



# THE POTENTIAL IMPACT OF AN INCLUSIONARY HOUSING POLICY ON THE AFFORDABILITY OF HOUSING IN SOUTH AFRICA

By

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A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

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## **ABSTRACT**

The right to shelter is viewed internationally as a basic human right, and this is supported by the South African constitution through the Bill of Rights. The current state of accessibility to housing in South Africa is, however, being eroded by issues such as the rapidly decreasing ability of a growing section of the population to afford market related housing. There are several policies – the latest of which being the inclusionary housing policy - being instituted by the National Department of Housing that in whole or in part attempt to address this issue of affordability. The success of these housing policies in addressing this issue has not yet been fully determined.

The aim of this research was to take a specific housing policy – the framework for inclusionary housing - and determine its impact on the affordability of housing and from this, and outline potential implementation hurdles that should be addressed in order for the policy to be effective. Due to the lack of research in this area from a South African perspective, this was an exploratory study which used semi-structured interviews of housing industry experts as a means of gaining insight.

The research ascertained that an inclusionary housing policy will have a very limited impact on the affordability of housing in South Africa, but the social benefits that it will bring to the country in terms of integration will far outweigh this. The research further determined that there are serious problems in the execution and implementation of housing delivery in South Africa which are directly related to the cost of land, the current government subsidy schemes, the township establishment process and the capacity of local government.



## DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university.

Mariane Olokun

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## **1 INTRODUCTION TO THE RESEARCH PROBLEM**

### **1.1 Statement of the research problem**

Recent economic trends show a continuing decline in the affordability of housing in South Africa (du Toit, 2007). This decline continues despite various interventions by government based on the auspices of the "Comprehensive Plan for the Development of Sustainable Human Settlements" also known as "Breaking New Ground (see appendix 1), and private sector interventions such as the prescriptions of the financial sector charter and the property charter.

Based on a Social Contract for Rapid Housing Delivery, signed by government and key stakeholders in the private housing sector in September 2005, the latest intervention – a draft inclusionary housing policy has been tabled for discussion. This document has been the subject of rigorous debate, and has highlighted some highly controversial issues (The National Department of Housing, 2007).

This is not however purely a South African phenomenon, such policies have come under criticism internationally for causing rather than solving affordability problems. This research paper aims to ascertain if such a policy will positively impact the affordability of housing in South Africa, and if the wider societal issues it addresses make it ideal for the South African context.

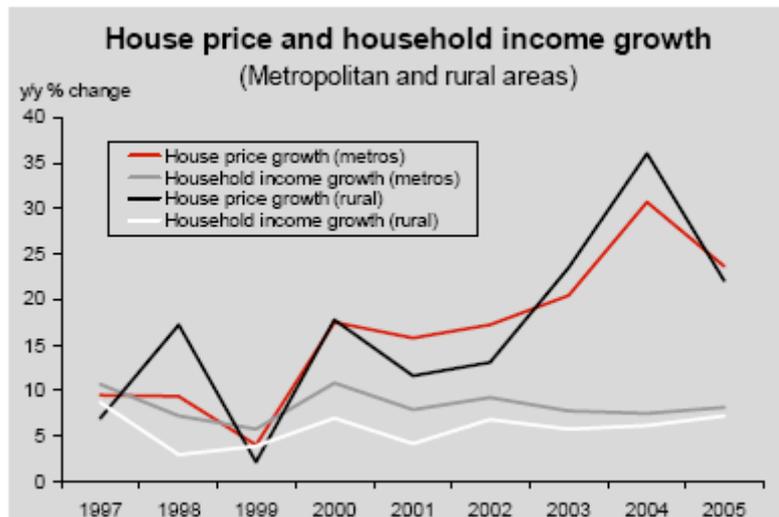
### **1.2 Context to the research problem**

The Housing market in South Africa has been growing steadily since 2000 (see appendix 2), this is due in part to changes in demographic factors such as the

increase in population size, economic factors, such as the growth in total GDP, socio-economic factors such as an increase in the average income per household, and lifestyle factors. All of which have caused the demand for housing in the country to increase significantly (du Toit, 2007a).

In conjunction with a housing supply that - for varying reasons - has not matched demand, housing market growth has heavily impacted South African house prices (see appendix 2). Recent price trends show a year on year increase in average house prices in real terms for the first quarter of 2007 on affordable housing of 11.8%, middle-segment housing of 9.3%, and luxury housing 1.8 % ( du Toit, 2007).

**Figure 1: House Price and Household Income Growth**



Growth in household income has not kept pace with this growth in house prices - depicted in figure 1 - which has gradually pulled home ownership out

of reach of the lower income groups in the country. In view of this, affordability can be seen as one of the main constraints to a fully functioning housing market in South Africa (Rust, 2007).

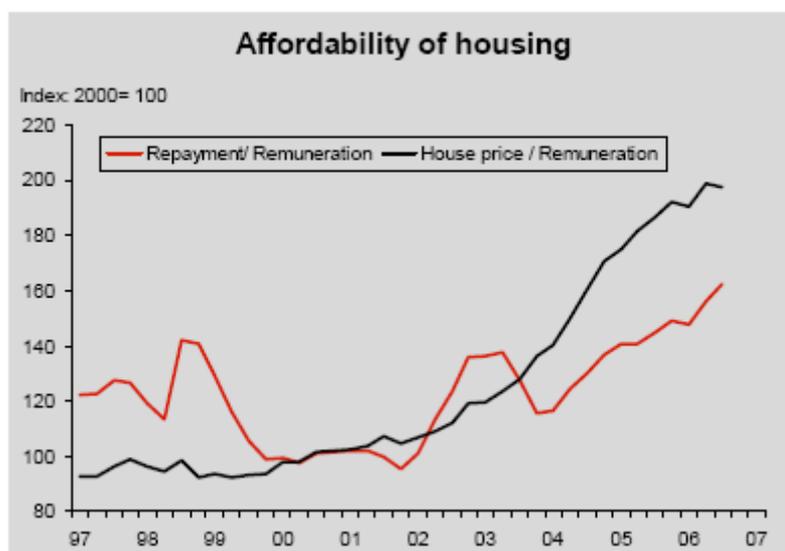
The South African government has attempted to address this problem through, amongst other medium, the creation of housing subsidies aimed at assisting the lowest income groups. Such policies have existed for the past 13 years, the latest approach being the adoption of an Inclusionary Housing Policy (Rust 2006). Most stakeholders are in agreement that the issue of housing affordability needs to be properly addressed; however the means of addressing the issue are at the centre of some controversy.

### 1.3 Rationale for Conducting the Research

#### 1.3.1 Housing is becoming Less Affordable

The global housing industry has seen huge growth in the last decade, which has given rise to the problem of affordability of housing for lower income groups. In some areas (e.g. Los Angeles (US), London (UK) and Sydney (AUS)) this is not just an issue for lower income earners, but one for all but the very affluent (Cox and Pavletich, 2007).

**Figure 2: Housing Affordability**



South Africa is no exception to this phenomenon, as we can see from figure 2, which shows two affordability ratios for housing. We can observe a steady



increase in the house price: remuneration ratio from 1997 to around 2000, at which point, the ratio grows exponentially.

This begins to taper off slightly in 2007 due to declining house price growth (due to in part to affordability effects) and increased growth in remuneration per worker. The mortgage repayment: remuneration ratio has also seen steady growth in the period, and is continuing to rise (du Toit, 2007). The rise in these two ratios implies that there is a decline in growth in remuneration in relation to growth in house prices and mortgage repayment rates. In layman's terms this implies that housing is becoming less affordable.

### **1.3.2 The Supply of Affordable Housing Units is Declining**

Housing that is affordable to lower income households is declining, and there is no longer sufficient supply in both the public and private sector to meet the demand (see appendix 3). This decline is due in part to a reduction in the numbers of developers participating in such housing developments citing reasons such as political interference and static subsidy levels as reasons for their exit. This further exacerbates the problem of declining affordability as it further decreases the number of units available to satisfy an already huge demand.

### **1.3.3 Effects of Declining Affordability**

The effects of declining affordability can have far reaching negative impacts on communities. Low cost labour will become scarce as households move to locations where affordability is greater. This in turn impacts on businesses within the community that rely on this labour supply. Further, a situation can develop whereby key workers such as teachers, police officers and nurses

amongst others, are unable to find housing they can afford in close proximity to their places of work (Brunick, Goldberg and Livine, 2003).

This has a dual impact on the economies of these communities – firstly, as households begin to spend an increasing portion of disposable income on housing, they will have less to spend on other goods and services which will limit economic growth. Secondly, an economically successful community requires a skilled labour force in proximity to jobs in order to remain competitive (Brunick et al, 2003).

Smit (2006) states that in South Africa, affordability is further exacerbated by the effects of previous exclusionary housing practices and the high levels of environmental segregation that still characterise the country. Affordably priced housing is required in order to begin to address these and other societal issues.

Globally, inclusionary housing principles have become “a popular solution to providing affordable housing” (Myerson, 2003), which suggests that in order to continue to align to international housing best practice, South Africa will have to adopt these principles.

#### **1.3.4 Is an Inclusionary Housing Policy the Answer?**

The framework for inclusionary housing is a policy designed by the department of housing in an attempt to address the societal issue of integration, and the housing affordability crisis in South Africa. Its main clause states that every new housing development must contain a proportion of at least 20% affordable housing units.



There is a body of literature that points to the fact that the adoption of an inclusionary housing policy - by a national government, an individual province or municipality - actually decreases the affordability of housing which has been seen particularly in the United States.

In addition to this, there is the concern that once implemented such a policy will place a huge administrative burden on the state which may spell disaster for South Africa's already struggling administration. Further, there is the caveat that if an inclusionary housing policy is not correctly monitored it will only succeed in furthering the gains made by the middle to upper end of the housing market, and not address the needs of the lower end of the market, which will further exacerbate the existing problems.

#### **1.4 Research Aims and Objectives**

The objectives of this research are to ascertain whether an inclusionary housing policy can address in whole or in part the current housing affordability crisis in South Africa. Once this has been determined, it is the objective to establish if this type of policy would have any social benefit other than addressing the social issues caused by the lack of affordability. If the answer to either of these objectives is positive, then the final objective is to provide guidelines on the issues affecting the implementation of an inclusionary housing policy.

#### **1.5 Research Motivation**

With respect to the issues outlined, additional research is required to contextualise an inclusionary housing policy solution to the South African housing affordability problem, and to draw some conclusions as to the way



forward. The effects of inadequate housing on the population such as ghetto creation, immobility of the labour force, economic segregation leading to declining growth rates, increasing emigration, and the subsequent inability of South Africa to compete on a global scale could instigate a crisis for the country if this issue is not adequately addressed.

## **1.6 Research scope**

The scope of this research will be limited to a review and analysis of the inclusionary housing policy as defined in section 2.3. Other legislative attempts to address housing issues (such as building codes and environmental regulations) that do not directly affect the inclusionary housing policy are therefore out of scope. The assessment of this policy will be limited to the direct and indirect affects on housing affordability as defined in section 2.2.

This study is based on the affordability of housing using home ownership as a reference point. Any reference to affordable rentals is therefore seen as a corollary which supports the affordability of home ownership. The topic of the affordability of rental housing would require further research and is therefore out of scope for this research project.



## **2 THEORY AND LITERATURE REVIEW**

### **2.1 Introduction**

This section aims to outline the main issues surrounding housing affordability and inclusionary housing policy from a global perspective, and to apply this to the South African context. The theory base covers the various definitions of affordability and the different schools of thought on the success of inclusionary housing policies around the world. It then goes on to outline the varying methods of implementing and measuring the success of an inclusionary housing policy both from an international and local perspective.

### **2.2 Affordability of Housing**

#### **2.2.1 Building Cost Inflation vs. House Price Inflation**

Affordability of housing is usually defined by price (e.g. housing that costs less than R200 000) or by household income levels (e.g. housing affordable to households earning R3 500 per month or less) (Smit and Purchase, 2006) - South African calculations use both measures, and both relate to the households ability to pay for housing.

Glaeser and Gyourko (2002) contend that such definitions “confuse poverty with house prices” and that a much more sensible benchmark for the affordability of housing should be based on construction costs. Taking this viewpoint, unless house prices are considerably higher than the cost of construction, any policies oriented to the supply of housing - such as an inclusionary housing policy – would not ease the affordability crisis.

