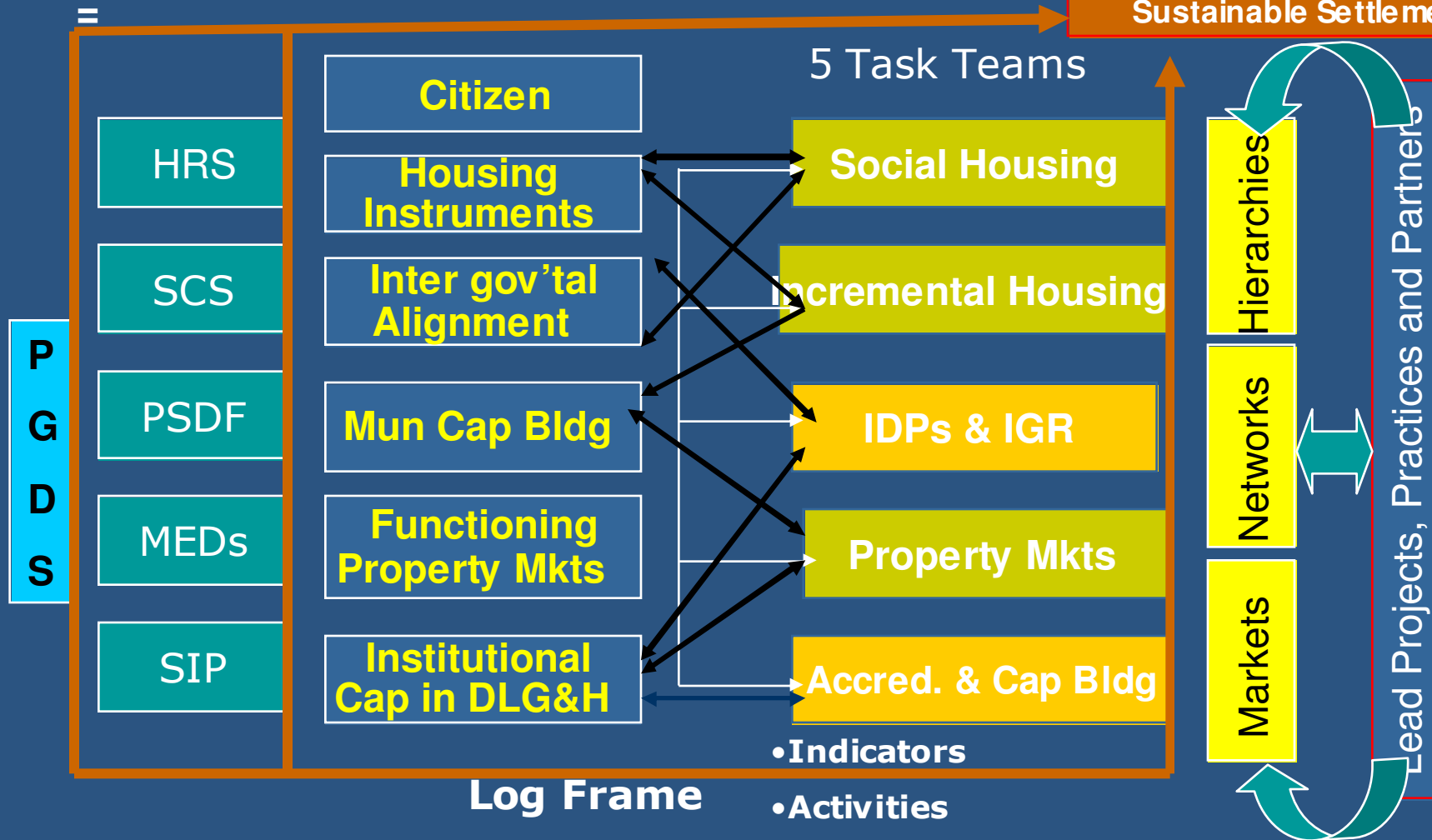


# WESTERN CAPE SUSTAINABLE HUMAN SETTLEMENT STRATEGY PROCESS

## RELATIONSHIP BETWEEN TASK TEAMS AND RESULT AREAS

Sustainable Human Settlement Strategy & Goal = S

Build Social Capital; Thriving Communities and Sustainable Settlements



Policy Context

Praxis

# PROMOTING FUNCTIONING LAND & PROPERTY MARKETS FOR SUSTAINABLE HUMAN SETTLEMENTS (SHS).

- OBJECTIVES
- THE PROBLEM
- DEBATE ON LAND AND PROPERTY MARKETS IN SUPPORTING SHS
- CURRENT DYNAMICS OF URBAN LAND MARKETS IN SOUTH AFRICA
  - Functioning Micro-finance Mechanism in CT Housing Market (Kuyasa)

