earn between R2500 to R7500 per month, so they are not the poorest of the poor, and they have jobs (otherwise we would not have taken them on). But the hijackers will say that they have unemployed people living in the units which requires us to find alternative accommodation for them thus further delaying matters.”*

This manager further said that it has cost approximately R2 million in legal fees alone for their Durban evictions. On top of that they have lost an income of R18 million on just one of their complexes. Adding to the cost is that once people knew they were going to be evicted, they would vandalise the property. *“We spent approximately R250 000 to refurbish 70 hijacked units in one of our Durban complexes. They left taps running, broke cupboards, etc.”*

Despite the significant cost of the hijackings, the Durban Municipality and the relevant politicians do not support the social housing companies. *“They could technically take a stand and show support to the social housing companies and pay for their legal fees and do everything in their power to get the illegal tenants out, but they don’t. They just sit on the fence, because if they take a stand, they will lose votes.”*

The cost of the hijackings, according to the same manager, is mostly due to the lengthy eviction process. *“The process for single evictions is approximately three months in Cape Town. Single evictions do not always work seeing that the evicted parties just break back in if the rest of the complex is still hijacked; therefore we now do many evictions at once.”*

Lengthy eviction processes were also a problem in integrated developments. Developers explained that subsidy house beneficiaries within an integrated development, who were waiting for their subsidy house to be completed, often invaded vacant gap units that were waiting for bond approvals. Evictions in these instances were necessary in order to sell the gap unit so that cross subsidisation into the subsidy house could occur.

Managers of social housing companies and developers generally felt that the legal system failed them, increasing their risk in the social housing environment. Essentially, hijacked buildings and illegal house invasions (albeit occurring in other parts of the country) were a barrier to long-term investors who wished to invest in rental housing for long-term returns. This barrier was felt throughout South Africa, not only in the areas in which developers experienced hijacking and sub-letting issues.

4.2.5.7 Illegal sub-letting

A manager of a social housing company indicated that the sub-letting of social housing units was considered illegal. Since social housing rentals were nominal, some tenants tried to sub-let their housing units in order to make a profit. However, sub-letting was considered illegal since the aim of social housing companies was to provide accommodation to people earning within a certain income bracket, and not to provide a form of income.

4.2.5.8 Corruption of officials, tender processes and waiting lists

All developers agreed that corruption was a barrier to development especially in the affordable market. Some developers used bribes to fast track processes in the municipality. A developer developing in all segments of the market in the Western Cape complained that government officials expected bribes to fast track issues. *“We deal with it on a daily basis; it is always the decision makers that want something. There are corrupt officials from the bottom to the top. Your document is channelled from person A to person B, and they are friends. If person B knows you have paid person A, then he/she expects payment too. Very senior professional officials have openly asked me for bribes.”* The problem of bribes and corrupt officials was also experienced in eThekweni municipality, discussed in chapter two, p.79 by Enoch (2012).

Enoch (2012) in chapter two, p.79 further highlighted corrupt tender processes in eThekweni municipality, which was also experienced by a national developer who explained how corrupt tender processes delayed development for years in Cape Town. *“A tender was awarded to an individual who is not even a builder, but who knows officials in the housing department. Everyone queried it, but the tender went through. Four years later this individual collected R16 million for supposedly implementing certain civil engineering works on the site, but not one house was built. Then the municipality realised that the community was going to get upset with the situation, so they phoned us to assist. They know we can deliver. So we slot in below the individual that was awarded the tender. He therefore remains the developer, but we do the work. What he claimed cost R16 million, cost us R850 000 to implement, and he did not even deliver. It is easy in this industry to claim that the engineering contribution of a project cost R16 million when it actually costs far less. For R16 million we could have built many houses. Once the community hears about this sort of corruption, they stop the project. Therefore, corruption halts delivery.”*

The same developer commented that housing delivery is further delayed as tenders are often queried. *“Most government tenders in the housing sector get queried somewhere, and the moment it gets queried it has to go through a judicial review, a tribunal gets appointed and you are looking at three or four years down the line for a conclusion. The problem is that housing is just further delayed.”*

Developers furthermore felt that lazy municipal officials delayed housing delivery. Developers had numerous examples of officials passing their work on to them – which is corrupt. Developers explained how municipal officials would often request the developer’s town planners to submit reports for them. *“These are senior professional town planners, whose work it is to write these reports (taking approximately two days to compile), passing on their responsibility to our privately paid town planners, because they are too lazy.”* The manager of a social housing company explained that he has often sat in municipal offices stamping plans and written reports on behalf of lazy officials. *“I was not forced to do it; I offered to do it, because I am time and money driven. So if it means I have to sit next to you and do your work for you, I will do it.”*