**Figure 3: Building Costs of New Homes**

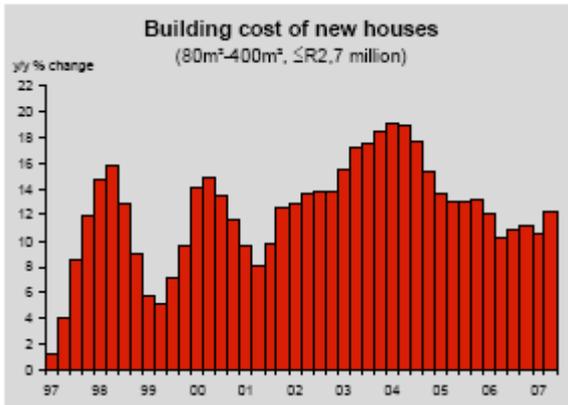
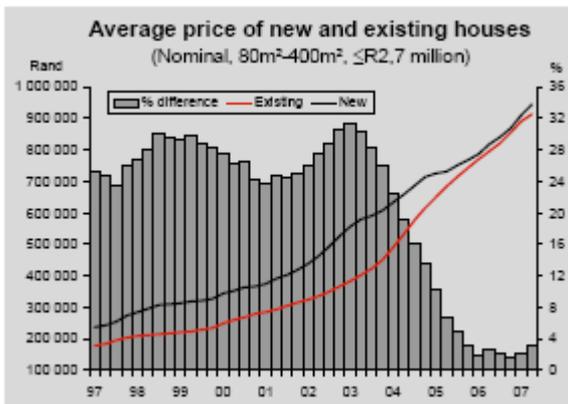


Figure 3 shows the cost of building new houses over the 10 year period 1997 to 2007. The second quarter of 2007 shows a nominal growth in the costs of building a house of 12.2% year on year which is almost 2%

higher than the same quarter in the previous year (du Toit, 2007b).

**Figure 4: Average Price of New and Existing Homes**



The average price of a new house showed a nominal increase of 15.6% year on year, taking the average price of a house in the 80m<sup>2</sup> to 400m<sup>2</sup> and costing less than R2.7 million category up to R943 000 in

the second quarter of 2007, while nominal growth in the average price of an existing house in the same category increased by 14.9% year on year, taking the average price up to R914 300 in the second quarter (du Toit, 2007b).

This represents a difference of less than 1% in the price of a newly built home versus buying an existing home, and contends that the majority of homes in South Africa are now priced at close to construction cost (du Toit, 2007a). Based on the writings of Glaeser and Gyourko (2002) this would infer that the imposition of an inclusionary housing policy would have little impact on housing affordability.

**Figure 5: Average Price of New and Existing Homes: A Long term view**

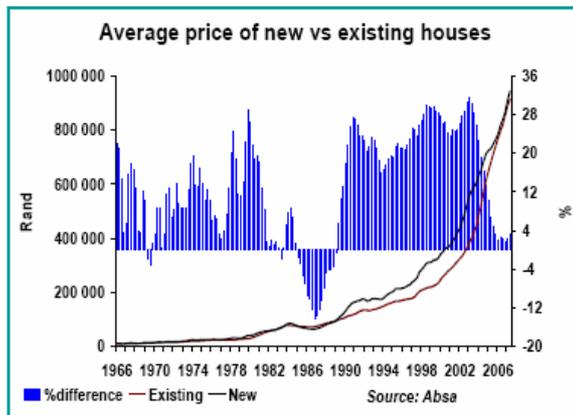


Figure 5 looks at the comparison of new house prices versus existing house prices over a 30 year period. From this graph we can see that the current marginal difference in the price of a new home versus the price

of an existing home is a fairly recent phenomenon. There has been a distinct difference in these two prices since the mid 1980's up to early 2004 which was the height of the residential property boom (Loos, 2007).

The property boom experienced up to 2004 meant that there was a high demand for new property. This meant the pricing power of developers with regard to their suppliers (building contractors and material suppliers) and home buyers was at its peak. This situation has to an extent reversed with developers having to compete for labour and materials with other areas of construction (such as 2010 developments) which pushes up building prices inflation (Loos, 2007).

This current pressure on construction input costs should once again lead to a widening of the differences in new and old house prices, as developers can no longer afford to absorb these increasing input costs directly in their margins, and are forced to pass them on directly to the home buyers in the form of increased house prices.



## 2.2.2 The Financial Sector Charter and Housing Affordability

In 2002, the financial sector committed to the formulation of a black economic empowerment charter, thereafter known as the Financial Sector Charter (FSC). This is the result of a memorandum of understanding between the minister of trade and industry and representatives from the banking industry, the insurance industry, brokerage firms, asset managers and collective investment schemes to address the need for transformation within the financial services industry (Government gazette, 2007)

The targets laid out in the charter include amongst others a scorecard for access to financial services. From a property perspective, this translates to a target for the origination of home loans to lower income groups (LSM 1- 5) of R42 billion by end 2008. The charter defines lower and lower middle income groups as being comprised of individuals that earn a monthly income of between R1 500 and R7 500 (adjusted annually for inflation). Table 1 depicts just what monthly repayments are affordable to these households.

**Table 1: Affordability of Housing Payments**

INCOME	AFFORDABILITY
R 7,500	25% / R1875/m
R 5,500	25% / R1375/m
R 4,500	25% / R1125/m
R 3,500	25% / R875/m
R 2,500	25% / R625/m
R 1,500	25% / R375/m
R 500	10% / R50/m
R 0	0% / R0/m

From the table, a household income of R 7 500, at an affordability rate of 25% will afford repayments of R1 875 per month. This would enable the household to purchase a property

priced at less than R176 035 (see appendix 4), based on a housing loan at 12%, with a 10% deposit, calculated over a term of 20 years (Gardner in Rust, 2006). From appendix 2 table 5, we can see that at current prices this would



not even allow the household to purchase an “affordable” home (a house of 40m<sup>2</sup> – 79m<sup>2</sup> costing less than R370 000) as the national average nominal house price of an “affordable” home at the end of the second quarter 2007 was R249 714 (du Toit, 2007b).

This is further substantiated by Cox and Pavletich (2007), when applying their “median multiple” (median house price to median household income multiple) to houses in Johannesburg. The city is rated 5.1 on the affordability scale, which classes housing in the city as severely unaffordable (see appendix 5). Cape Town and Durban have ratings of 5.8 and 5.0 respectively.

This phenomenon is not just limited to the lowest income groups. The average annual household income in 2005 in metropolitan areas was R145 282 (appendix 1, table 4), this equates to a monthly income of R12 107, and at a 25% affordability rate would allow the household to spend R3 027 on housing per month. A monthly repayment of this size would entitle the household to purchase a property of R248 473 at the current prime rate of 13.5% calculated over a 20 year term (appendix 1, table 6). This would only allow the household to purchase an “affordable home”; however such units are in incredibly short supply (du Toit, 2007b).

### **2.2.3 Supply Side Factors**

There are a number of supply side factors that can lead to a decrease in the affordability of housing in South Africa. Rust (2006) examines several of these factors namely property price appreciation - which has pushed the repayments for housing out of reach for lower income groups, building material price

escalation – which puts pressure on government plans to rollout affordable housing units, limited construction capacity – due to large infrastructure projects in the country such as the Gautrain and the 2010 world cup, and insufficient capacity at municipal level – in terms of skills and resources.

Glaeser and Gyourko (2002) contend that it is rather the high cost of land, and the regulation placed on new housing developments that are the supply side factors that create lack of affordability in the market. They go on to state that if house prices are to become more affordable, the regulations placed on construction by inclusionary housing policies must be reviewed and reformed. Research conducted by Cox and Pavletich (2007) in their international housing affordability survey corroborates this view.

#### **2.2.4 Demand Side Factors**

In their international research Cox and Pavletich (2007) contend that higher demand for housing arising from the lower interest rate scenario has pushed up house prices. Real household incomes in South Africa are however declining (du Toit, 2007a), and this coupled with other financial pressures mean that while demand for housing is high, the effective demand for housing (“demand coupled with the willingness, or ability to pay” Rust, 2006) is exceptionally low (Rust, 2006).

#### **2.2.5 Social Factors**

The social impact of improving the affordability of housing, according to Glaeser and Gyourko (2002) is not considered in their own economic assessment of the affordability problem and they state that the social impact could “certainly outweigh” the costs. This is to an extent corroborated when we look at the



myriad of issues that the term “affordability” covers such as distribution of housing prices, distribution of income, the ability of households to borrow, public policies affecting housing markets and the decisions individual households make to name but a few (Quigley and Raphael, 2004).

Another viewpoint put forward by Quigley and Raphael, (2004) is with regard to house prices and wealth creation. Home owners benefit from rising house prices as it increases the equity they have in their homes and decreases the cost of the accommodation. It is however, those who have not yet got onto the housing ladder for whom high prices make affordability an issue.

### **2.3 Inclusionary Housing**

Internationally, inclusionary housing is a means for governments to address the high cost of housing through the imposition of price controls on a percentage of new homes (Powell and Stringham, 2004). It refers to the voluntary or mandatory policy of selling homes so that they are affordable to specific lower income groups. Inclusionary housing in the South African context, as defined by the National Department of Housing (2007) in their framework for an inclusionary housing policy (IHP) in South Africa is, “the harnessing of private initiative in its pursuit of housing delivery to middle/higher income households to also provide affordable housing opportunities in order to achieve a better socio-economic balance in residential developments and also contribute to the supply of affordable housing”.

### **2.3.1 International Inclusionary Housing policies**

Globally, an inclusionary housing policy does not necessarily mean that a developer must provide the same house that could be sold on the open market at a market related price to lower income households at a reduced price. The units provided could be smaller, for sale or rent, on or off site (San Diego Housing Commission, 2004). The stipulations would depend entirely on government. Appendix 6 shows a comparison of several US inclusionary housing policies, while Appendix 7 outlines the debate on the policy.

### **2.3.2 The South African Inclusionary Housing Policy**

The current public framework for an inclusionary housing policy (IHP) in South Africa forms the basis of the South African national policy on Inclusionary Housing, and emanated from the signing of the Social contract for Rapid Housing Delivery in September 2005. This contract stated that “every commercial development including housing developments that are not directed at those earning R1 500 or less, spend a minimum of 20% of project value on the construction of affordable housing” (National Department of Housing (NDoH), 2007).

When comparing this to international examples of the adoption of inclusionary housing policies, we can see that these conditions are not unusual. Inclusionary housing policies implemented around the world require a range of between 10% (USA) and 30% (UK and Malaysia) affordable housing units to be provided by developers when constructing middle to upper income developments (Smit, 2006).

Other stipulations include re-sale restrictions on affordable units, offsite development criteria, density bonuses and other developer incentives – some of which are outlined in Appendix 6 (Brunick et al, 2003). All of these stipulations are addressed in whole or in part in the NDoH framework.

It is clearly stated in the framework document that the objectives of an IHP in South Africa are primarily the promotion of greater social inclusion, with the creation of affordable housing only being a secondary consideration. This may well be an intelligent move by the NDoH, as the literature supports the fact that inclusionary housing has little impact on the number of affordable housing units produced in a country or municipality.

This is supported by Powell and Stringham (2004) in their research of inclusionary housing policies in California. This research found that inclusionary zoning has not made a significant contribution to solving the affordability crisis. A comparison of several municipalities in the San Francisco Bay area of the state found that on average only 14.7 inclusionary housing units have been produced per jurisdiction since the inception of the states inclusionary housing policy.

The South African IHP proposes two main components – a voluntary deal driven component (VPADD) and a compulsory incentive linked component known as the town planning compliant component (TPC). The VPADD refers to a situation whereby government and private companies partner on housing projects to their mutual benefit in order to deliver inclusionary housing developments. This, according to Powell and Stringham (2003) is merely a

case of developers being allowed to choose the form of government regulation they prefer, instead of being told which policy they will adhere to.

The TPC imposes mandatory requirements on developers to meet specified inclusionary housing requirements which can be offset by certain incentives such as tax benefits, land and the fast tracking of the development approval process – this is known as a carrot and stick approach (NDoH, 2007).

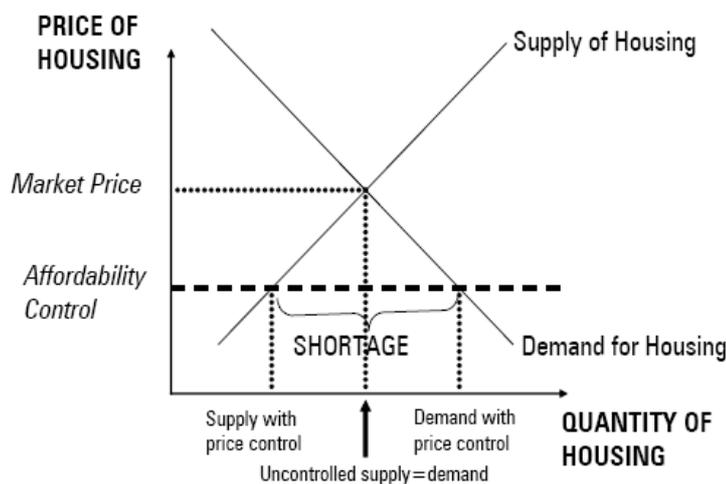
The Gauteng department of Housing (2006) has put forward a draft inclusionary housing policy suggesting the following model: the developer will allocate 1% of the total cost of commercially driven developments (e.g. golf courses) to middle income housing, and 30% of project units as affordable housing for all residential developments to middle income units. This is quite onerous when compared to the inclusionary housing policy characteristics in appendix 6, and is outside the parameters of the formal national policy framework which to date has not been legislated (NDoH, 2007).