## EMERGING ISSUES/BOTTLENECKS

- STRATEGIC INTERVENTION THRUSTS IN LAND & PROPERTY MARKETS.
  - A. Planning & Development Framework to Enable More Equitable Land & Property Markets;
  - B. Financial Models and Targeted infrastructural Investment;
  - C. Land Market Management and use of State Land and other resources for Spatial Restructuring for the benefit of the poor;
  - D. Land and Property Market Research and Monitoring

# FUNCTIONING LAND & PROPERTY MARKETS FOR SUSTAINABLE HUMAN SETTLEMENTS (SHS).

**Result 4:** A functioning property market across both economies and an enabling environment for agents and institutions to carry out work towards sustainable Human Settlement Development exists.

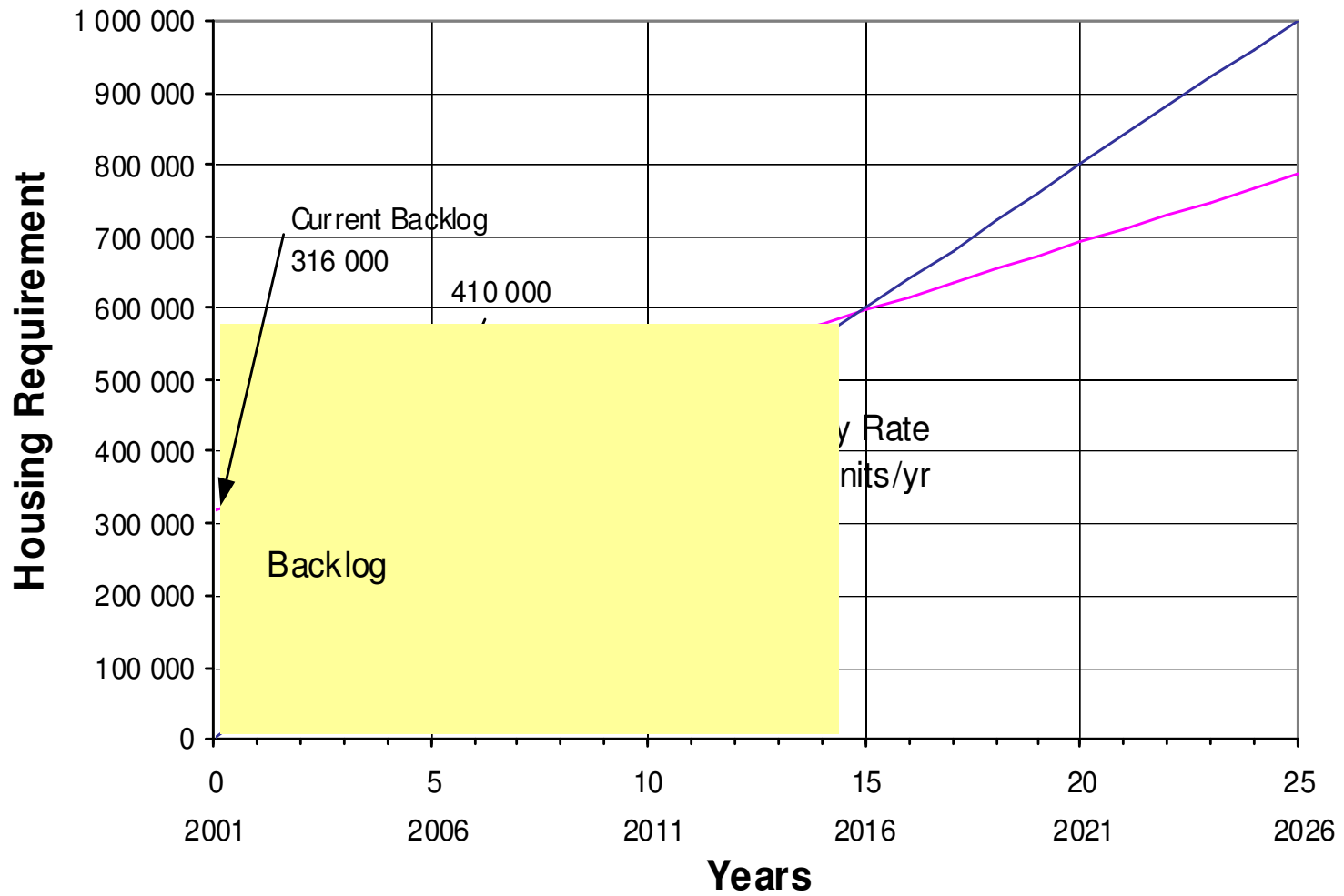
**Result 6:** State land and other resources are used for spatial restructuring for the benefit of the poor.