Corruption was also problematic after the subsidy houses were completed and needed to be allocated to qualifying beneficiaries. Three corrupt municipal officials in Cape Town had disciplinary action brought against them regarding waiting list corruption which was discussed in chapter two, p.79 (www.capetown.gov.za). Developers expressed concern that many of the BNG beneficiaries earned more than R3 500 per month. Higher earnings were evident as beneficiaries often upgraded their homes immediately on occupation. Developers felt that those beneficiaries were able to afford a gap house, and that they lied about their incomes to qualify. People on the waiting list were seen to manipulate the system by producing fraudulent pay slips. It was also sometimes difficult for municipalities to interpret real incomes with a national developer stating: *“How do you decide on a fisherman’s real income? Is it the value of his quota, or the quota less his expenses?”*

4.2.5.9 Illegal and informal sales

Shisaka (2011) in chapter two, (p.80) states that the eight year restriction clause, which prevents subsidy beneficiaries from selling their homes within the first eight years of ownership, was

introduced to prevent downward raiding by people able to purchase homes without state assistance. The restriction clause also specifies that the subsidy house may not be alienated within the first eight years of ownership, essentially meaning that new subsidy house owners may not rent their house out and live somewhere else.

Despite the restriction clause, downward raiding has still occurred, but in an informal way. Developers explained that people who earned above the subsidy threshold, informally purchased subsidy homes for as little as R15 000, hence downward raiding. Foreigners, taxi drivers and gangsters were often the new informal owners of the subsidy homes. They purchased entire streets of subsidy houses for the purpose of renting out. The problem with informal sales is that subsidy house beneficiaries, who sold their home illegally, could not qualify for another house, while the person living in the house very often qualified for a free subsidy house.

Even though the restriction clause forbids subsidy house owners from renting out their house, the restriction clause has not prevented it. Developers in the subsidy market estimated that approximately 30 per cent of their subsidy houses could not be transferred to their original owners as the original owners were living elsewhere and could not be traced. Developers explained that subsidy house beneficiaries moved back into their shacks, or returned to the Transkei and used their subsidy house as a form of rental income.

Shacks were also used as a form of rental income, or were sold informally. A large developer explained that the informal sale of shacks in the subsidy environment was problematic. *“We are currently moving approved beneficiaries on the housing waiting list from shacks into our BNG houses. My team enters and discovers that the approved beneficiary has sold his shack to someone else. The person living in the shack has not been approved, so you cannot hand over the BNG house to him, but at the same time you want to build where his shack stands. So you have to move him, but where do you move him to? The net effect is potential queue jumping.”*

4.2.5.10 Objectors

Developers felt that in some instances people objected to housing developments not because they had serious objections, but rather because they could make money from objecting. People often objected through official means, and then expect developers to pay them to withdraw their

objections. Objectors know that any objections could halt delivery on a housing project substantially and therefore try to negotiate payment to withdraw their objection. According to the Democratic Alliance webpage (www.da.org.za) discussed in chapter two, p.80, objectors can bring about a substantial delay in housing delivery with minimal impact on them.

4.2.5.11 Skill level of workers

Mabula (n.d.) in chapter two, p.81, stated that thousands of subsidy houses in Gauteng and the Eastern Cape had to be demolished and rebuilt due to poor quality workmanship. Developers attributed the rebuilds due to being forced to employ large portions of the local labour force which were not adequately skilled. Poorly skilled workers resulted in snagging (going back to fix problems) which was at the expense of the developer.

Municipal officials supported developers in blaming the need for rebuilds and snagging on the quality of the labour force used on subsidy housing projects. *“In a normal development, 50 per cent of cost would go towards labour, and the rest towards materials. In subsidy housing 80 per cent is allocated towards material, and 20 per cent is allocated towards labour – this shows how unskilled the workers are that we use. Developers are not going to get a real brick layer on site; rather they are going to get a person who can lay straight blocks down.”*

The poor quality of the subsidy house labour force was further highlighted by a large subsidy developer who explained that local labour was significantly inferior. *“Many years ago, in Hermanus, our contractor arrived with a 90 per cent Zimbabwean work force. I appeared in the papers on the second day. We resolved eventually to use 30 per cent of the Zimbabweans and 70 per cent from the local community. After two weeks the 70 per cent subcontractors who used local labour, fired their own people and rehired the Zimbabweans, (because the Zimbabweans work was already done). The subcontractors realised that they could make more money if they hired the Zimbabweans, because they worked faster and better.”*

Despite the necessary rebuilds, snagging and poor quality labour issues in the subsidy market, gap market developers, who employed better qualified workers, did not view the poor quality of skilled workers as a barrier to housing development; more as an operational hurdle. Some gap developers

felt that the quality of the skilled labour force was dependent on the area in which the development was taking place, and cited the Cape Flats as having a number of good artisans.

4.2.5.12 Temporary Relocation Areas (TRA)

Developers complained that Temporary Relocation Areas (TRA), which is tantamount to a squatter camp, was placed next to a private developer's housing projects. Developers felt that government acted irresponsibly in this regard and caused developer's housing projects to drop in value, further heightening the risk profile of the affordable market. Developer's and surrounding property owners rejected TRAs being placed in close proximity to their properties. This is in line with the Not-In-My-Back-Yard (NIMBY) factor, discussed in chapter two, p.82 by the City of Cape Town (2012), indicating that NIMBY was a factor at all income levels and areas.