The National department of Housing (2007) however contends that this is not illegal, unless legislation that has been put in place that is being ignored. Attention must however be drawn to the fact that there are several problems inherent in taking this cause of action such as causing confusion in the marketplace, or developers choosing to leave this market due to the imposition of ill conceived policies.

### 2.3.3 Economic perspectives on Inclusionary Housing

Proponents of an inclusionary housing approach believe that it is the solution to a countries affordability crisis, while its opponents believe that it is the actual cause of housing affordability problems as it decreases the supply of houses and adds to the cost of construction (Powell and Stringham, 2004). This debate draws on arguments from economics through the laws of supply and demand. Figure 6 shows how this works.

**Figure 6: Supply and Demand of Housing with Affordability Controls**



The market determines the price at which houses should be sold based on uncontrolled supply and demand. When an affordability

control such as inclusionary housing is put in place this artificially reduces the market price of housing. At this new price, demand increases as buyers want more units at the cheaper price. This will either cause developers to increase the prices on market rate housing, or as is shown in the diagram, reduce the supply due to the expected decrease in profits with no subsequent reduction in building costs. The effect is a further shortage in housing (Talbert, 2006).

This view is further supported by Powell and Stringham (2003) who go on to state that price ceilings on houses create shortages (this follows the same logic

as in figure 6) and lower the quality of the housing delivered. This may be due to the fact that cheaper materials may be used in order to build a house to the required standard, and still allow a margin to be made on the sale of the house. The general economic conclusion, according to the literature is then that restricting the supply of new market related housing – as with an inclusionary housing policy – will make houses in general less affordable.

A further negative consequence of this shortage is that a situation is created whereby only a few households will benefit from the sale of units at a reduced price. This is due to the fact that at the lower price put in place by an inclusionary housing policy, demand is greater for housing and the affordable units that are built must therefore be rationed. This exacerbates the problem for those that were not so fortunate (Powell and Stringham, 2004).

Proponents counter this argument by stating that inclusionary housing is a means of addressing the problem of housing affordability, without using large amounts of public funds, it is in effect a market driven mechanism that allows public funds to be diverted to other public needs (Brunick and Goldberg, 2003). There is however no such thing as a free lunch, and although governments are not required to use significant amounts of public funds in an inclusionary housing scheme, the imposition of an inclusionary housing policy by its very nature imposes costs on builders (Powell and Stringham, 2003).



#### **2.3.4 Socio-Economic perspectives on Inclusionary Housing**

Opponents of inclusionary housing policies insist that housing affordability and the provision of an adequate housing supply is a societal burden in as much that it relates to the wider issue of poverty, and not to the provision of housing *per se*. Inclusionary housing policies tend to place the burden of the provision of affordable housing squarely on the shoulders of developers, and not on the wider society (Talbert, 2006).

This leads us to the issue of wealth creation. The creation of wealth is an integral part of assisting the poorest to lift themselves out of poverty, and one of the means of creating this wealth is through home ownership, and the access to equity that this inevitably provides as the home appreciates in value (Powell and Stringham, 2003).

This is counteracted by Smit and Purchase (2006) who state that in South Africa, the majority of the benefits of the housing boom have accrued to the historically advantaged population “whose wealth in property terms has tripled in a few years”. If the lower income groups had access to this level of wealth creation, the cycle of poverty may well be broken for them.

There is however a caveat to this position. The National Department of Housing in their IHP policy framework (2007) state that purchasers of affordable units can only sell the units at price escalations in line with inflation for a 10 year period, after which the unit can be sold at market rates. This may seem like a practical way to avoid the "cherry picking of affordable units by those who have money to invest in such property. Powell and Stringham (2003) contend that it



limits the amount of appreciation available in these units. This in turn restricts the owners from gaining equity when the home is sold, thereby breaking the cycle of wealth creation.

There is also the issue of subsidies to consider, of which an inclusionary housing policy - for those who have access to it - is a form of long-term subsidy. Powell and Stringham (2003) contend that “providing homes at below market rates” gives a long term subsidy to a household that may only need short term help. This is due to the fact that the “means” test for an affordable house is only completed when a household or individual first applies for a house. No further qualification checks take place after this.

An individual may be on a low income for a whole variety of reasons – they may have just entered employment, they may be students or the elderly, the list continues. The fact is that these circumstances in some instances may change through the life time of the individual, and an individual who qualifies for an affordable unit today may in the not too distant future be earning a lot more money. There is however no incentive to leave the affordable unit due to the restriction placed on the equity to be gained from the home, this therefore restricts the number of affordable units available for low income households in the future and perpetuates the affordability crisis.

### **2.3.5 Social perspectives on Inclusionary Housing**

International inclusionary housing policies have been designed to promote the integration of communities and attempt to address the problems of ghettoisation and segregation brought about by previous exclusionary housing



policies. International examples however largely refer to income segregation, and the mixing of low income housing units into market rate developments (Burchell, Conine, Dubin, Flanagan, Galley, Larsen, Rusk, Schnare, Tetreault, and Tustian, 2000).

Looking at this from a South African perspective, inclusionary housing will attempt to address the continuing problem of both social and economic segregation and the issues this can cause - such as increased crime rates - which are plainly visible in most of its larger cities (Brunick and Goldberg, 2003).

The urban sprawl versus densification debate is another social issue to consider. Land is cheaper on the outskirts of town as it is away from central amenities; this makes the housing on the outskirts of town cheaper. This in turn means that low and moderate income groups will tend to purchase housing in these areas as it is what they are able to afford. This results in large commutes for these families to places of work and to schools. This is generally viewed as a bad thing; however Kahn (2001) contends that the benefit of urban sprawl is that it closes the “black/ white housing consumption gap.

### **2.3.6 SA’s first inclusionary housing development – Felapeng**

One of South Africa’s first housing developments to comply with the governments IHP policy is that of Felapeng situated in Fairlands, to the north of Johannesburg. The project will include 30% inclusionary housing and aims to provide 187 housing units in total. This includes 56 units available at rentals of

between R1 500 and R2 000 per month next door to market related properties priced between R1.5 million and R2 million (Fife, 2007).

The market related property in this development is to be marketed by Pam Golding properties and will be geared towards “middle class black homebuyers” (South African Housing Foundation, 2007 p 2). Fife (2007) states that the aim of this approach to the marketing of the property is to “encourage cultural homogeneity”, which assumes that the tenants in the rental properties which will be owned and allocated by the Johannesburg Social Housing Company (Joshco) will also be black.

This leads to the suggestion of ghettoisation. The aim of the IHP was to integrate communities; however by ensuring that the entire population of this development is black will only lead to segregation and the potential ghettoisation of the development. It may even go so far as to perpetuate prejudices by limiting the opportunities for interaction between different races in a “home” setting (Katz and Turner, 2003).

## **2.4 The Implementation of an Inclusionary Housing Policy**

### **2.4.1 Roles and Responsibilities of Different Tiers of Government**

In order for successful implementation of an IHP to take place, the roles of the different levels of government must be clear. The two tiers of government that are the most integral are the national government and local government. National government plays the role of formulating and monitoring policy, whereas local government plays the role of the hands on implementer of the policy. One cannot exist without the role of the other.



In more detail, the national government has the role of putting in place the “policy parameters and legislation” (NDoH, 2007 p28) that will introduce this policy to the local and provincial authorities, and to the relevant stakeholders and participants. Katz and Turner (2003) state that it is the duty of the national government to make the programs and policies that constitute the over arching inclusionary housing policy explicit about what it is intended for, the outcomes it intends to achieve, and the means of measuring and monitoring the performance of the policy towards the targets set. These comments are in line with the South African IHP, and we can see from appendix 8 that the role of national government will be viewed in a similar light.

Local government sits on the coal face and is expected to implement and administer the IHP. This is where the difficulty comes in. Schill (2005) focuses on three core responsibilities of local government in the implementation of an IHP, and this in his opinion gives rise to three reasons why the policy will not succeed. The first of these is what he refers to as “inefficient and duplicative government administrative processes” (Schill, 2005 pg 12). These serve to add to the costs of regulation and may make the process unworkable.

Secondly, there is the issue of delays that occur in the IHP process. In South Africa it is already taking up to 2 years in reality to get through the township approval process. This lengthy delay is very costly to a developer as they would base the cost of developing a township on today’s prices. Prices in 2 years may well be a lot higher and may render the development no longer viable. Glaeser and Gyourko (2003) looked at the correlation between house prices and the length of time taken to obtain a building permit.



The length of time taken to obtain a building permit was graded on a scale of 1 to 5, with 1 indicating a waiting time of less than 3 months, and 5 indicating a waiting time of more than two years. Using this index and a regression analysis, Glaeser and Gyourko (2003) were able to determine that when the index increases by 1, 15% of housing stock in that area becomes more expensive. This places huge onus on the local authorities to speed up construction related approvals in order for a community to gain any benefit from an inclusionary housing policy.

Schill (2005) puts forward the argument that these delays could be due to insufficient staffing in government agencies and antiquated procedures. In the South African context we can add skills shortages to this list. The skills audit for the successful implementation of the new comprehensive plan for human settlements in South Africa (BNG) which was commissioned by the NDoH (2007b) found that there were systemic issues (such as the almost complete lack of knowledge of the requirements of the BNG, and the lack of budgeting for BNG policies in the departmental budgets at a local level) and skills issues which point to the fact that sufficient capacity for the implementation of an inclusionary housing policy does not currently exist in the country (NDoH, 2007b).

Finally, there is the issue of politics creeping in to the decisions that need to be made on implementation. As we are dealing here with a government policy the interference of politics is inevitable. We may not be able to control the imposition of political agendas in this process, but what we can control is the extent to which these agenda's are allowed to disrupt the process. Schill (2005)



states that developments (and this is partly due to the length of time it takes in the approval process) will require discretionary government approvals which open the doors for the influence of public pressure, and pressure from other developers who may – due to the proposed development – be faced with unwanted competition.

#### **2.4.2 Role of the Private Sector**

The role of the private sector comes in largely in the implementation phase of an IHP. The NDoH states that Developers should be involved in the initiation of VPADD initiatives and in partnerships with the public sector in order to facilitate the implementation of inclusionary housing policies (see appendix 8).

#### **2.4.3 Measures of Success of an Inclusionary Housing Policy**

In order for an IHP to be a success, extreme effort must be put into the implementation of that policy, as even the best laid out policy will fail unless it is effectively implemented (Katz and Turner, 2003). Part of this implementation process would be the regular measurement of the success of the policy against certain predetermined guidelines and performance measures. Appendix 9 lays out some potential short and long term indicators specific to the goals of an inclusionary housing policy.

### **2.5 Conclusions**

The literature outlines the critical aspects that have come to light through the international examples of an inclusionary housing policy. The research results in chapter 5 will attempt to put forward the South African context.



### 3 RESEARCH QUESTIONS

The purpose of this research is to examine the potential impact of an inclusionary housing policy on the affordability of housing in South Africa. Due to the fact that the research is exploratory and makes use of qualitative techniques, no propositions or hypotheses have been made. In order to address the research question, the following themes have been identified:

1. Research question 1: Can a supply side restriction such as an inclusionary housing policy significantly improve the affordability of housing in South Africa?
2. Research question 2: Do the socio economic and societal benefits of an inclusionary housing policy outweigh the negative aspects of such a policy?
3. Research question 3: What are the prerequisites required from and by the relevant stakeholders to successfully implement and administer a South African inclusionary housing policy?

## **4 METHODOLOGY**

### **4.1 Research Method**

#### **4.1.1 Inductive Versus Deductive Approaches**

An inclusionary housing policy is a new concept in South Africa, and although there are a great deal of international examples of such a policy, the South African perspective can introduce specific issues and nuances that would not be experienced in the same degree or manner as in other countries. Due to this, a greater understanding and clarification of the concept is required in order to assess its impact on affordability (Zikmund, 2003).

The successful implementation of such a policy not only rests with the experts that design and develop it, it also rests with its adoption by society, and that societies belief that the policy is equitable and is addressing necessary issues. In order to ascertain this requires a measurement and interpretation of societal attitudes towards an inclusionary housing policy. For this reason, a degree of understanding is required of the way in which different societal groups or stakeholders interpret the policy based on their personal views of the world. Stakeholders view an IHP differently based on their perception of the way they believe it will affect their individual circumstances (Saunders, Lewis and Thornhill, (2003).