*Currently, the secondary property market, which involves the trade of existing properties and is the basis through which the asset value of housing can be realized, is dysfunctional at the lower end of the market. A dysfunctional secondary market undermines the realizable value on properties and consequently the value underpinning security for mortgage loans (BNG; 2004: p10).*

*Urban land markets cannot be considered in isolation; they are deeply connected with housing markets since the majority of urban land has a residential use, and financial markets, which provide the instruments for the purchase of housing and land. The nexus between these three key markets needs to be better understood and explored... and the state has a major role in the regulation and conduct of each of the three markets. Of these three, the land market is often ignored, or subsumed into the housing market. However, in ... developing countries enjoying urban house price bubbles, the price of land constitutes an increasingly higher proportion of total purchase price of housing (Affordable Housing institute; 2005: pp20-1).*

*The location of housing projects has been criticized as reinforcing apartheid spatial settlement forms. The objective of spatial restructuring demands a more decisive intervention in land markets (BNG; 2004: p13).*

# Provincial Housing Backlog



Provincial housing plan 2001

# The growing Backlog increases informality

## The City of Cape Town Housing backlog

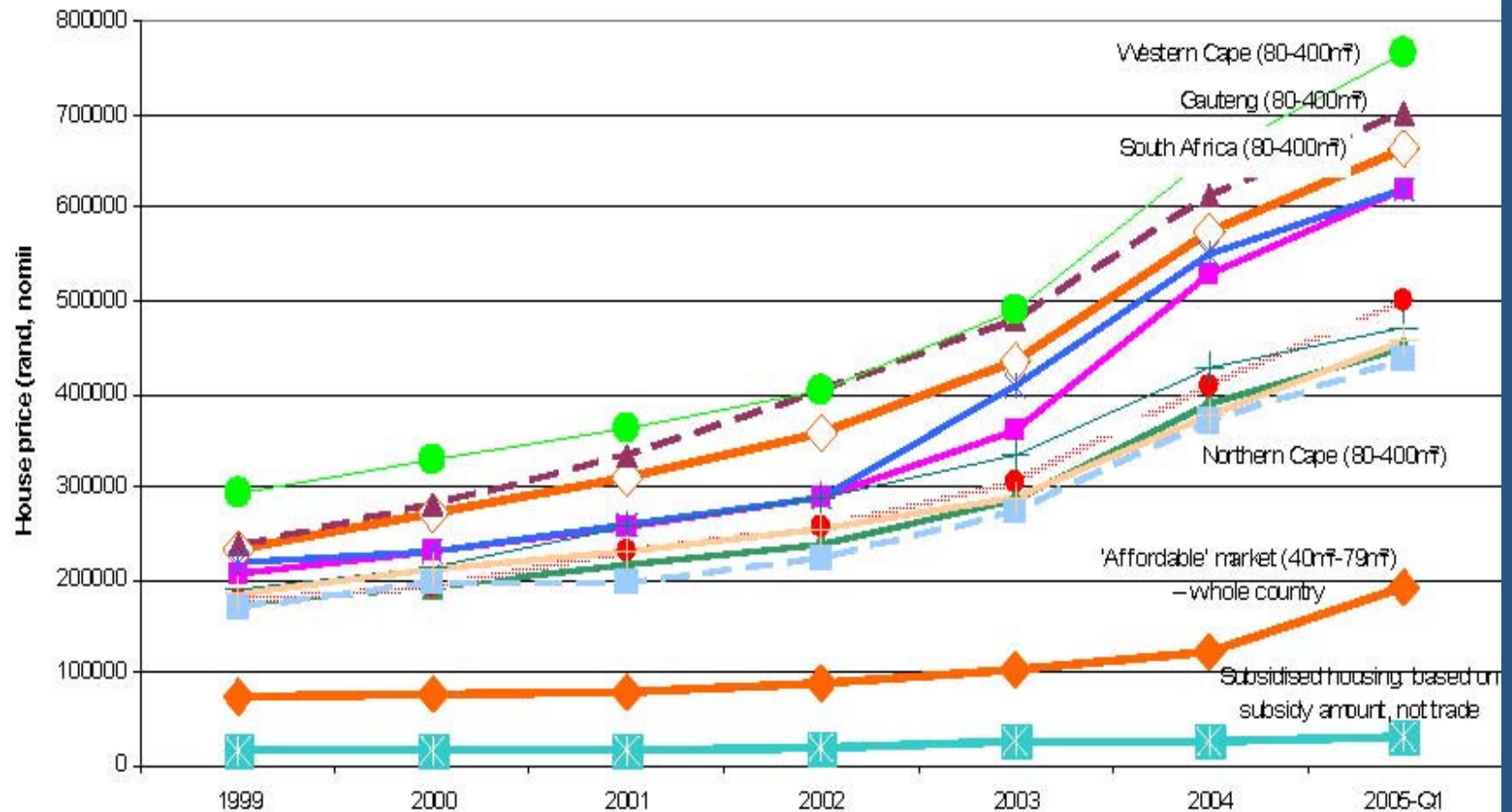
<b>Category</b>	<b># of Families</b>	<b>Percentage</b>
<b>Informal Areas</b>	<b>120 000</b>	<b>46.1%</b>
<b>Backyards</b>	<b>45 000</b>	<b>17.3%</b>
<b>Overcrowding</b>	<b>60 000</b>	<b>23.1%</b>
<b>Gap (credit-linked)</b>	<b>15 0000</b>	<b>5.8%</b>
<b>On serviced sites (require top structure)</b>	<b>20 000</b>	<b>7.7%</b>
<b>Total</b>	<b>260 000</b>	<b>100.0%</b>