4.2.5.13 Dense construction of shacks

A municipal official explained that dedensification of informal settlements was often required to get the basic services in. *“Even if you just want to build a road, you have to move many people. And where do you accommodate them?”* The dense construction of shacks delayed construction of housing and infrastructure as people first needed to be moved before work could commence. The dense construction of shacks also contributed to crime as criminals could easily hide in the density of the shacks. According to the City of Cape Town (2008, 2010), discussed in chapter two, p.82, land banking was used to create places for shack relocation.

4.3 CONCLUSION

From the analysis of data obtained through numerous interviews with private housing developers in the Western Cape, as well as officials at the City of Cape Town and Social Housing managers, one can without a doubt conclude that the following barriers are predominant to private housing development in townships in this province:

- a) Availability and affordability of land, which is further, burdened by associated legislation, unnecessary prolonged approval processes and officials' inefficiencies.
- b) The unwillingness of the banks to finance developers as well as end-users who earn below R10 000 per month. Red-lining which is often denied by banks still persists

significantly in the affordable market. Where banks do finance projects, they load fees (initiation and deal fees) on the selling price which increases the burden on both the developer and end-user.

- c) Government inefficiencies are reflected by the lack of coordination between the different levels and spheres of government, high staff turnover rates in local government, difficult and uninformed planning officials, lack of municipal and staff capacity, different approval systems, and authorities' avoidance of taking decisions.
- d) Thin profit margins in the gap market became a significant barrier because of all the extra costs involved with "new builds". Most of these extra costs (BIBC, DCs, VAT, cross subsidisation) were due to government legislation.
- e) The township/affordable market environment was considered a risky environment in which to develop. The significant degree of risk deterred potential investment in those areas.

Although private developers indicated that land was the most significant barrier to developing private housing in the affordable market in the townships, it is clear when investigating deeper, that government intervention is at the root of the problem of land availability, development finance, thin profit margins and a risky township/affordable market. Therefore, it could be said that government inefficiencies and intervention is the most significant barrier to housing development in the townships.

The significant government inefficiencies highlighted by respondents, indicate that Okun's "leaky bucket" experiment, which suggests that redistribution in the name of equity, is often at the expense of economic efficiency, is true in the affordable housing market. Government intervention in the affordable housing market appears to be so inefficient that it is quite possible that less than half of the money in the redistribution bucket actually reaches the poor it is intended for. The trade-off between equity and efficiency is heavily weighted in favour of equity. Such an unbalanced trade-off has resulted in the marginal social costs being significantly greater than marginal social benefits. For this reason, it is necessary for government to reduce the extent to which it intervenes and distorts the market. Furthermore, government should create an enabling environment for development in the townships instead of trying to control the market.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

In chapter four the results of the study were presented according to the prevailing themes. Five overriding themes, called barriers, were identified. Chapter five offers a final synopsis to the study by providing a summary of the findings and conclusions. The recommendations drawn from the research and areas for further research are also presented.

5.2 SUMMARY OF THE FINDINGS

Respondents indicate that the trade-off between efficiency and equity is heavily skewed towards equity with significant levels of inefficiency. The bias in favour of equity can be justified in South Africa given that Apartheid created a significant imbalance in the housing ladder. Government's strive towards equity is justified according to Robert Nozick's entitlement theory but it appears that there are many holes in Okun's redistribution bucket.

The underlying theme in all the barriers identified by respondents is that significant inefficiencies exist because of government intervention. The research therefore indicates that the trade-off between efficiency and equity should be brought into balance. In other words, the trade-off between government intervention and private development should be better balanced. In doing so, the movement towards equity will be delivered more efficiently. In turn, the hole in the distribution bucket will decrease in size so that the welfare of the poor is improved. Also, the burden on taxpayers in the form of marginal social costs will be better aligned to the marginal social benefits received.

5.2.1 Land

Land was highlighted by respondents as the most significant barrier to township developments. However, on closer investigation, it became clear that land was selected as the biggest barrier because it was subject to the most amounts of government inefficiencies. Developers required land

to develop, yet obtaining affordable land was fraught with government inefficiencies which made affordable land almost inaccessible.

To procure land privately in the Western Cape is very expensive. To heighten this problem the Municipal Finance Management Act, does not allow for government to give land to private developers. The government can, however, make land available to the private sector based on a Land Availability Agreement, but to compile LAAs is a lengthy process.

The government makes land available to the private sector through a tender system which is also a lengthy process. Added to this, the tendered land obtains the highest market related price, which makes it too expensive to build affordable housing on.

Even if land was given to developers, the rezoning and EIA requirements on the land is too lengthy. It can easily be said that land, which is the biggest barrier to private developers, is actually the biggest barrier due to government inefficiencies. Since government red-tape has caused such delays on land, banks have refused to finance raw land. The rezoning, town planning and EIAs take too long for land to be utilised and show a return on investment.