For example, an individual who has the ability to purchase a market related property in an up market area of town may perceive that an inclusionary housing policy which brings affordable homes into the area may cause the price of that market related house to increase to enable it to cross subsidise the



affordable homes. Many different views on the same scenario could be held by the different stakeholders in determining the affects of an inclusionary housing policy on affordability. In this respect, applying a deductive approach to this research which is based on specific laws and the anticipation of certain occurrences would not be appropriate to this study. An inductive approach to the research that allows for the context in which events are taking place to be explored as well as the individuals themselves was therefore utilised. (Saunders *et al*, 2003).

#### **4.1.2 Research Purpose**

The purpose of this research is exploratory in nature and, as previously stated, inclusionary housing policies are new to South Africa. This, coupled with the fact that the imposition of this policy is viewed as somewhat controversial, make this issue the subject of much debate. Most of the literature on this topic is internationally grounded (and gives the broader context). It was therefore necessary to conduct some preliminary research into the application of such a policy in the South African context (the narrower context). This allowed for the research to draw on the different social and economic structures experienced in South Africa that are not experienced elsewhere in the world. Interviewing of experts in this field was conducted in this regard.

#### **4.1.3 Research Strategies**

The use of an inductive method of research and the nature of this research – it is a new and controversial policy debate that is based largely on the international experience of inclusionary housing, with little local experience or literature to draw from - lends itself to the use of a survey method of research



strategy which according to Zikmund (2003) is an “efficient and accurate means of assessing information about a population “(Zikmund, 2003).

The survey strategy, although usually associated with deductive methods of research was used to gather data for this research. Due to the fact that there is limited information available on the effect of inclusionary housing policies in the South African context, and very few individuals that have experienced first hand what living in an inclusionary housing environment entails, the research questions were discussed with industry experts (Saunders, *et al* 2003).

In this instance, an industry expert was considered to be an individual who has had first hand experience of the South African inclusionary housing policy. This is either from the perspective of drafting the policy, involvement in the construction of inclusionary housing developments, or long term personal experience in the property industry. These experience surveys were based on the research questions, and semi structured questions were put to the respondents.

Respondents were given the opportunity to respond to questions posed by drawing from their own experiences. The purpose of this approach was to gain insight into the workings of an inclusionary housing policy in South Africa and clarify the concepts involved with this issue (Zigmund, 2003).

#### **4.1.4 Reliability and Validity of Research Findings**

Reliability can be defined as “the degree to which measures are free from error and therefore yield consistent results” (Zigmund, 2003 p300) and refers to the

ability of the research to yield the same results on a number of occasions – the concept of repeatability, for other observers to obtain the same observations and the transparency in the deductions made from the raw data. Validity can be defined as the “ability of a scale or measuring instrument to measure what it is intended to measure” (Zigmund, 2003 p302)

The need for reliability and validity of research findings underpinned the choice of research used, and placed the choice of research designs under scrutiny (Saunders *et al*, 2003). Care therefore had to be taken in ensuring that the chosen research method took allowance of the fact that the information on this topic was gathered from individuals that have a vested interest in the outcome of the research, and that the method of data analysis draws accurate conclusions through logical steps from the data gathered.

#### **4.2 Ethical Considerations**

All respondents were contacted prior to their entrance into the research process, and their initial verbal consent was obtained for this process. The respondents were informed of the length of the interview, and the range of research themes on which they were required to give their input. Verbal agreement was sought on the content of the interviews prior to the respondents' attendance at the semi structured interviews (Saunders, *et al* 2003).

The issues of anonymity were not discussed with the respondents, neither was specific consent gained to refer to the individual respondents by name in the research findings. It was therefore considered ethical not to include the

respondents by name, or to allow the respondents to be identified by their characteristics e.g. the organisation they work for (Saunders, *et al* 2003).

### **4.3 Proposed Unit of Analysis**

The proposed unit of analysis for this study will be South African households. In terms of purchasing decisions for housing in the South African context, the entire household may make such decisions. A household could consist of a number of income earners. As the objective of this research project is to determine the impact of an inclusionary housing policy on the affordability of housing, and affordability calculations can be based on individual or joint household incomes, the unit of analysis must therefore take place on a household level (Zikmund, 2003).

### **4.4 Population**

The complete sets of elements relevant to this research project from which a sample can be taken are known as a population. For the researcher to be able to draw conclusions on the impact of an inclusionary housing policy on housing affordability, the population from which the sample was selected was all South African households (Saunders *et al*, 2003). This research report used the definition of a household as provided by the 2001 South African population census. For the purposes of this survey, a household was defined as a “group of persons who live together, and provide themselves jointly with food and/or other essentials for living, or a single person who lives alone” (Statistics South Africa, 2003). The current size of the population of relevance is unknown, however it was as high as 12 705 566 in 2005 (appendix1, table 4). This consisted of 3 802 968 households in metropolitan areas and 8 902 598 households in rural areas (du Toit, 2007a).

#### **4.5 Data Gathering Process**

The data gathering process focused on the use of semi-structured interviews. These interviews add context to the research problem, and enabled the observation of the viewpoints of relevant industry stakeholders. The data collection approach used grounded theory as a basis for the collection. Although there are three categories of data gathering in grounded theory, only two were use in this research namely interview data and existing literature (Douglas, 2003).

#### **4.6 Sampling Method and Sample Size**

As it is generally not practical to select the whole population (as with a census) for analysis, a sample of that population is generally taken and the data provided by that sample is used in the research analysis. There are a number of advantages to this approach such as the manageability of the data and the ability to spend more time with the data (Saunders *et al*, 2003).

There are two main types of sampling technique that can be considered in this process – probability (representative sampling) and non-probability (judgemental) sampling. Probability sampling is usually associated with questionnaires and the probability of an element being selected from a population is known prior to the research being conducted. This allows the researcher to answer research questions that require statistical inferences to be drawn. Non-probability sampling is the opposite of this and uses sample selection based on the researcher’s subjective judgement (Saunders *et al*, 2003).

Due to the nature of this research project, the sample method selected for this was non-probability, judgemental sampling. As discussed previously the concept of inclusionary housing is new to South Africa, and there are very few individuals or households that would have experienced it. The sample was selected in this way as so as to select experts that would be able to give the best insight into an IHP and its impact on affordability in the South African context, and thereby answer the research questions as discussed in chapter 3.

The sampling method was then broken down further, and a heterogeneous or maximum variation method was decided on. This method of judgemental sampling enabled the researcher to collect data from representatives of key stakeholder groups, and observe the themes that arose. For this type of sampling, sample size is ambiguous. However in order to incorporate a range of key stakeholders, 8 respondents were selected details of which are outlined in section 5 (Saunders *et al*, 2003).

Table 2 below lays out the research methods stated above, and outlines the sample methods and sample sizes to be used in conducting this research.

**Table 2: Sampling methods and sample size**

TYPE OF RESEARCH	DATA COLLECTION METHOD	AIM OF METHOD	SAMPLE METHOD	SAMPLE SIZE
Qualitative (Exploratory)	semi - structured interviews:	To conduct face to face interviews with industry experts in order to determine the impact of an inclusionary housing policy on housing affordability in South Africa	Judgemental (purposive) sampling: using a maximum variation technique (Zikmund, 2003)	8

#### **4.7 Data Collection**

The method of data collection used for this research project was face to face semi-structured interviews. Here, a list of 3 themes (the affordability of housing, an inclusionary housing policy, and the implementation of an inclusionary housing policy) which corresponded to the research questions was used to conduct interviews with the respondents. Each theme had a set of questions which covered the basic topics pertaining to each theme. The themes and questions were emailed to the respondents prior to the interviews in order for them to familiarise themselves with the concepts (Saunders *et al*, 2003).

The order of questions and their inclusion were however varied from interview to interview depending on the context of the individual respondent, and their answers to the questions. Due to the nature of the interviews respondents conversations were taped and separate notes were made (Saunders *et al*, 2003).

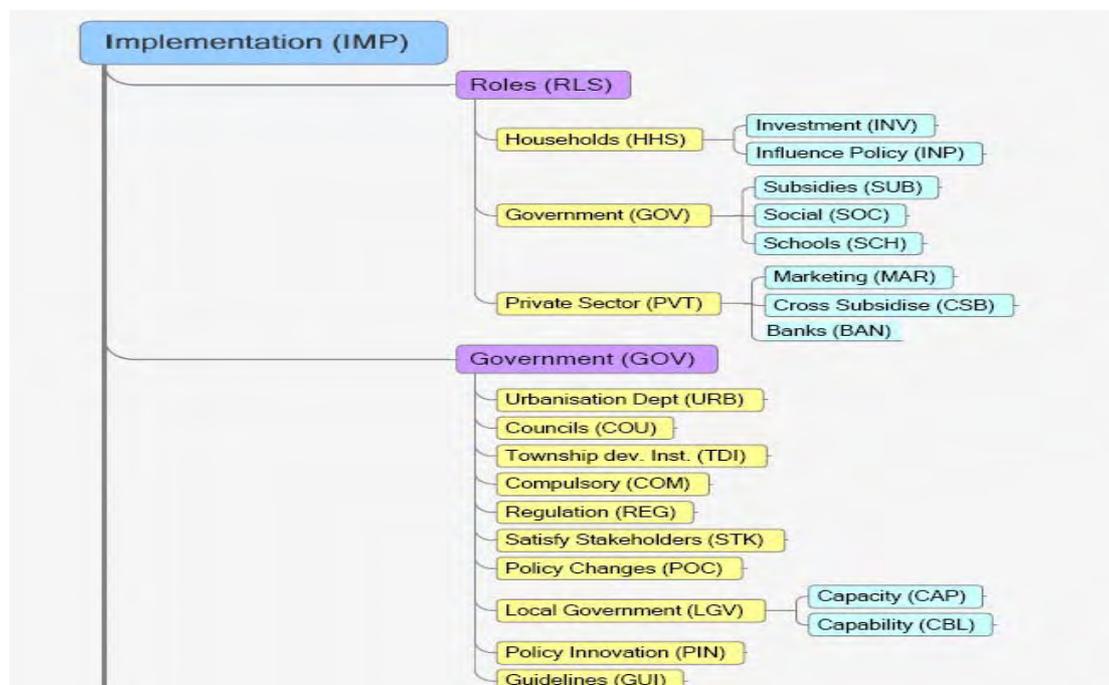
In instances where respondents raised issues or themes that had not been previously referred to or covered by the existing literature, and which “added significance and depth to the data obtained” (Saunders *et al*, 2003) an in-depth interview process was used in order to probe into the area of interest. These parts of the interview were also recorded.

#### **4.8 Data Analysis Approach**

There are distinct differences between quantitative and qualitative data, and therefore there must be a distinction in the way in which the data is collected

and analysed. Qualitative data is non standardised and complex in nature, and in order to gain a meaningful analysis of this type of data it required classification into separate categories, which formed the basis of the analysis. These categories were developed from the key themes that emerged during the interviews and an example of this categorisation is shown below. The full categorisation maps can be viewed in appendix10 (Saunders *et al*, 2003).

**Figure 7: Exert from a Categorisation Map**



Once conducted, interviews were transcribed, and the information collected was then broken down into specific sentences and paragraphs and assigned to specific categories based on its content. In this way the information gathered from the interviews was able to be assigned to the themes surrounding the three research questions. Key themes emerged from this process, the results of which are outlined in chapter 5 (Saunders *et al*, 2003).



#### **4.9 Indication of research Limitations**

The interviews are primarily aimed at experts who have had experience with the South African inclusionary housing policy, and would be considered a stakeholder in its implementation. This could bring strong bias to their answers to the questions posed. A broader understanding of the socio-economic factors impacted by inclusionary housing could be obtained by widening the scope of the survey.

The policy on inclusionary housing has been drafted; however no implementation guidelines have yet been issued. The current interpretations of the policy and the way in which it is to be implemented may be very different to the intentions of the implementation guidelines. However, in the absence of the guidelines, assumptions for the research are being made based on the inclusionary housing policy framework document.

## **5 RESULTS**

### **5.1 Introduction**

This chapter details the results obtained from the 8 respondents who participated in the interviews. Findings are presented according to the key themes that were questioned: Affordability, Inclusionary Housing policies, and the implementation of inclusionary housing policies. There are several sub-themes that were identified under these headings, and these were further broken down into categories and sub categories. This means of data analysis is explained in detail in chapter 4.

Once categories were developed, the data was then unitised in order to gain a better understanding of the themes that emerged from the respondents. These results present a detailed overview of the themes and are shown in the results in the rest of the chapter. Due to the potential for bias outlined in the research limitations in chapter 4, tables showing the respondents that contributed to a theme are shown. This allows the reader to determine if there may or may not have been any bias in the responses.