## DEBATE ON LAND AND PROPERTY MARKETS IN SUPPORTING SHS

- International debates on effects of land and property markets on housing provisions for the poor centre on the intersection of land, housing and financial markets and plays itself into two broadly polarized view:
  - **'enabling markets view'** that encourage governments to increase market efficiency and thereby address equity by streamlining regulation and reducing transaction costs;
  - **the 'right to land and housing'** that contends that markets usually ride roughshod over poor people and the state inadequately protects them from forces that dispossess them and decrease their access to sustainable livelihoods.
- **Two points of agreement:**
  - **the need for secure title;** but contested details regarding what is desirable tenure forms (freehold versus alternative or hybrids) and how to address informal titles (to eliminate them quickly or to phase out gradually following a period of coexistence).
  - **the need for improvements in urban planning and development management practices** which requires better information for decision-makers (while there is broad agreement that the state should intervene as an active participant to address market failures or externalities, precisely the role of the state is contested)
- The espoused agreement between the two approaches on critical role, and form of state intervention is an important point of entry into formulating a SHS strategy.  
**What types of interventions are needed to create land and property markets that can work for the poor?**

- There is therefore need to consider seriously the role of a developmental state at provincial level that develops competent and credible mechanisms, institutional frameworks, administrative competencies, support and strategies that facilitate increased economic performance as well as appropriately capturing value from existing and future wealth and surpluses ordinarily generated from land and property development that characterizes the a critical growth (and booming) sector in the province.
- The resources thus 'captured' could then redirected to fund the development of sustainable human settlements focusing on triggering impulses that promote the proper functioning of land and property markets that work for the lower and more vulnerable segments of the housing market.
- In practice this should involve the *sharing* of existing and future wealth and growth through progressive, innovative and equitable (re)distributional mechanisms for sustainable [city-wide] human settlement development, to respond concretely to some of the Premier's pointed questions on the forms of land and property value capture mechanisms:
  - *This Province has to countenance, with our social partners and most importantly the private sector, other bold initiatives. Can we use the state's collective portfolio of property as a leverage to bring gap housing to the market and to use such profit generated to augment the subsidy budget? Is this also not the time to allow the poorest amongst us to benefit from the Western Cape property boom through a development levy - something that is standard practice in many other successful countries?* (State of the Province Address, Premier Rasool, Western Cape Provincial Legislature, Cape Town.10 February 2006)