In addition to red-tape, government further exacerbates the land availability problem through politics. Politics regarding the transfer of land from the Western Cape to national government just before the 22 April 2009 election undermines housing delivery in the province. The Housing Development Agency (seen to be an arm of national government by private developers), formed to fast track land for affordable housing development, has not made much land available in the Western Cape other than land along the N2 corridor, which is being done in conjunction with national, provincial and local government.

Also, land banking is no longer viable since government legislation regarding illegal land invasions encourages land invasions rather than discourages it. Overall, land was a risky investment for both developers and banks.

5.2.2 Finance

Finance was highlighted as the second most important barrier to private housing development in the townships/affordable market. Development finance from the four major banks was insignificant, and end-users struggled to obtain finance, mostly due to blacklisting records. Developers' research indicated that despite high levels of non-payment in the affordable market, affordable market clients prioritised education and housing and paid for it. Furthermore, developers found that households earning less than R10 500 per month, were not able to obtain finance and even then difficult conditions (such as 30 per cent deposits) were imposed. End-users who were declined finance, would often obtain finance for a vehicle (from Wesbank for example), to almost the same value a week later. Banks approved bonds based on 30 per cent of household income as long as the household's disposable income was sufficient to meet the bond repayments.

Despite household affordability, banks red-lined areas that they felt had high crime rates, large numbers of foreigners or buildings that used alternative technologies in their design. Banks furthermore loaded costs (initiation fees and deal fees) which made the final price of the house too high for the affordable market. Developers also felt that banks needed to finance lower down in the affordable market, as end-users in the lower gap market were able to afford housing but could not get finance. A minimum household income of R2 500 per month is what was required by social housing institutions to qualify for a rental unit. Therefore, since households with an income of R2 500 per month (within the subsidy band) were able to contribute to their housing needs, so too could those households earning in the lower gap market. The subsidy house was seen as distorting affordability, as many households could afford a subsidy house, but could not afford a gap house. But subsidy houses were only built by government for waiting list beneficiaries, and were not for sale by government or the private sector. Overall, banks were risk averse and refused financing risk.

End-user finance was the barrier with the lowest amount of government intervention, and the barrier that private developers called for the strongest government support. Developers felt that this was a way in which government could assist without distorting the market to the extent that its other interventions were distorting the market. The FSC (Financial Sector Charter), which no longer existed, was always referred to by developers as a way in which government could provide meaningful assistance with less inefficiency.

5.2.3 Government inefficiencies

Private developers considered government inefficiencies to be the third barrier to private developers developing in the townships. However, from the data analysis it appears that the other four barriers are considered barriers largely due to government inefficiencies. National, provincial and local governments were not only regarded as inefficient but also significantly uncoordinated. National government often decided on policies without consultation with provincial and local government, or even the private sector. Provincial government delayed development by overseeing local government initiatives and municipal levels of service differed from one municipal office to the next.

Developers experienced delays in newly established affordable market municipal offices to be costly (as much as R3 million for one developer), and preferred to work with older established municipal offices that were more efficient and coordinated. Affordable market municipal offices were generally newer offices which catered for areas undergoing significant development. Due to the significant development in the affordable market areas, workloads had shifted from the typical white affluent areas (where the property market has collapsed and the areas are already mostly developed) to areas like Khayelitsha where one developer will hand in 900 plans. Therefore workloads are higher in municipal offices based in affordable areas, yet these municipal offices are not allocated more staff. Furthermore, trained, experience staff often seek employment at municipal offices in more affluent areas causing municipal offices in more affordable areas to have a higher than average staff turnover – further exacerbating the professional and administrative inefficiencies.

In addition, municipal officials hampered, rather than encouraged, development. Municipal officials were accused of not understanding the business side of development with unnecessary delays and unrealistic subsidy house expectations. Often, officials over shot the BNG house specifications, reducing the viability of the project. Hence, the City of Cape Town was viewed as anti-development. Overall, government inefficiencies increased the risk for developers developing in the affordable/township market.

5.2.4 Profit margins

The fourth barrier to private development in the townships was thin profit margins. Profit margins were of greater concern in the gap market than in the subsidy market since gap housing units had to be sold before profits could be attained, while the subsidy house merely had to be handed over to the qualifying beneficiary. The thin profit margin in both the gap and subsidy market was also easily lost if something small went wrong, like vandalism of a front door. Often the risk (like vandalism) could outweigh the small profit causing financial losses for the developer. Overall the gap market required higher profit margins to mitigate the higher risk profile.

Affordable market developers could not push their profit margins too high to mitigate the risk, and were often only able to survive due to economies of scale. Profit margins were eroded by costs such as the BIBC (which implemented high wage rates, registration costs and administrative hurdles), DCs (which could easily be reduced or waived by municipalities), VAT (a regressive tax, which disadvantages the poor the most, adding 12 per cent onto the eventual pricing of purchasing a home) and NHBRC (fee of 1.3 per cent on the selling price of the property). On the other hand, alternative technologies improved profit margins for developers because it used less labour, required less skill, had less wastage and was built quicker. Unfortunately these technologies were unpopular with communities, government and banks alike.