### **5.2 Profiles of Research Participants**

Chapter 4 outlined the ethics of research and here it was stated that in order to mention participants by name their written permission would need to be obtained. No written permission from participants was obtained so identification is restricted to a description of their high level role and experience. This is outlined in table 3 overleaf. It is also important to note that the views expressed are the views of the individual participants, and not necessarily those of the organisation they represent.

**Table 3: Research Respondents Roles and Experience**

PARTICIPANT	BRIEF BACKGROUND	DATE OF INTERVIEW
Bank Affordable Housing Representative	Involved in the inception of the inclusionary housing process	18 <sup>th</sup> October 2007
Property Economist	Senior property economist for <b>check</b> years	19 <sup>th</sup> October 2007
Bank Development Representative	30 years experience in property development, 10 years in residential property	22 <sup>nd</sup> October 2007
National Housing Finance Corporation Representative	Involved with government on legislation drafting, holds a doctorate in housing and land reform	25 <sup>th</sup> October 2007
Banking Association of South Africa (BASA)	Over 22 years experience in the housing industry with 12 years involved with the mass market. Holds a masters degree in housing	26 <sup>th</sup> October 2007
Independent Researcher	14 years in the housing industry as an independent consultant to the National Department of Housing, BASA and municipal government	29 <sup>th</sup> October 2007
Developer	13 years experience in affordable housing development as a top structure developer. Now moved into the entire value chain	1 <sup>st</sup> November 2007
Housing Advisor	30 years experience in the property industry including both commercial and residential development, advisor to the housing minister and to Absa Bank on affordable housing.	2 <sup>nd</sup> November 2007

### 5.3 Theme 1: Can an Inclusionary Housing Policy Improve the Affordability of Housing?

#### 5.3.1 Housing Affordability

Housing affordability refers to the ability of households and individuals to be able to purchase houses at market related prices. The issue of housing affordability was raised on 10 occasions during the semi structured interviews by 6 different respondents. A selection of their observations is set out below.

“Getting into an inclusionary housing development will still come down to a question of affordability. If you can’t afford to move there, you still remain out of the housing system”.



“An inclusionary housing policy will not improve the affordability issue. It does not bring down the price of an affordable house; it merely increases the price of the more expensive units and creates an affordability problem there”.

“There is no economic reason why building a smaller house next to a bigger house will drive house prices in that area down”.

“The purpose of an inclusionary housing policy is to change both the political and social hearts and minds of the people, and it will work in this respect. If you are purely trying to increase the number of Affordable housing units in the market, then it will not work”.

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
Housing Affordability	✓	✓		✓	✓	✓		✓

### 5.3.2 Densification and Affordability

The process of densification refers to increasing the number of people living per hectare of land. This process was mentioned 18 times in relation to housing affordability during the semi structured interviews by 6 different respondents. A selection of their observations is set out overleaf.



“Inclusionary housing could be done through high rise developments. In this way, we could produce good quality units, and there may not be any resistance”

“One solution to the affordability problem is high density developments. You should be able to move from low to high density in the same development, and both could coexist quite comfortably”.

“Technically we won’t be able to define between densification and inclusionary housing schemes”.

“Government could save on the cost of land through densification. If a developer builds 2 to 3 story properties, then realistically we will be able to build 80 to 100 units per hectare. When compared to a development such as Cosmo city which traditionally builds 30 units per hectare, we can really see the difference densification would bring”.

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
Densification and Affordability	✓	✓			✓	✓	✓	✓

### 5.3.3 The Housing Backlog

There is a countrywide backlog in the provision of both affordable and subsidised housing. This issue was raised on 4 different occasions during the



semi structured interviews by 3 of the respondents. A selection of their observations is set out below.

“Inclusionary housing will not alleviate the housing backlog. The backlog of low cost houses is 1.6 million, the backlog of affordable units is 600 000. In an inclusionary housing development you will get 5% affordable houses and 15% low cost houses. This means a developer will have to put up 10 million units before they have wiped out the backlog”.

“We must direct our efforts to overcoming the backlog in housing. Inclusionary housing will not do this as it caters mainly for the people already in houses who just want to make a step up”.

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
Housing Backlog				✓			✓	✓

## 5.4 Theme 2: Do the Socio-Economic and Societal benefits of Inclusionary Housing Outweigh the Negative Aspects?

### 5.4.1 The Pre-Emptive Clause

The pre-emptive clause in the South African inclusionary housing policy precludes individuals that buy affordable homes in inclusionary housing developments from selling those properties at a profit for a period of 10 years.

This issue was raised 9 times during the semi structured interview process by 4 of the respondents, mainly in relation to wealth creation and house prices. A selection of their observations is set out below.

“A household cannot convert a house to wealth if the current sale restrictions laid down in the policy remain. We will see degeneration of the affordable units and as a consequence the market related units will also degenerate”.

“The pre-emptive clause limits the upside of growth in house value and continues to promote wealth exclusion for the poor”.

“Buying and selling should be free from restriction as market price is determined by the buyer and seller – that is the price of property. The 10 year policy constraint will limit the potential of a property to increase in value. This has been the case with RDP housing – the inability to sell the property on the open market has killed the secondary market in these properties”.

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
The Pre-emptive Clause		✓	✓	✓				

#### 5.4.2 Integration and Segregation

One of the primary societal benefits of an inclusionary housing policy has been identified as integration, however on the negative side; some respondents



believed it would lead to segregation. These issues were raised 17 times during the semi structured interview process by 7 of the respondents. A selection of their observations is set out below.

“There are a number of societal benefits of inclusionary housing, the first of which is long term integration. The vision of the housing minister is that the very poor will go to the same schools as the affluent and this will get integration into society hence the poor will be uplifted”.

“Inclusionary housing will give us a much more inclusive society. Given our past, the government must close the gap between the first and second economy, which in turn will close the racial gap. Wealth and poverty are creating the same gap in society as racial segregation has done in the past”.

“We may see segregation between income groups and not integration, as movement is virtually impossible between owning an RDP house, an affordable house, and a credit linked house – the income gap is too great”

“The government is making a political statement with inclusionary housing, and if the country wants to break away from segregation based on income and colour, the economic viewpoint is irrelevant”.

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
Integration And Segregation	✓		✓	✓	✓	✓	✓	✓

### 5.4.3 Inclusionary Housing and Cross Subsidisation

Cross subsidisation in an inclusionary housing development refers to the need to increase the price of market related units in order to allow the affordable units to be sold at an affordable price. Issues of cross subsidisation were raised 4 times during the semi structured interview process by 3 of the respondents. A selection of their observations is set out below.

“Some municipalities just do not have the budget to subsidise affordable housing, which means the inclusionary housing development itself has to subsidise it in one way or another, so the affordability crisis is perpetuated by municipalities not having money”.

“The cross subsidisation of housing units that will occur in inclusionary housing developments won’t produce a lot of houses. In 2006, 65 000 homes were built in middle and affluent developments, this is so small in number that it probably wouldn’t be sustainable to cross subsidise affordable housing through these developments”.

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
Housing And Cross Subsidisation			✓		✓			✓

### 5.4.4 Job Creation and Social Benefits

Inclusionary Housing may present several opportunities for employment, both in the building of homes and in and around the developments themselves once

completed. This concept was raised 6 times during the semi structured interview process by 4 of the respondents. A selection of their observations is set out overleaf.

“Amenities will be available in and around inclusionary housing developments and there will be job creation for those that want to work in the shops and in the homes in the development. The provision of domestic services would be a prime example”.

“The societal benefits outweigh the economic benefits. People must confront each other and live together – they must live together! We tend to make assumptions about people because we don’t live with them”.

“Government must intervene in this wisely in order to ensure the housing markets work. The government believes they are only building houses, whereas they should go back to first principles, as the apartheid legacy still persists in the way people talk to each other and interact. This is where inclusionary housing comes in”.

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
Job Creation and Social Benefits		✓	✓			✓		✓



## **5.5 Theme 3: What is Required to Successfully Implement the South African Inclusionary Housing Policy?**

### **5.5.1 The Cost of Land and Other Land Issues**

Obtaining land is an important component of the housing development process, and is therefore a large contributor to the cost of housing. Land issues were raised 22 times during the semi structured interview process by 5 of the respondents. A selection of their observations is set out overleaf.

“The main issue affecting affordability is land, which is at a premium. In any suburb you will pay a minimum of R1 000 persquare metre, without even thinking about the cost of a top structure”.

“The land where developers want to erect large units comes at a premium of at least R3 million per hectare. Building affordable housing in the development does not change the fact that the land will cost R3 million. Even by building 80 units per hectare, a stand still comes in at R40 000 per unit even in high density areas, and this is only the stand”.

“The state holds land it doesn’t know how to utilise. All government departments hold land, but it is easier for them to sell the land on the open market than to transfer it to the National Department of Housing (NDoH). The necessary mechanism for land distribution just does not exist and so the impact of government holding land is huge”.

“The government needs to undertake a detailed land audit in order to identify urban land fill areas. The legislation and regulation on land holding must be reviewed”.

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
The Cost of Land	✓		✓	✓		✓	✓	

### 5.5.2 Subsidy Programmes and the Creation of a Housing Gap

Concerns surrounding government subsidy schemes and the creation of a housing gap may have a knock on effect on the implementation of the inclusionary housing policy, and may well derail it altogether. The issue of government subsidies and the housing gap were mentioned 36 times during the semi structured interview process by 7 of the respondents. A selection of their observations is set out below.

“Affordability in South Africa is exacerbated by the fact that the government subsidy program is flawed. It creates gaps in the housing ladder due to the fact that it is not a progressive, income based subsidy scheme. The current subsidy scheme is unbalanced and government is not accepting the reality that the “poor” income band should be adjusted from its current R3 500 thresholds. The threshold should be at least R6 000 by now based on a progressive scale”.



“The very poor can own a house due to subsidies, however an individual with an income of between R3 500 and R5 000 falls outside all subsidy schemes. The inclusionary housing policy misses this gap market completely, and it is extremely unfair for an individual to earn a steady income and still be excluded from owning a house”.

“The government is only prepared to give individuals collateral subsidies and due to this, an applicant is still required to borrow the full amount of the price of the house they want to purchase. Instead of giving a collateral subsidy, government should give a cash subsidy, so that individuals can put this money down as a deposit on a house”.

“In inclusionary developments, a developer will close down business and move into commercial property. The greater the hindrance you place in the way of developers, the more risk you run that you will cause a breakdown in the overall delivery of housing, it will create a bigger housing gap which will cause problems elsewhere”

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
Subsidy Programs and the Housing Gap	✓		✓	✓	✓	✓	✓	✓

### 5.5.3 Construction and Service Costs

Construction and service costs refer to the cost of building a development and the cost of bringing bulk services such as sewage to the development. This



issue was mentioned 5 times during the semi structured interview process by 3 of the respondents. A selection of their observations is set out below.

“The cost of the bulk services component would also be higher [in an inclusionary housing development] and this may put pressure on the government to help the affordable housing owners beyond what a subsidy can provide as they won’t be able to afford levies in the development.”.

“A stand still comes in at R40 000 per unit even in high density areas, for the stand alone. You then have to add in around R30 000 – R40 000 for services and then add the construction cost”.

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
Construction And Service Costs			✓				✓	✓

#### 5.5.4 Collaboration, Communication, Coordination and Community

It is extremely important that the inclusionary housing policy has input from all relevant stakeholders, and this rests on the process of communication, collaboration, coordination and community. This process was mentioned 14 times during the semi structured interview process by 7 of the respondents. A selection of their observations is set out overleaf.

“National government needs to get more involved in housing as its successful delivery requires all the different government departments to coordinate their



priorities. The department of housing doesn't have the power to go to other departments and force them to build the facilities that are required in housing developments such as bulk services".

"Community involvement is all important, you must never exclude them or under estimate their role – the power lies with the masses".

"The onus is on the government and local authorities to inform the surrounding community of the policy and alleviate their fears. The government has to have a communication program that will create a positive hype around inclusionary housing, otherwise communities may stop development".

"The government must create an urbanisation department to provide a coordinating role or there will be no real effort to get economic models working for the poor. Each department is creating its own little incentives – we need to do things on a sustainable basis. There is a need to link economic initiatives to housing".

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
Collaboration Communication Coordination Community	✓		✓	✓	✓	✓	✓	✓

### 5.5.5 The Township Establishment Process

The township establishment process refers to the process required by municipalities to approve the construction of a new township such as a housing



development. This process was mentioned 12 times during the semi structured interview process by 4 of the respondents. A selection of their observations is set out below.

“Delays in the township establishment process are terrible. It can take 18 to 24 months to get a township approved. By the time the approvals come through, the developer can no longer afford to undertake the development as they have to take into account rising interest rates, inflation, salaries and so on”.

“We must fast track the township establishment process for affordable developments in order to cut the holding costs of land”.