# CURRENT DYNAMICS OF URBAN LAND MARKETS IN SOUTH AFRICA



- South Africa (80-400m²)
- Free State (80-400m²)
- KwaZulu Natal (80-400m²)
- North West (80-400m²)
- Limpopo (80-400m²)
- 'Affordable' market (40m²-79m²) - whole country
- Eastern Cape (80-400m²)
- Gauteng (80-400m²)
- Mpumalanga (80-400m²)
- Northern Cape (80-400m²)
- Western Cape (80-400m²)
- Subsidised housing based on subsidy amount, not trade



# Current Dynamics of Urban Land Markets in South Africa

- The SA residential property market, has created additional gaps beyond what has traditionally constituted the state's responsibility, bringing the issue of urban land markets to the fore.
- As the property price boom increases, housing and urban land ownership rights have become less and less affordable to greater proportions of the population.
  - at the top end of the market, property prices have doubled (and in some cases trebled) in the past five years.
  - at the bottom end, in the 'affordable' (non-subsidised) housing market (houses between 40m<sup>2</sup> and 79m<sup>2</sup>) – price appreciation has been much more gradual, only increasing with any level of significance in the first quarter of 2005.
  - the bottom line in the graph illustrates the value of the subsidy over the period;
  - in the tradable value of subsidized housing (given a sale restriction imposed by government of five years), has at best traded at the same amount invested, and more often traded at far below the State's investment

■

- [\[1\]](#) This section was adapted from Affordable Housing Institute (2005) "Making Urban Land Markets work for the Poor (MULMW4P); A Programme Proposal submitted to DFID-SA; pp9-11

■ Therefore, as the upper end of the market creeps away from the 'affordable' market, so too does the 'affordable' market creep away from the subsidized housing market. Affordability parameters are a critical component of this picture and are set out in the following table:

House price / bond value	Estimated deposit	Interest rate	Monthly repayment over 20 years	Estimated income requirements (25% ratio of repayment to income)	% of the population who could afford
R 35 000	R 2 479	N/A	None	R 0 – R 3 500	87%
R 193 000	R 40 000	15%	R 2 014.69	R 8 058.76	3%
R 662 447	R 193 000	11%	R 4 845.58	R 19 382.32	0.7%

- There are therefore at least two distinct gaps in the housing ladder: between the subsidized house that someone earning less than R3500 might access and then sell, and the R193 000 average house price of the affordable market, and then again between that house and the R662 447 average house price of the upper end of the market. This has two consequences:
  - Downward raiding: when the supply of housing is not matched to the affordability of the market, aspirant home owners find the next best house they can buy. Thus, a household earning R4 000 might under-report on income in order to access the subsidized house, because there is nothing else in the market to suit that affordability.
  - Residential immobility and dead capital: when a household is unable to afford housing that is better than what they currently live in, they are more likely to remain where they are. When they do this, the market loses out on a potential buyer and a potential seller, and this reduces the overall thickness of the market.
- The FinMark study (2004) found that the 'affordable' market and below is extremely thin, largely as a result of this factor. This has meant that households are unable to realize the asset value of their housing, which undermines housing as a potential investment for low income households at a time when it is realizing astonishing returns for high income households. From this perspective, the urban land market is clearly not working for the poor.
- As government struggles to access well-located urban land for its own subsidized housing developments, it also realizes that in the current South African political economy, market performance at the bottom end is inextricably linked to its performance at the top end. Therefore if the state accepts a market framework in its poverty alleviation and reconstruction objectives it equally needs to engage with actors in this sector to develop a credible, coherent position around the cost of land, the persistence of informality, access to and availability of land and resources to the poor, urban/ rural linkages, legislative and regulatory issues, and the intention for sustainable human settlements. **This calls for innovative partnerships.**