In addition to the various costs eroding profit, cross-subsidisation into subsidy units in integrated developments further eroded profits. And, due to the high specification subsidy house, gap houses within an integrated development also had to be upgraded to distinguish it from the free subsidy house, further eroding profit margins. Furthermore, escalation of building materials was significant in that it was difficult to estimate price increases. Developers felt that prices constantly changed, by large amounts, causing predictions for financial models impossible. Thin profit margins contributed overall to the risk profile of the affordable market.

Government's unrealistic expectations and lack of capacity are highlighted the most in the fourth barrier, profit margins. The municipality's requirement that developers provide services, which is the responsibility of the municipality, highlights how government incapacity has increased the price of affordable housing which diminishes the welfare of the poor. Profit, the main driver of the

private sector, cannot be eroded by government inefficiencies, to such an extent, that private development in the affordable market is stopped.

5.2.5 Township environment

The fifth and last barrier to private developers developing in the housing market in townships was the township and affordable market environment. Crimes in the townships were higher than other suburban areas, and were therefore more risky. Law enforcement was considered as mostly absent by developers who were forced to employ “little armies” on site, but who were by law unable to carry fire arms for protection – which rendered them useless against armed gangsters.

The township and affordable market were plagued with problems that were either not experienced in the suburban areas, or were not as much of an obstacle in such areas. For example, shebeens established next to development sites, reduced production on housing projects, as workers would get drunk at work. Community forums (especially the Khayelitsha forums) would intimidate developers to employ local labour (which was mostly unskilled), but were fraught with political alliances, agendas and in-fighting. Developers had to employ CLOs to smooth over relations with communities, as development sites in the townships were often used as a platform for protest action. Lengthy eviction processes resulted in entire buildings being hijacked. Illegal subletting often leads to the degradation of the property and the surrounding neighbourhood, which was most noticeable in the subsidy market. Illegal and informal sales did not allow housing to be used as a financial asset. Temporary Relocation Areas were placed adjacent to a private developer’s projects which heightened the risk factor in the affordable market. The dense construction of shacks resulted in no construction, no planning and no services as many people needed to be moved before something simple, like a road, was put in.

Corruption further contributed to the risk profile of the township and affordable market significantly. Government officials requested bribes, passed on their work to developers, and were seen as corrupt and lazy which delayed housing delivery. One developer explained how just one corrupt tender cost the City of Cape Town R16 million and a four year delay in housing delivery. Furthermore, objectors, often expecting bribes, caused significant delays in development.

The difficult township environment, plagued with criminal activities and government inefficiencies, discouraged private housing development which contributed to the affordable market housing distortion. Such an environment made private housing development more risky for developers and banks.

5.3 RECOMMENDATIONS

The following recommendations are made to break down the barriers developers experience when developing in the townships and affordable areas:

- a) Since housing delivery is largely affected by government inefficiencies, a computerised tracking system should be implemented, enabling municipal staff, managers and private developers to monitor applications and approval processes in order to detect problem areas concerning town planning, zoning, EIAs, etc. Such a tracking system could streamline communication between the municipality and developers. It could also serve as an indicator of where the bottlenecks in the system reside. Officials who are taking too long to do their portion of the work can be flagged, and addressed by the relevant municipal managers. Response times could be improved, and more importantly, accountability for outcomes instead of accountability for compliance can be achieved. Developers would also be able to identify which individuals to address regarding a particular portion of work.
- b) Training of government officials (for all sectors involved with housing) is required to help them understand how their decisions impact on the larger housing market. For example, officials need to understand that requiring higher specifications on subsidy houses distorts the market, and drives developers and banks out of the gap market. Officials should rather reduce the specifications, and encourage developers to provide more housing instead.
- c) The subsidy house should not be given away for free as it distorts the market significantly. Government should rather subsidise housing units in terms of land and services only, and allow developers to sell the housing units to bond qualifiers. Sales in this bracket of the housing market will remove the distortion and could provide a variety

of different housing options, fulfilling the rungs below and above the subsidy house band. Naturally, government could set a range of selling prices that different housing units could sell for (if government has subsidised the product). A range of selling prices would require government to allow developers to implement their own profit-maximising designs (in stark contrast to the one house one plot policy).