“Government should let a development which falls below a specified number of units fall outside the scope of the policy. Those that fall inside the scope of the policy must have site development plans submitted and the process must be fast tracked”.

“The concern with the South African inclusionary housing policy is that it proposes a “carrot and stick” approach to developers. In terms of the “carrots” that are being offered in the policy, they need to be in the form of specific tax relief in the development and they must be financially worthwhile for the developers to take them up. Accelerating the approval process is merely a pseudo carrot and is something that should happen anyway”.

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
Township Establishment Process				✓		✓	✓	✓

### 5.5.6 Inclusionary Housing Implementation Guidelines

The inclusionary housing policy framework does not currently have any guidelines to support its implementation. The need for implementation guidelines was mentioned 6 times during the semi structured interview process by 4 of the respondents. A selection of their observations is set out below.

“Inclusionary housing is a public sector initiative and the government must create an enabling environment for the private sector to participate. There must be implementation guidelines or it will break down”.

“Local governments must put assertive regulations in place, they must allow access to land, they must ensure the delivery of bulk services quickly and they must ensure the efficient processing of developers applications”.

“We are not getting inclusionary housing right, and we have to get our ducks in a row. We can’t just import the practice – it will not work. Government must pull everyone along; the guidelines need to be clear”.



“South Africa itself is already shaping itself towards inclusionary housing on its own. This may be luck based on the environment we are in post 1994, but we need a coded policy to guide us effectively in this direction”.

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
Implementation Guidelines	✓			✓	✓	✓		

### 5.5.7 The Capacity of Local Government

The inclusionary housing policy will be implemented at a local government level and the capacity of local government to implement the policy must be looked at in detail. The capacity of local government to implement the policy was mentioned 10 times during the semi structured interview process by 2 of the respondents. A selection of their observations is set out below.

“Municipal structures must be put in place in order to build capacity. Poorer municipalities may not understand the policy, but the quality of staff must still be high. They must be able to identify land that can be used for inclusionary housing”.

“There is a reduction in the number of housing developments due to capacity problems in local government – there is no IT infrastructure, no offices, no inspectors, no photocopiers and no people! We need to have contemporary approval cycles, and the capacity to motivate budgets, capacity to do the



technical work and scope projects, the capacity to provide bulk infrastructure such as sewage and water etc”.

“The “stick” approach of the policy won’t work as local government does not have the capacity to administer it”.

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
Capacity Of Local Government	✓							✓

### 5.5.8 An Inclusionary Housing Pilot and Monitoring of the Policy

A suggestion for the role out of an inclusionary housing policy is to have a phased role out or pilot approach. The use of pilot sites was mentioned 7 times during the semi structured interview process by 5 of the respondents. A selection of their observations is set out below.

“There is also the problem of numbers - the only places where there will be numbers are the metropolitan areas – Johannesburg, Tshwane, Cape Town, and Durban. It is not a policy for the rural areas, and not for the middle level of local government. The implementation of this policy needs to be reduced to 6 major metropolitan areas. We can implement there and once it is working we can role out to the other local governments where the capacity is available”.

“We should pilot an inclusionary housing development in each province so that we can get a feel for the difficulties and issues involved in it. Once these have been ironed out we can go for the big roll out. A big rollout instantly won’t work – a piloting process will work so that we can assess the shortcomings of the policy and abandon it if necessary”.

“We need to monitor the policy for a length of time, and then we wouldn’t need to police it”.

“We must make sure that government monitors the policy, and make sure that they change the product accordingly to fit the situation”.

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
Pilot And Monitoring				✓	✓	✓	✓	✓

### 5.5.9 Alternative Building Methods

Alternative building methods are cheaper than building in the traditional way with bricks and mortar. A variety of these alternative methods were suggested 5 times during the semi structured interview process by 3 of the respondents. A selection of their observations is set out overleaf.



“The way to address the affordability of housing is through the use of alternative technologies. Affordable Housing can be built at 30% of the cost by using building materials other than bricks and mortar”.

“There are building technologies that can produce a house at 30% less than a brick and mortar house. We need to start employing these technologies – steel, wood, polystyrene etc. We can move into these alternative technologies, but we must understand the constraints here e.g. walls built off site and transported to site”.

“We should look at alternative building materials such as different types of bricks e.g. a cement brick versus a clay bricks. Over the next few years building costs will further increase due to labour and infrastructure development and we must think smart about the way we build”.

Summary of Respondents Contributing to this theme								
	Bank Affordable Housing Representative	Property Economist	Bank Housing Development Representative	National Housing Finance Corporation	Banking Association of South Africa	Independent Researcher	Developer	Housing Advisor
Alternative Building Methods	✓					✓		✓

## **6 DISCUSSION OF RESULTS**

### **6.1 Introduction**

This chapter will discuss the findings made from the interviews carried out in relation to the research questions, to the literature and the initial statements around the need for the research. As this was an exploratory study, and there was little reference in the literature to how an inclusionary housing policy will effect housing affordability in South Africa, the discussion here should fill the gap that has been left here, and point to the need for further research into the inclusionary housing process.

### **6.2 Theme 1: Can an Inclusionary Housing Policy Improve the Affordability of Housing?**

#### **6.2.1 Housing Affordability**

There is concern from stakeholders as to how inclusionary developments will be constructed, specifically with regard to the type of houses these developments will contain. As there are as yet no implementation guidelines the answers to these concerns are based purely on speculation. However, in my opinion, the government may find it difficult to attract buyers to an inclusionary housing development that includes houses ranging from the subsidised BNG (RDP) houses to homes priced in the millions.

The inclusionary housing policy implementation process must consider the option of building inclusionary developments for a range of incomes. An example could be houses in the range R250 000 to R500 000 built in one development, and houses in the range R500 000 to R750 000 built in another

inclusionary development and so on. These developments should all include a rental element. In this way a range of incomes will be incorporated in the development, albeit a smaller range than originally anticipated by the policy.

Given the current rate of residential property development in South Africa in the middle to upper segments – estimated at around 65 000 units in 2006, there is genuine concern that there will not be enough inclusionary housing developments built to impact the affordability of housing in a meaningful way. This means that there will continue to be a shortage of affordable units in the country. For the few households and individuals that get the opportunity to buy in these developments, the reward is a step on to the property ladder. Those that do not get the opportunity to buy will observe house prices rise even further out of their range of affordability, and watch their chance of home ownership slip further out of reach. In this respect, the government cannot expect inclusionary housing to be the sole policy to assist with affordability issues.

The price of the market related units in an inclusionary housing development also needs to be considered. It was stated in chapter 5 that market related units in an inclusionary housing development will cross subsidise the cost building of the affordable units in that development. The extent of this cross subsidisation has not yet been quantified, but the question remains as to whether the individuals and households buying the market related units will be able to afford the extra they may have to pay.



As house prices continue to rise, there are an increasing number of cases where buying a market related home pushes individuals and households to the threshold of their affordability. Increasing the price of market related homes even marginally may push these households beyond this threshold. These households will then be forced to buy more “affordable houses” than they could previously have afforded, thereby pushing households in lower income categories further back down the housing ladder. The inclusionary housing policy - should this scenario hold true - will add to the affordability crisis rather than alleviating it, as these marginal households will be pushed out of the market related housing bracket, and down into the affordable housing space. This perpetuates the supply problems in the affordable and low cost markets and further impact affordability.

### **6.2.2      Densification and Affordability**

Densification is a process that is currently taking place in Johannesburg and across the rest of South Africa and is not a new phenomenon when we look at the global housing perspective. South African developers are already building high density developments - the Sandton CBD is a prime example, where at least three high density developments have been built in recent years – but by current measurements Johannesburg still falls far short of international density standards.

The units that are built according to the specified densification standards are of a high standard and by all accounts there is very little objection to their development. The concern with the current high density developments is that the units tend to come with very high price tags (R1 million plus in Sandton,

Johannesburg). However, if the concept of densification is on the whole acceptable, there is no reason why Inclusionary housing as a form of high density development cannot work equally well.

If we have a formula that is working, which it seems the densification initiative is, then we should not cause unnecessary controversy merely in order to rename a process that is already occurring. Looking at this situation purely from the basis of affordability, it stands to reason that if a two story walk up is built in a development; the units will be smaller, and should be at a lower price than the bigger single family units. If communities can accept this kind of high density development with a million rand price tag, they can accept it with a R500 000 price tag or a R200 000 price tag.

It was stated in chapter 5 that technically there is no way of defining between high density and Inclusionary housing schemes. Bearing this in mind, it then makes even less sense to rename this kind of development inclusionary housing. It seems that the main reason for this is that the inclusionary housing policy has not been drafted to pursue the goal of affordable housing, at least not as its main thrust. It is a policy that is designed to pursue the issue of societal integration. Given this, the policy cannot hope to have anything but a minimal impact on the affordability of housing.

### **6.2.3 The Housing Backlog**

Given the current 2.2 million unit backlog in low cost and affordable units, and given the intended nature of inclusionary housing developments, there appears to be no feasible way that an inclusionary housing policy can be implemented



with a view to reducing the housing backlog, or to increasing the affordability of housing. The government however, states in the inclusionary housing policy that affordability is the secondary objective of the inclusionary housing policy. This it seems is a statement made from a purely ideological perspective.

From a practical perspective, the current backlog is too large for it to be addressed effectively purely through inclusionary housing. What is needed here is for government in conjunction with developers, to start building housing units at a pace never before seen in this country. In order for this to occur, housing development needs to be a focus of the entire government machine, and not just the department of housing.

There is a huge income gap between BNG home owners and affordable home owners - the former is starting primarily from a base of zero in terms of housing and income, whereas the latter has at least some income and may previously have managed to accomplish the goal of home ownership. The issue of the latter, as stated in chapter 5 is that they have the inability to afford a more suitable home in the current economic climate. A focus on making homes more affordable is a correct and very necessary goal for South African society, a focus on moving a large percentage of our society out of the squalor of squatter camps is also a correct and very necessary goal for South African society. Both issues, although housing related require separate focus – government cannot take a one size fits all approach and believe that an inclusionary housing policy will meet both requirements.

## **6.3 Theme 2: Do the Socio-Economic and Societal benefits of Inclusionary Housing Outweigh the Negative Aspects?**

### **6.3.1 The Pre-emptive Clause**

People buy houses for a myriad reasons and shelter is just one of them, as is wealth creation, and gaining equity from a home that they can use at a later stage. If an individual buys a home, they buy it with the belief that it will increase in value and that they will be able to "cash in" on this value at some point in the future. By interfering in this process, the government is restricting the equity or wealth that a household can gain from their home. One of the main benefits of becoming a home owner is therefore lost to this household. A consequence of this being that they may see the house as having no real value and hence the vested interest that household would have taken in maintaining the value of the property will not exist.

Including a pre-emptive clause in the inclusionary housing policy is a proxy for telling the households that purchase affordable housing in inclusionary developments that as a result of not being able to afford a market related house at that given time (we must bear in mind that circumstances change), they must prove themselves for 10 years before they are allowed to share in one of the more easily accessible forms of wealth creation in the country. This sentiment comes through strongly in chapter 5.

A question we must ask of the inclusionary housing policy writers must be regarding the right of government to restrict the ability of a household to sell their home in order to move on to better opportunities This is in effect what the



pre-emptive clause does. If an individual were to obtain a better or job in another area or their family circumstances were to change, they would have to begin the search for an affordable property all over again. All the benefits of owning their current home will not materialise unless they have held the house for 10 years. As stated in the literature review, the current average life of a bond is between 5 and 7 years, and this is a direct reflection of the average amount of time an individual spends in a house before selling up and moving on. Based on this, asking a household to remain in a house for 10 years is restrictive beyond what the market dictates.

This scenario may give rise to a situation where households “hold” these affordable units long after their original need for them has gone. This could be so that they can sell them at a profit, gain a rental income from them or any other number of reasons. This effect will negate any positive impact inclusionary housing may have had on the housing stock by artificially halting the secondary market in these homes. This inevitably leads us back to the same affordability issues that the inclusionary housing policy is attempting to address.

### **6.3.2 Integration and Segregation**

The integration of South African society is a societal benefit that is necessary for the survival of the country. If the inclusionary housing policy is implemented correctly, it could go some way towards achieving this objective. This view is shared by the majority of the research respondents and outlined in chapter 5. There must be a certain standard that we set for housing below which no one should be allowed to fall. Society must realise that segregation by income



between rich and poor will have much the same effects on the country as racial segregation has done. The issue of integration is therefore a huge social and economic issue, and if it can be addressed in full or in part by an inclusionary housing policy, then the policy is well worth undertaking, and it is worth doing well.