## Functioning Micro-finance Mechanism in CT Housing Market (Kuyasa)

- Access to credit is particularly constrained for vulnerable groups (single mothers, pensioners, the informally employed and groups that were more likely to be informally housed in shacks) - in townships, all characterised by informal housing and shacks, low and erratic incomes, a high % of women-headed households and poor service delivery.
- Microfinance provides a lever to develop housing as an asset, by meeting the financing needs of the low-income population incrementally and affordably. As yet, the formal banking sector is unable to provide finance on these terms.
  - There is a large disparity between the housing government provides, which at its most basic is tenure of a 18m<sup>2</sup> to 36m<sup>2</sup> house, and the formal banks' requirements. These include finished houses of 60m<sup>2</sup> and upward, with credit-worthy owners and in credit-worthy neighbourhoods.
  - The value of microfinance lies in its ability to bridge the gap between these two positions.
- The Kuyasa Fund Model grew out of a need for additional financing for South Africans who had qualified for the state housing subsidy and out of failure of formal finance markets and institutions to service low-cost housing (in conjunction with state subsidies) to led to a need for alternative sources of finance.
- Key constraint's in the Kuyasa Model:
  - the building up of the housing asset is currently not translatable into capital.
  - Blockages in the property market and banking service make it difficult if not impossible for low-income home owners to move up the property ladder.
  - While Kuyasa clients have been able to overcome constraints of access to credit and have built and improved their homes, they are unable to realize this asset as property markets do not serve this market sector.

## **EMERGING ISSUES/BOTTLENECKS:**

The central issues identified from literature and the work of the Task Team as barriers to properly functioning land and property markets that work for poorer communities are:

- distorted/fragmented land and property markets prohibit the creation of new, and sustaining existing settlements and low income housing areas and urban economies that provide opportunities for the poor in a Western Cape which is enjoying a boom at the upper end of the market;
- Financial capital and markets continue to be selective in investing in land and property development in certain locations thus entrenching apartheid geographies of development;
- Existing asset creation in low-income residential property in the periphery, and attempts to have well-located SHS for poor communities, is threatened by ghettorisation, down-ward raiding and gentrification;
- The distorted markets driven by speculation do not create an enabling environment for SHS development. NIMBYism has become an entrenched value system which fuels spatial segmentation of land and property markets.
- Informality is a structural product of an increasingly exclusionary formal economy and therefore becomes a precarious survival/livelihood strategy for the poor and the vulnerable; not a lifestyle of choice or a resistance to participating in the formal economy;

# Emerging Issues/Bottlenecks...1

- BNG's focus on integration of primary and secondary property markets should balance the importance of the interaction between 'use' and 'exchange values' regarding the notion of housing as an asset in the livelihood strategies for the poor – and therefore the centrality of incremental housing in reaching larger numbers of poor communities.
- The fragmented nature of 'public land' and the contradictory stance of organs of state who have custody of this land to consolidate the assembly and disposal of state land and other strategic resources in the public domain (public transport and infrastructure) as a lever for spatial restructuring to benefit the poor,
- Weak and fragmented planning and regulatory frameworks and instruments often work against each other rather than in tandem to address market distortions and failure in the land and property markets;
- failure of formal finance markets and institutions to service low-cost housing (in conjunction with state subsidies) meant that the building up of the housing asset is currently not translatable into capital.
- Microfinance provides a lever to develop housing as an asset, by meeting the financing needs of the low-income population incrementally and affordably. As yet, the formal banking sector is unable to provide finance on these terms.
- Blockages in the property market and banking service make it difficult if not impossible for low-income home owners to move up the property ladder.

# STRATEGIC INTERVENTION THRUSTS IN LAND & PROPERTY MARKETS.

Given the issues identified above four areas for intervention are recommended:

## A. Planning & Development Framework to Enable More Equitable Land & Property Markets

- Use existing and new planning development control/facilitation instruments innovatively and in concert for effective spatial and planning, restructuring enabling land & property markets that work for the vulnerable segments of the housing market
  - Synchronise the design, use and impact of SDFs, Restructuring Zones, Zoning (use and density), Urban Edge instruments and IDPs to achieve spatial restructuring and social equity in functioning of land and property markets;
- Develop pro-poor mechanisms for value capture and shared growth from benefits of surplus values accruing from 'boom conditions' in the upper end of the land and property market; (development levies and other taxation) to bring resources for leveraging a functioning property market at the lower end;
- DLG&H take the lead in exploring the use of both the 'carrot' of incentives and 'stick' of legislation approaches for implementing inclusionary housing programmes;
  - Use residential development permits, development levies, endowment/betterment, TDR, (bonus zoning density bonuses) to promote densification, integration and the generation of resources for low income residential development on well-located land.