- d) If the subsidy house is to remain, it should be significantly downgraded so as to distinguish it from the bondable gap house. Such a downgrade would also contribute to providing more rungs lower down in the property ladder.
- e) The pre-emptive clause on the subsidy house serves no purpose, as informal transfers occur despite the clause. Therefore, the pre-emptive clause should be removed so that housing beneficiaries can use the house as security for obtaining finance and experience greater housing mobility up and down the housing ladder. Furthermore, transfer costs should be affordable to the affordable market to encourage a healthy secondary market.
- f) The aims, objectives and policies of national government were often blocked at municipal level by planning officials who were not informed and up to date with such aims, objectives and policies. Therefore, municipal officials (for all sectors involved with housing) required regular information workshops which communicated such information clearly.
- g) A team of experts (knowledgeable people who are familiar with government legislation, processes and funding) should be collectively tasked to simplify and rationalise the housing process. Simplification and rationalisation was required in almost all instances, such as land identification, getting land to tender, town planning, rezoning, EIAs, etc. Evidence-based research is critical for policy making and decision taking.
- h) Local government needs to be proactive in identifying land. A Land Unit should be implemented in the Western Cape, which focuses on identifying land that is not zoned residential (eg school sites) and unlocking the land for development. Identified land should undergo the necessary zoning, planning and EIA requirements and put on tender on the proviso that affordable housing has to be developed. With such a proviso,

affordable housing is guaranteed while still obtaining the highest possible price for the land within the affordable market financial model.

- i) All government tendered land, which is suitable for affordable housing, should be sold for the highest price but with the stipulation that affordable housing must be built on it. Also, a deadline for the development must be stipulated, so as to ensure development and not land banking. Failure to meet the deadline should result in the return of land to the municipality (without payment).
- j) Banks should be encouraged to lend lower down in the market. A government guarantee for a portion of the bond could go a long way in mitigating the risk banks try to avoid. Government could channel VAT paid by affordable housing owners into the government guarantee fund. A justified use of VAT given that VAT is regressive.
- k) Since developers experienced significant financial losses when working with affordable market municipal offices, developers chose to rather develop in other areas where the municipal offices were more efficient and coordinated. Therefore, affordable market municipal offices need to be adequately staffed with experienced personnel to ensure efficient and coordinated service delivery, or development in such areas will be hampered.
- l) Eviction orders need to be processed far quicker as a few illegal tenants very quickly end up hijacking entire buildings of 300 units. Eviction legislation is easily manipulated and drawn out to such an extent that criminals are protected for years while developers, investors and banks have to pay for their criminal activities (in the form of legal fees, forfeited rent, interest on debt and damage to property).

5.4 AREAS FOR FURTHER RESEARCH

The following are areas of possible further research:

- a) The supply side of housing delivery has been the focus of this study. Research regarding the actual demand for housing and the type of housing demanded, is needed.

- b) Subsidy housing has been accused of distorting the housing market in this study. Therefore, the extent of the distortion requires research which should include the identification of the financially viable missing rungs in the affordable market.
- c) The effect of new Temporary Relocation Areas on the neighbouring communities, and the effect thereof over the next few years, to ascertain whether or not serviced sites (with toilets) leads to increased housing development or increased informal settlements.
- d) The possibility of different forms of legal tenure for the subsidy house. The current pre-emptive clause which prohibits the sale or alienation of the subsidy house has only resulted in many informal sales in the subsidy market.
- e) Occupants of subsidy housing (legal and illegal) need to be identified to establish to what extent the subsidy house benefitted the subsidy house beneficiary, as well as the occupants. Such research can provide rational reasoning why the subsidy house should be continued or not.
- f) Housing affordability in the affordable market needs to be reviewed. If social housing tenants earning R2 500 per month are paying rent to social housing companies, then why is it that government gives somebody earning R3 500 per month a house for free? To what extent can people help themselves and their own housing situation?
- g) How to unlock land speedily, since land was identified as the most significant barrier to housing development in the affordable market.
- h) Simplification of coordination between the different spheres of government for integrated housing developments is necessary. Integrated developments have become a priority for national government and shape the way future housing development will take place.
- i) Developers' research indicated that end-users were often blacklisted, but prioritised housing and education and made payment on them. Therefore, despite the high risk profile, banks need to be encouraged to finance lower down in the affordable market.

Incentives to encourage banks to finance properties lower down in the income bands needs to be researched.

- j) The effect the BIBC in the Western Cape has on housing development is necessary. In this study it appears that the BIBC and the Department of Human Settlements are working in silos against each other.
- k) The use of VAT to mitigate some of the risk banks are so afraid of, to encourage banks to finance lower down in the market.
- l) Ways to integrate informal settlements in housing developments, if at all, without bringing down the values of the surrounding areas.
- m) Expediting the eviction of illegal invaders in hijacked buildings requires research. Lengthy eviction procedures, results in entire buildings being hijacked which increases the costs and risks for the developer, bank and investors.
- n) The effect of development contributions on housing developments in the Western Cape.
- o) The scale of demand for the RDP plus house is required in the Western Cape, as it is the rung just above the subsidy house rung which has proven popular in other parts of the country.
- p) The cost of corrupt housing tenders at a national level.

5.5 CONCLUSIONS

Based on the findings of the study, it is concluded that five major barriers delay or deter private developers from developing housing in the townships in the Western Cape. The central theme running through all of the five barriers, and a barrier itself, is that of *government inefficiencies*.