Chapter 5 outlines the view that inclusionary housing may lead to further segregation between income groups due to the cost differentials between BNG housing and credit linked affordable housing. This is a derivative of the ability of a household to obtain the income required to move on from a subsidised house to a credit linked house. This is not a main consideration of the inclusionary housing policy, as the issues that arise from this must be addressed in conjunction with other areas of government. The national department of housing (NDoH) alone cannot draw up a policy to address the underlying problems of unemployment and the national income levels. What the NDoH can do is facilitate the construction of a greater number of affordable units so as to ease the housing supply issues that are perpetuating the affordability crisis.

To a large extent, the economics of an inclusionary housing policy such as the effects of cross subsidisation in developments, and issues around the income levels required to transition from subsidised to affordable housing are secondary to this policy. The government has stated in the policy framework that the primary goal of the inclusionary housing policy is to address the societal issue of integration. Given this fact, and given the discussion of the policies ability to impact affordability the economics of the situation must be addressed through in depth collaboration and consultation with all the

stakeholders and a careful implementation of the policy. The will to Integrate must be in the hearts and minds of society in order for it to become reality. This is a much less tangible thing for the government to focus on, and much harder to attain than correcting the economics of the policy.

### **6.3.3 Inclusionary Housing and Cross Subsidisation**

Some of the smaller municipalities in the country do not have the money required to subsidise the building of affordable houses. They are already under huge pressure to build subsidised (BNG) housing, and the added focus of the inclusionary housing on the provision of affordable housing will exacerbate this. This places a constraint on the municipalities' ability to address the problem of the affordability of housing, but should not be allowed to be the factor that derails all attempts to house the nation. All levels of government and the necessary stakeholders must think smart, and direct their attention to ways of implementing the policy with minimum cost to all concerned. For example, if central government has a budget surplus, a compromise may be reached in order to reallocate some of this surplus to housing.

The feasibility of cross subsidisation with must also be further investigated. We need to understand exactly how many affordable units an inclusionary housing development can produce and what the optimal level of cross subsidisation would be in any inclusionary housing development before it loses its attractiveness in the market. It is widely understood from the results of the research outlined in chapter 5 that building inclusionary housing developments will not address the wider problem of the housing backlog, or the issue of affordability. It will however go towards addressing integration issues. Lack of

the necessary capital to continue should not bring the whole policy implementation to its knees.

#### **6.3.4 Job Creation and Social Benefits**

We have an anomaly in South Africa with regard to unemployment - there is a huge unemployment problem, and yet a huge problem of skills shortage. There is a mismatch between the jobs that are available and the skills of the workforce. By creating opportunities for work through the construction industry, the inclusionary housing policy is addressing – albeit in a small way - the issue of unemployment. The opportunity for low skilled work within inclusionary housing developments is relatively high as they should include shops, residences that require domestic workers, and be close to business centres. It can be said that by creating such housing developments, the inclusionary housing policy is adding to the socio-economic welfare of the country.

In terms of the social benefits of the policy, we have examined integration in detail in a previous section. There are however further social aspects that inclusionary housing may play a part in alleviating. The research has indicated that there is the perception of an inherent misunderstanding of the nature of poverty. In this way, poverty is associated with all things bad, when in reality the fact that an individual has had to live in poor conditions does not immediately make them a bad neighbour, or give them any less ambition to rise out of their circumstances. The fact that an individual is able to buy a R1 million property does not immediately make them a good neighbour either. Living side by side with individuals that you have pre conceived ideas about may change these perspectives.

## **6.4 Theme 3: What is Required to Successfully Implement the South African Inclusionary Housing Policy?**

### **6.4.1 The Cost of Land and Other Land Issues**

Land is being sold at a premium in metropolitan areas which is due in part to the fact that the owners of the land know it is a scarce commodity, and something they can make a profit from. This is a derivative of simple demand and supply. If however, we look at land in rural areas, it is not sold at such a premium as the demand for it is not so great. It is due to this that households who want to live in or close to the major metropolises will have to pay a premium for a large home, or alternatively have to reduce the size of their living areas. This would hold true for the entire housing market, not just to the affordable housing market.

A similar situation can be observed in most of the major cities in the world - London, Sydney, New York etc- and is not a new phenomenon in South Africa. There are both positive and negative aspects to living in metropolises, and we must weigh these up and decide what is best for the situation we find ourselves in currently. Such decisions have been made in other countries for decades. In South Africa we have - up until approximately 5 -10 years ago - been able to have both a big house giving country style living, whilst living in a metropole. We have to understand that given the nature of our society this is no longer possible.

Society is now beginning to understand that the cost of land is a major component in the cost of housing. Given this, government policies such as the



framework for inclusionary housing that requires the construction of smaller, more affordable units should not come as a surprise.

We cannot allow the cost of land to be an inhibiting factor that stops government and other role players building affordable units. Stakeholders need to be creative, not just as a result of the inclusionary housing policy, but as a result of the current housing situation. From the research results gathered, we can see that prime residential land costs upwards of R3 million per hectare of the cost of the top structure built on that land. If we know that the cost of land is appreciating at a rate of 30% per annum, we can work with factors that are not appreciating at such a fast rate to bring in affordable housing, such as the cost of construction of the top structure.

From chapter 5, we saw that government land is held by the local authority and municipalities, which includes huge tracts of land in metropolitan areas. This is an issue that must be addressed by all tiers of government and a decision should be made as to whether this land should be put to use for housing. Once this issue has been debated, and agreed on, it is the duty of government to facilitate a process whereby the disposal of land can take place effectively.

A land audit would be the initial step in addressing this problem. If government generates a database of all available land held by all municipalities, this would go some way towards identifying what land was feasible to be used for housing and what was not. It would also give some indication of what price this land could be sold for. Developers are in business to make profits from building houses. They should not expect to get the raw materials of this business - such

as land - for free. If however, they can access this “raw material at a slight discount to market rates, they would be more inclined to offset the costs of building affordable housing this land.

#### **6.4.2 Subsidy Programmes and the Creation of a Housing Gap**

The current government subsidy scheme is largely directed at individuals who earn an income below R3 500 per month. These individuals are entitled to a housing subsidy of approximately R38 000 which allows them to buy a BNG home. An individual on a salary of up to R10 000 per month will however struggle to buy a market related home on the open market (see table 5), yet under the rules of the subsidy scheme, to be able to access credit in order to buy a house. Some can do this, but a large portion. To be caught in this situation must at best be unfortunate, and at worst a complete travesty. The housing subsidy, if it is to be effective, must bridge the gap between those who can afford to buy and those who can't, regardless of level of income.

The provision of collateral subsidies is another sticking point of the current housing subsidy scheme. At present, government undertakes to provide a collateral guarantee to a credit provider if they can provide credit to an individual in order to buy a house. The irony of this is that the individual concerned still has to qualify for the full amount of the loan before it is granted. This in many instances will pull the price of the house outside the affordability range of the individual concerned, the reason being that the collateral subsidy is a form of insurance for the credit provider, and will only be utilised in the event of default.

A housing subsidy would be much more relevant to individuals if it were in the form of a cash subsidy which could be used as a down payment on a house. This would reduce the amount of credit required from the credit provider, and may pull the house once again within the bounds of affordability. The cash subsidy would not have to be paid directly to the individual, it could be paid to the credit provider directly and they could administer this scheme on behalf of the government.

Subsidy schemes can be seen as a means by which the housing gap is perpetuated. This gap could be further widened by policies that push developers out of the affordable housing market and into other possibly more profitable markets such as commercial property development. In order for the affordability crisis to be effectively addressed, the country needs developers who are willing to play in this space.

The onus is on government to keep developers in the market. Government needs to take cognisance of the fact that the private sector is motivated in part by profit, hence making a reasonable profit from a development is what makes any venture viable. If government cannot offer the opportunity of a reasonable return, developers will simply exit the market and go where the profits are.

#### **6.4.3 Construction and Service Costs**

The cost of construction and the cost of servicing land must be looked at in conjunction with the inclusionary housing policy. Although a government housing subsidy comes in at around R38 000 and gives the recipient the ability to purchase a BNG house, the actual cost of that house including construction,



provision of bulk services and land is approximately R105 000. Given this gap in subsidy versus actual cost, we can see that this is not a sustainable position. In effect this means that those individuals who do not qualify for a subsidy have to pay a minimum of R105 000 (cost price) to get any form of housing. The irony being that even then, they will be bonding the equivalent of a BNG house that others are getting for free. Government must address this issue and must find ways of bringing the cost of construction and servicing down to make housing more affordable.

There are a number of alternative building technologies available that may provide the solution to this problem. These technologies have their own constraints - such as the fact that certain technologies require a precision engineering system to construct the pieces of a house. Government and developers must make a point of reviewing these technologies and, if they are viable, bring them into housing construction in South Africa.

#### **6.4.4 Collaboration, Communication, Coordination and Community**

Chapter 5 refers to the need for collaboration between government departments, and this is in fact the first level of collaboration on housing that must take place. At present, every government department has their own priorities and goals which do not necessarily work in combination with those of other departments. Given this, there could be situations where one department's policies become detrimental to the success of other departments policies, and this has to stop.



When a housing development is under construction, it will require bulk services - the cooperation of the department of public works is needed to provide this. If it is an inclusionary development it would require the construction of schools and the provision of teachers, which in turn would require the department of education to take part. The provision of hospitals would in turn require collaboration with the department of health. If the policies of these departments are not interlinked with those of the department of housing, inclusionary developments cannot be built effectively. In order for the proper implementation of an inclusionary housing policy to take place, there needs to be this level of collaboration on a governmental level.

The Involvement of the community in housing developments, as stated in the findings is another major element in getting the implementation of an inclusionary housing policy right. If the community is against inclusionary housing developments, and feels that they will mean for example “the construction of squatter camps on their doorsteps”, these developments will be opposed at every juncture. If the community understands the underlying intent of the policy, and what it is trying to achieve the buy in will be greater. From the literature, we can see that the Felapeng development is a good example of this. This development was accepted by the community because the government and developers undertook to offer the low cost housing units to teachers, nurses and other essential service workers that were already working in the area. This may have been a compromise, and may not meet the exact intent of the policy, but this compromise allowed the development to proceed.



The intention of government here is clear - if a community can see an example of an inclusionary housing development working, they may be prepared to accept the developments as intended by the inclusionary housing policy. The ultimate success of the policy in this instance rests with individuals being able to set aside pre-conceived ideas they may have about other individuals. Inclusionary housing is not a policy that can be forced on people. In order for the spirit of the policy to be achieved, it must be implemented efficiently, with all community sensitivities be taken in to account.

In order to facilitate the level of collaboration, coordination, and communication required to implement an inclusionary housing policy, it makes sense for government to try another first - set up a division or task team that includes representatives from each government department in order to get inclusionary housing developments working. This inclusionary housing task team would include representatives from the department of public works, from the department of education and the department of health and housing. It would include private sector representatives and community representatives, and could be viewed as a pilot for a new way for government to conduct business. In this way, it would ensure that there is one consistent communication that goes out to the public and one entry point for stakeholders and individuals requiring information on the policy. This will make communication coherent and effective and streamline the implementation of the policy.

#### **6.4.5 The Township Establishment Process**

The process of township establishment has come out of the research as being a major stumbling block to the successful implementation of inclusionary housing



and government cannot insist on implementing inclusionary housing developments if there are huge delays in this process. One of the factors at stake here is the holding cost of land. If a developer has bought land and is holding it on their books while waiting for approval to develop it, they are losing money that might be better utilised elsewhere. The developer is adding to the cost of the development from the moment they buy the land with the intention of building a housing development, to the moment that development is approved.

In inclusionary housing developments government is requesting that developers build affordable housing. Delaying the township establishment process will mean that developers are holding land at a cost that will slowly reduce their ability to comply with the policy, which reduces the chance of an inclusionary development being built.

Another issue that comes through strongly from the research was that for an inclusionary housing development to be sustainable, it must contain a certain number of market related units. The smaller developments of for example under 100 units will not be able to support the true intent of inclusionary housing in terms of the fact that schools and hospitals that are amenable to the affordable market will not have the economies of scale required there, and will not therefore be built. This would mean that individuals living in these smaller developments may still have to travel great distances for affordable schooling and medical services, which completely defeats the whole purpose of integration.

The number of units required to make a sustainable inclusionary housing development was estimated at around 4000 by the respondents. A development with any less units would therefore be unsustainable. Developments that do have this number of units, and are going to provide inclusionary housing must then have their applications fast tracked in order to reduce the effect of the holding cost of land.

It is mentioned in the policy document that speeding up the approval process for inclusionary housing developments would act as a real incentive for developers to build inclusionary housing developments. In reality, this is probably not the case. Even under normal circumstances a township should not take 1 ½ to 2 years to be approved. Given these circumstances, it is no surprise that there is a shortage of affordable housing in the country.