## **B. Financial Models and targeted infrastructural Investment:**

At the Housing Indaba in Cape Town in September 2005, the government and the private sector (including banks and property developers) agreed to accelerate housing delivery in principle by setting aside a percentage (of the total value) of commercially driven housing development in a certain price range, for investment in the low cost housing sector.

- Using this backdrop of in-principle commitment, and its own proposals in the Reference Group Paper and elsewhere, the province should engage in partnerships to implement lead projects on the basis of this goodwill
- Pilot new financing models low income housing markets (through partnerships with private, public & civil sectors, charters, financial incentives and penalties, incremental default rating, land and property sales);
- Strategic and incremental targeting of infrastructure investment and upgrading to trigger crowding of public and public property development in specific nodes, zones and corridors identified in strategic spatial planning & development frameworks to promote densification along public transport spines;
- The implementation of the **Financial Services Charter** needs to be monitored by government, with feedback on the banks' progress in terms of the commitments needed to be given in a public and transparent manner.
- **Using the housing subsidy to support innovation and microfinance:** The current state institutions, particularly the NHFC, do had to cover the costs of developing this sector. This has led to the slow growth of developmental retail institutions and means they have had limited impact.
- **Example of Innovation:** Currently, large numbers of families are housed in backyard shacks in the townships. By developing the appropriate financing, institutional and legal frameworks it should be possible to develop a support instrument that ensures the development of backyard shacks into safe, secure and economically viable dwellings. This would enjoy the knock on benefits of increasing urban density and maximizing the use of existing urban infrastructure



## C. Land Market Management and use of State Land and other resources for spatial restructuring for the benefit of the poor.

- The Province to facilitate review existing public land institutional arrangements for acquisition, assembly and transfer and develop comprehensive TOR as a basis for facilitating its utilisation for low income housing in order to fast-track availability and affordability of well and appropriately located land for sustainable human settlements.
  - Conduct an audit of all parastatal and state-owned land in the province (categorize by type, suitability for residential use and quality) and capture data on an effective, comprehensive and accessible GIS. Develop an overall register of available and suitable land and buildings in the Western Cape.
  - Undertake land audits, surveys and property registers to monitor transfers as a basis for informing strategic planning and investment decisions
  - Subsidise the purchase of land for housing, including land swap. This will be a cheaper option for government than putting a greater burden on transport that is already heavily subsidized.
  - DLG&H to create a land fund that can be used by municipalities for immediately purchasing and "banking" suitable land for housing that is aligned with their respective long term land use plans;
- Seek to gain revenue via land taxation or through capturing revenue using internationally accepted methods such as those used in other countries;
- Invoke IGR framework to transfer suitable and well-located public land target this for SHS development that is prioritised for integrated low income housing development
- DLGL&H, in partnership with municipalities, to lead and coordinate a land banking mechanism and managed land settlement strategy accommodate new migrants/households in incremental housing development.

- Province initiate policy frameworks and mechanisms are for put in place so that the DLG&H has the right of first refusal prior to the sale of all state-owned land and buildings (in the interim, a moratorium on the sale of all state owned land or until a land policy is reconciled with the BNG Plan may be considered). DLG&H and LAs to review existing practice around the disposal of all vacant land and buildings, as well as of rental stock and align with the intentions of BNG taking into account the legacy of forced removals;
  
- The burden on transport that is already heavily subsidized. Use public land (all tiers of government, & parastatals) and other state resources (public transport routes & public infrastructure investments) as a strategic lever for spatial & social restructuring particularly targeting development zones;
  - *Public transport subsidies (for rail and bus transport) in Cape Town increased from R415 million in 1998/1999 to R430 million in 2000/2001 (Behrens and Wilkinson 2003)*
  - *At around about the same time, actual expenditure on housing in Cape Town was R206 million in 2001/2002 and R231 million in 2002/2003,*
  - *So the amount spent on public transport subsidies in Cape Town was probably more than double that spent on housing during this period (CCT website)*
  - *And a new subsidy for minibus taxis is to be introduced ( "Taxi subsidy to be phased in", Business Report, 18 July 2005).*

## D. Land and Property Market Research and Monitoring

Because land and property markets are fickle and complicated across spatial scales there is a need to develop an intelligence system (research & monitoring system) to understand the workings of the land and property markets, particularly in the following areas;

- Understand livelihood networks and dynamics of informalisation and the motivations and mechanics of property transfers in informal settlements & townships;
- Understand rental sector in townships and backyarder and informal settlements;
- Home loan disclosures to inform housing investments;
- Explore mechanisms to unlock stock in discount benefit schemes;
- Monitor land and property speculation at the middle and upper end of the market to develop an understanding (and devise interventions) of distorting factors.
- Collaborate with tertiary institutions and other stake holders involved in land and property markets research to provide a 'think tank' that informs and facilitates the development of more inclusive and vibrant human settlements economy in the province.