Inefficiencies in government delayed land going on tender. Government inefficiency during the rezoning, town planning and EIA processes made land unusable for more than three years. Officials

in government lacked capacity to understand that seeking the highest price for land, would alienate affordable housing developments. Government could include a condition on the tender that only affordable housing should be built on the land, but that practice was not happening. Such a condition in the tender would ensure that affordable housing was developed, while still obtaining the highest price possible for the land (within the parameters of affordable housing models). Furthermore, government's political agenda to transfer land from local to national government, reduced land availability. Government legislation also encouraged land invasions. All in all land was a barrier mostly because of government inefficiencies, incapacity, agendas and legislation.

Municipal officials require that developers provide increasingly higher specification subsidy houses. Such a requirement indicates that officials lack capacity to understand the effect of their requirements on the overall housing market. The subsidy house has such high specifications that it significantly distorts the market to the extent that banks refuse to finance the lower end of the affordable market. Why would banks finance a house when people earning less than R3 500 per month could get the same house, or even a better house, for free? Households earning R6 000 per month could very often only afford the equivalent of a subsidy house. Banks were not accustomed to financing low-income earners (less than R10 500 per month), as there was no government guarantee to mitigate the risk in the lower segment of the affordable market. The government subsidy house added to the risk in the affordable market, and significantly contributed to an unhealthy property ladder with missing rungs.

The main focus on subsidy house delivery was as a result of government mitigating the risk in this market by paying the subsidy to the developer on hand-over of the house. No house sales were required in this market. Private developers gravitated towards developing housing in an environment where the risk was reduced, which caused developers to move out of the gap segment of the affordable market into the subsidy market. Movement out of the gap market was therefore as a result of government intervention in the market.

Government legislation regarding the BIBC, VAT and DCs all reduce private developer profits to very thin margins, creating a risky environment in which there is little room for error. If error is inevitable, then the profit is lost. Therefore anything that reduces the profit margins for developers increases the risk which discourages development in the affordable market and especially the township market.

Law enforcement is not able to cope with the high levels of crime in the townships, which creates a risky environment for developers. Developers are forced to employ “little armies” to protect their sites, further reducing profit margins. CLOs have to be employed to liaise with the community and its forums when developing in these areas, which also reduces profit margins. Government legislation encourages illegal land invasions, and is more likely in the townships preventing developers from land banking in those areas. Government delays in the eviction process have resulted in the affordable rental market being plagued with illegal subletting and hijacked buildings, discouraging development for the rental market. The government pre-emptive clause, prohibiting any sale of the subsidy house within eight years, has resulted in informal sales, which undermines legal title. Government’s decision to “dump” TRAs next to a private developer’s projects makes the developer’s project more risky due to NIMBY. Naturally the dense construction of shacks hampers development in this market substantially, mostly due to government legislation regarding removals and evictions.

The role of government in housing delivery is far greater than just the delivery of subsidy housing. Government’s policy, legislation, decision making, goals, etc, all affect the housing market and property ladder in South Africa. Government intervention should be reduced to the extent that it only intervenes to create an enabling environment for private development in the affordable township market.

5.6 CONCLUDING COMMENTS

Developers play a crucial role in housing delivery; however, their role is not understood. This study aimed to highlight the challenges developers faced when developing in the townships. Five major barriers (encompassing many other sub-barriers), which deterred development in the affordable township market, were identified.

Government inefficiency was an underlining theme to all the barriers identified and was a barrier in itself. Therefore, it is argued that government intervention in the affordable housing market should be reduced and an enabling environment for private housing development should be developed. Such change would bring about a better balance between equity and efficiency in the affordable market which would create a healthier property market with more rungs in the ladder.

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APPENDIX A: Finance-linked Individual Subsidy Programme (FLISP)

Finance-linked Individual Subsidy Programme		
Monthly household income (lower limit)	Monthly household income (upper limit)	Subsidy amount
0	3500	84000.00
3501	3600	54238.80
3601	3700	52871.35
3701	3800	51503.91
3801	3900	50136.46
3901	4000	48769.01
4001	4100	47401.56
4101	4200	46034.12
4201	4300	44666.67
4301	4400	43299.22
4401	4500	41931.78
4501	4600	40564.33
4601	4700	39196.88
4701	4800	37829.44
4801	4900	36461.99
4901	5000	35094.54
5001	5100	33727.09
5101	5200	32359.65
5201	5300	30992.20
5301	5400	29624.75
5401	5500	28257.31
5501	5600	26889.86
5601	5700	25522.41
5701	5800	24154.96
5801	5900	22787.52
5901	6000	21420.07
6001	6100	20052.62
6101	6200	18685.18
6201	6300	17317.73
6301	6400	15950.28
6401	6500	14582.84
6501	6600	13215.39
6601	6700	11847.94
6701	6800	10480.49
6801	6900	9113.05
6901	7000	7744.80

Source: Department of Human Settlements (2010:11)

APPENDIX B: Social housing projects located in the urban core

PROJECT NAME	STARTING DATE	APPROXIMATE NUMBER OF HOUSING OPPORTUNITIES
Pickwick Road Social Housing	July 08	800
Steenberg, Military Road Social Housing	July 07	400
Strandroos and Kannabsi Social Housing	July 09	24
Oranjezicht Social Housing	July 10	59
Rugby Social Housing	July 09	130
Claremont Social Housing	July 10	90
Walmer Estate Social Housing	July 09	125
Lansdowne Social Housing	July 10	110
Pine Road/Beyers Road Social Housing	July 10	196
TOTAL		1934

Source: City of Cape Town (2008:30)

APPENDIX C: New housing delivery projects (planned and implemented)

PROGRAMME	PROJECT NAME	ANTICIPATED START DATE	APPROXIMATE NUMBER OF HOUSING OPPORTUNITIES
Greenfield full subsidy projects (serviced site tenure and or top structure)	Atlantis Housing Project	01/08/08	500
	Bardale	01/08/06	5500
	Belhar Pentech infill	01/08/07	300
	Bokmakierie Athlone infill	01/08/09	500
	Browns Farm Phase 6	01/08/06	678
	Browns Farm 7 Housing Project	01/08/09	600
	Dido Valley Housing Project	01/08/08	300
	Delft – The Hague Housing Project	01/08/07	900
	Driftsands Nature area	01/08/08	2000
	Edward Street, Grassy Park	01/08/08	80
	Eureka/Uitsig	01/08/08	355
	Guguletu Erf 8448 Lansdowne Road	01/08/08	261
	Hangberg Housing Project	01/08/08	800
	Happy Valley Phase 2	01/08/08	1000
	Imizamo Yethu Phase 2	01/08/08	1600
	Joe Slovo infill Milnerton	01/08/08	60
	Kalkfontein Phase 3	01/08/10	1000
	Khayelitsha: Khuyasa, Town 3 Village 1	01/08/08	2399
	Kewtown infill	01/08/06	241
	KTC 281	01/08/07	30
	KTC 282	01/08/07	30
	Morningstar Housing Project	01/08/08	70
	Mannenbergh infill Phoenix	01/08/07	67
	Mannenbergh infill: The Downs	01/08/09	430
	Masiphumelele Housing Project: Phase 4	01/08/09	320
	Mau-Mau Housing Project	01/08/07	400
	Melkbos Housing Project	01/08/07	100
	Mitchell's Plain infill Phase 1	01/08/07	1824
	Mitchell's Plain infill Phase 2	01/08/10	1000
	Morkel's Cottage	01/08/09	700
	Nonkqubela MLS Phase 2	01/08/07	1250
	Nyanga Housing Project	01/08/06	2070
	Ocean View	01/08/09	600
	Pelikan Park Phase 1	01/08/07	3300
Phillipi East 5 Housing	01/08/06	405	
Sercor Park Phase 2	01/08/07	121	
Silvertown Khayelitha	01/08/06	1400	
Site C Survey, Subdivision	01/08/05	5300	
Somerset West 10 ha	01/08/08	300	
Sercor Park Phase 2	01/08/07	121	
Temperance Town	01/08/07	70	
Valhalla Park	01/08/08	500	
Vlakteplaas	01/08/09	500	
Wingfield	01/08/08	4000	
Top Structure Only Projects	Browns Farm Phase 5	01/08/08	500
	Kleinvlei Erf 901	01/08/06	66
	Site B, Harare, Makhaza Consolidations	01/08/06	500
	Site C Housing Consolidations	01/08/09	2000
Social Housing Projects (excl Urban Core and Area Based Urban Renewal programmes)	Wallacedene Phase 1 – 9	01/08/06	9624
	Beverly St Social Housing	-	152
	Dillon Lane Social Housing	-	68
	Grasmere St (1) Social Housing	-	154
TOTAL			57046

Source: City of Cape Town (2008:32)

APPENDIX D: Monthly repayments as a percentage of household income

Combined household monthly income	Price of property	Monthly repayments at a 10% interest rate	Percentage of Income
R2 500	77 000	750	30%
R3 000	94 000	900	30%
R3 500	108 000	1050	30%
R4 000	125 000	1200	30%
R4 500	140 000	1350	30%
R5 000	157 000	1500	30%
R5 500	170 000	1650	30%
R6 000	190 000	1800	30%
R6 500	207 000	1950	30%
R7 000	215 000	2100	30%
R7 500	233 000	2250	30%
R8 000	250 000	2400	30%
R8 500	265 000	2550	30%
R9 000	280 000	2700	30%
R9 500	296 000	2850	30%
R10 000	312 000	3000	30%
R10 500	327 000	3150	30%
R11 000	345 000	3300	30%
R11 500	358 000	3450	30%
R12 000	372 000	3600	30%
R12 500	385 000	3750	30%
R13 000	404 000	3900	30%
R13 500	420 000	4050	30%
R14 000	440000	4200	30%
R14 500	452 000	4350	30%
R15 000	467 000	4500	30%
R15 500	485 000	4650	30%
R16 000	500 000	4800	30%

Source: Calculated by researcher