■ **Enkosi...**

## **RESEARCH & MONITORING OF LAND AND (RESIDENTIAL) PROPERTY VALUES & MARKETS IN CAPE TOWN AND THE WESTERN CAPE.**

- Using the David Harvey's (1978: 408) model of how capital is circulated to fund property development in cities and how financial flows in the economy feed the urbanization process and in turn shape the 'production of the built environment' in the last 10-15 years to help us understand (Badcock, 2002; 82);
- Collect data including:
  - Building cycle and patterns of investment, in different sectors of real estate in cities and regions in the Western Cape;
  - Map the spatial and temporal patterns of land and (residential) property values in the cities and regions of the Western Cape (using isopleth and choropleths maps in time and space);
  - Identify areas of land value appreciation and residential property booms using rating, valuation and loan disclosures information, building plan approvals (use, floor area and value returns);
  - Identify vacant private and state land and analyse its location in relation to public transport routes, social services, economic opportunities and areas targeted for public infrastructure investment.
- Use this information to firm up SDFs, restructuring zones and determining the appropriate future location of housing development and targeted public infrastructure investment;
- Devise a diagnostic data collection system to aid planning and understanding of workings of the land and property markets
- Track down/monitor asking property prices as advertised (in papers or with estate agents in selected residential areas and cross reference them with actual sale prices from Deeds register for a sufficiently long period to determine magnitude of speculation.
- Monitor press for residential property trends (banks, Bureau for Econ Research, Stellenbosch Univ. etc)

Strategic Intervention Area	Activities	Indicators	Means of Verification	Assumption /Risk
<p><b>A. PLANNING AND DEVELOPMENT CONTROLS FOR MORE EQUITABLE LAND &amp; PROPERTY MARKETS</b></p> <ul style="list-style-type: none"> <li>Use existing and new planning development control/facilitation instruments innovatively and in concert for effective spatial and planning, restructuring enabling land &amp; property markets that work for the vulnerable segments of the housing market</li> <li>Develop pro-poor mechanisms for value capture and shared growth from benefits of surplus values accruing from 'boom conditions' in the upper end of the land and property market,</li> </ul> <p>Province to take the lead in exploring the use of both the 'carrot' of incentives and 'stick' of legislation approaches for implementing inclusionary housing programmes.</p>	<p>Synchronise the design &amp; use of SDFs, Restructuring Zones, Zoning (use and density), Urban Edge instruments and IDPs to achieve spatial restructuring and social equity in functioning of land and property markets;</p> <p>res development permits, levies, endowment/betterment, TDR, bonus zoning; density bonuses) to promote densification, integration and the generation of resources for low income residential development on well-located land</p>	<p>The volume and location of credit accessed by members of the gap market (e.g. micro loans, bank loans).</p> <p>Annual increase in the number of low income transactions with in the functioning market</p> <p>The number of subsidy housing sold for a higher value than the Current state subsidy</p> <p>by ...the number of formal structures in backyards has increased by ...%</p> <p>Tenure options taken up are diverse</p>	<p>Access information from the Home Loan Disclosure office on a regular basis</p> <p>A survey of estate agents operating in the low in come property market</p> <p>Information is accessed from Banks, Estate agents and Deeds Registry on a quarterly bases</p> <p>A Building inspectors record and bi annual aerial photographs / satellite images</p> <p>Increase number of households under R3500 income access affordable rental and social housing</p>	<p>Private sector and finance institutions are geared to accommodate all the housing instruments</p> <p>Banks will transform and participate</p> <p>Nimby and gate-keepers can be managed</p> <p>Laws can be enforced in all areas of the province</p> <p>Broad economic conditions are favorable to the poor to survive economic stress and retain the value of there property .</p> <p>Private land owners will accept fair prices and land speculation can be minimized</p>