As an example, if we work on a nominal increase in house prices of 10% per annum (which is in fact extremely low), a developer waiting 2 years for a township approval will increase the price of the units to be built by at least 20%. This does not take into account that the fact that building materials such as cement are appreciating at a much faster rate than this. Given this scenario, delays in the approval process could push the houses to be built outside the affordability of a number of households and take away the potential of a 20% growth in the house. This is wealth that could have been generated.

If we look at the cost of a basic affordable home of R250 000, then 20% growth compounded over 2 years would mean that the household would lose out on R52 500 worth of potential equity in the home. This would hold true not just for



affordable houses, but for all houses. In fact the “opportunity cost” for market rate homes would be even higher, due to the fact that the purchase price would be higher.

#### **6.4.6 Inclusionary Housing Implementation Guidelines**

From the research it is clear that an inclusionary Housing policy implementation guidelines, and it is the responsibility of government to provide these guidelines. Each local authority cannot be left alone to develop their own policies on inclusionary housing, as developers will simply choose to build where the regulations are less stringent. The literature – based largely on an international platform – states that less stringent policy guidelines and regulations would make the inclusionary housing process work more efficiently. This does, however take cognisance of the South African dynamic.

Guidelines that are put in place here must relate to the South African context. The policy framework bases its recommendations on an assessment of international policy standards, with little on the individuality of the South African situation, and the specific nuances this will bring. Guidelines must be constructed from a purely South African perspective, and if this means that more time is taken to implement the policy, then so be it. It is better to have a well thought through policy that will stand the test of time than to have a poorly constructed policy that is rushed through and fails.

#### **6.4.7 The Capacity of Local Government**

The capacity of local government, although not a major focus of the research, is a focal point in the success of the inclusionary housing policy, as it will rest on the ability of local governments and municipalities to implement it. At present,



there is no capacity in local government to conduct the administration of such a policy, And there are problems with staff skills and the understanding of the policy, which impacts heavily on implementation. We can already see a situation whereby the capacity of government is impacting the provision of housing developments, and this is embodied in the time it takes for the township approval process. Another housing policy will simply exacerbate these problems.

Another issue raised in the research is that of the approach to incentivising developers, and ensuring they comply with the inclusionary housing policy. This is outlined in the policy definition of a “carrot and stick” approach. Stating in the policy framework that there needs to be a “carrot and stick” approach to the administration of the policy is an ideological stance to take. Given the capacity constraints in local government, there will be no one to monitor compliance. If government doesn't have the capacity to administer or understand the policy, they will never be able to ensure that its prescriptions will be followed.

#### **6.4.8 An Inclusionary Housing Pilot and Monitoring of the Policy**

Although the South African experience may be different to the international experience of inclusionary housing, the literature outlines a number of pitfalls of inclusionary housing that it would be foolish to ignore, and which should be avoided if at all possible. Further, we have seen from the research that many municipalities not only lack the capacity to administer an inclusionary housing policy, but they lack the sheer volume of staff needed to make an inclusionary housing development viable.



Given this situation, instituting the South African policy via a pilot program makes enormous sense. If government could ensure that an inclusionary housing development was built in each province, and then monitor that development for a period of time, they will have a sense of the difficulties and successes of the development. A pilot in each province is needed as there are specific nuances to each area that may not be displayed in other areas. There will be generalities, but government must bear in mind that some areas may be more or less tolerant to the policy.

The next thing that government must consider is that it would be academic if the inclusionary housing developments are monitored, but the results are not analysed and the necessary changes not instituted. There has to be a definitive process in place to adapt the inclusionary housing policy and its guidelines relatively quickly once negative or positive aspects come to light in the pilot developments. Communication between all stakeholders, including the households in the inclusionary developments will be the cornerstone to getting this implementation right.

## **7 CONCLUSION**

### **7.1 Introduction**

This concluding chapter provides the reader with highlights of the main findings of the research, provides recommendations and practical implications of implementing an inclusionary housing policy, whilst suggesting ways to avoid the pitfalls. Finally, as this was an exploratory study, some recommendations for areas for further research are given.

### **7.2 Highlights of the findings**

It is clear from the literature and from the research findings that South Africa is facing a huge problem with housing. Affordability and the basic right to housing are in direct contrast to each other here as we have individuals and households that do not have homes, and those who have incomes, but still no ability to afford a house. These are the basic issues; however where the literature does not touch is on the broader societal issues that are in play here, which come from South Africa's past.

These are issues that have not been experienced elsewhere in the world and which bring specific nuances to the South African experience that parallels cannot be drawn with other countries. This research has attempted to highlight some of those specific South African issues, and add to the current body of research in this way.

#### **7.2.1 The Affordability of Housing**

There is a housing continuum in South Africa, and households sit on this continuum ranging from low cost subsidised housing units to the multi million



rand properties we see along all South African coast lines and cities. What we don't seem to realise is that if affordability is threatened at the upper end of this market, taking out anomalies such as the effect of foreigners purchasing high value properties, then affordability will be threatened all the way along the continuum. Likewise if affordability is threatened in the middle market or affordable market, the impact will be felt both up and down the continuum as households won't be able to "buy up" (thereby affecting the "flow" of properties along the continuum), and will have to buy more affordable units (thereby affecting the stock of affordable homes in the market).

Housing affordability is then an issue not just for the poorest of the poor, but for the entire housing market, and should be addressed as such. If looked at purely from an economic perspective, an inclusionary housing policy may perpetuate the affordability crisis, although the degree to which this will take place is debateable due to the small number of inclusionary developments that will be able to be built.

It seems that the main thrust of an inclusionary housing policy is not affordability. There are policies – such as the densification policy – that on the surface appear to provide a similar set of benefits when looking at inclusionary housing purely through the affordability lens. If the objectives of this policy are purely that of societal integration, with other benefits merely being off shoots of this, then this is how the policy should be framed. If complete stakeholder buy in is to be gained, then the true nature of the policy must be revealed.



In conclusion, the current affordability crisis cannot be addressed in any meaningful way by inclusionary housing, or any similar policy that tries to control the supply of housing units. It does however remain a serious problem that affects the entire housing continuum, and therefore should be looked at as a major stumbling block to housing growth that will impact all stakeholders. There are several policies that have been devised in an attempt to address the issue of affordability, and they must be used in conjunction with one another to provide a multi pronged solution to the issue of affordability. If the main thrust of these policies is societal benefit then they must be acknowledged as such.

### **7.2.2 The South African Inclusionary Housing Policy**

The clause in the inclusionary housing policy that may well undermine the positive intention of the policy is the clause pre-empting a household from profiting from the sale of an affordable housing unit. The results show that this clause does not allow the households buying these properties to share in the full benefit of homeownership. If this does not occur, then part of the real value offered by the inclusionary policy will be lost. The reasoning behind including this clause - such as stopping wealthier individuals “raiding” the affordable units for investment purposes – can be addressed in ways that do not impact on the households that are genuinely buying these homes.

The benefits accruing to an inclusionary housing policy such as societal integration and job creation far outweigh the potentially negative aspects such as the cross subsidisation of housing. In order for South Africa to be a success as a nation, we cannot afford to have huge divides between races and huge divides between rich and poor. Economic issues are grounded in scientific fact,



with provable theories. With collaboration between stakeholders, scientific solutions can therefore be found to solve these issues. Integration however is not scientific; it is governed by human emotion and is therefore a much harder objective to achieve.

In conclusion, the research shows that the positive impacts of an inclusionary housing policy will far outweigh the negatives on a societal level, however further work must be carried out on the policy to ensure that its intention is directly translated into action.

### **7.2.3 Implementation of an Inclusionary Housing Policy**

The Cost of Land is the first barrier to the implementation of an inclusionary housing policy. Land constitutes approximately one third of the cost of a house, and if this is rising at almost 30% per annum, the provision of affordable housing will be a problem. Local government can solve this problem as they are holding large portions of the land available in metropolitan areas. It will require all tiers of government to get involved to decide on a way forward with this.

Another barrier to the successful implementation of the inclusionary housing policy is the current government subsidy program. This is causing a housing gap in which individuals who earn incomes between R3 500 and R10 000 are caught. These are the same individuals that the affordable units in the inclusionary developments should be aimed at. However, if they do not qualify for a mortgage bond, they will remain off the housing ladder. The subsidy program must therefore be reviewed.

The township Establishment process due to the delays it causes in the development of “land to stand” has been highlighted as a major stumbling block to the wider issue of housing development. Due to its effect on the holding cost of land, and the price sensitivities involved in the affordable market it has specific impact there. Government must work on reducing the time involved in this process, not merely as an incentive to inclusionary housing developments, but as a means of making the entire housing delivery process more efficient.

The capacity of local governments to successfully implement an inclusionary housing policy has been called into question through the research, and due to this – and to its controversial nature – inclusionary housing should be introduced through a pilot scheme approach, where it can be closely monitored and adjusted.

### **7.3 Recommendations to Stakeholders**

There are a number of stakeholders involved in an inclusionary housing policy, all of whom have a role to play in its success. Firstly, the community as part of the wider society must get involved in the formulation of policies such as inclusionary housing. Findings from the research made it clear that community involvement is crucial to the inclusionary housing policy success. With this involvement, the community becomes party to the drafting of the policy and therefore more amenable to its terms and conditions.

Developers, banks and the rest of the private sector should lend their expertise to government if the process of housing development is to be streamlined. The private sector must take up an advisory capacity to government, and possibly

offer their skills where there are extreme shortages, and this shortage impacts directly on the business of the private sector. Further, the private sector has to make sure they understand the true intent of government policies. This will make the implementation process far smoother.

With respect to government, the recommendations come more in the form of a caution. All government policies require complete understanding and thorough debate prior to implementation. In this respect, government needs to take cognisance of their own capacity constraints before making a policy ruling. The policy must be workable, and debate must have taken place with all relevant stakeholders before the policy is rolled out. Government must engage in open communication with all stakeholders on the reasons behind bringing in new policies in order to ensure stakeholder buy in.

#### **7.4 Recommendations for Future Research**

As this is exploratory research, it has given rise to a number of areas that require further investigation, specifically from the South African perspective. The issue of cross subsidisation is one of these areas. We need empirical evidence of the ability of market related units to cross subsidise affordable housing, both in inclusionary developments and in general. This would incorporate findings on the affect of cross subsidisation on the housing market, and its affect on the marketability of inclusionary housing developments.

Further research needs to be conducted into the use of subsidy schemes and their ability to alleviate poverty. This study should be carried out with specific relation to housing subsidies. From this, we should be able to draw conclusions



as to whether a specialised subsidy system is appropriate in the South African context, or if a more general subsidy such as a basic income grant would be more appropriate. This would, as with the research on inclusionary housing draw heavily on international examples.

A study investigating the potential outcomes of the government's densification policies, their integrated housing policies and their inclusionary housing policies is very necessary, as there are huge similarities between the three. This research should focus on the intent of each, what they have achieved, and which, if any best serves to alleviate the housing affordability crisis. The researcher must compare and contrast the policies and derive an optimal model that combines the best features of the three.

Finally, comprehensive research is required into the land issues that have surfaced as a result of this inclusionary housing research. The researcher needs to take an in depth look into the holding costs of land, and the ability of government to use the land they hold to avert the affordability crisis.

## **7.5 Concluding Comments**

Overall, the findings of this research mirror the literature. There are however issues such as integration that although addressed in the literature from an international perspective, perhaps does not hold the same level of significance as it does in South Africa. This means that these issues do not provide such a compelling need for an inclusionary housing policy to address them. Bearing this in mind, and not negating the importance of finding a solution to the affordability crisis, this policy should be implemented.



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**Appendix 1: Breaking New Ground**

**Table 4: An overview of the "BNG" elements and objectives**

BNG elements	BNG objectives
1. Supporting the entire residential property market	1. Accelerate the delivery of housing as a key strategy for poverty alleviation
2. Moving from housing to sustainable human settlements	2. Utilise the provision of housing as a major job creation strategy
3. Using existing and new housing instruments	3. Ensure that property can be accessed by all as an asset for wealth creation and empowerment
4. Adjusting institutional arrangements within government	4. Leverage growth in the economy
5. Building institutions and capacity	5. Combat crime, promote social cohesion and improve quality of life for the poor
6. Defining financial arrangements	6. Support 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.
7. Creating jobs and housing	7. Utilize housing as an instrument for the development of sustainable human settlements, in support of spatial restructuring.
8. Building information, communication and awareness	
9. Establishing systems for monitoring and evaluation	



## Appendix 2: Economic and Socio-Economic Indicators

**Table 5: Demographic, Economic, and Social Indicators**

Demographic, economic and socio-economic indicators for metropolitan and rural areas										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Metropolitan areas</b>										
Population (number)	10 684 577	10 882 703	11 079 013	11 270 572	11 456 846	11 639 562	11 816 719	11 984 477	12 139 226	12 280 678
Population growth (%)	-	1,9	1,8	1,7	1,7	1,6	1,5	1,4	1,3	1,2
Population density (people per km <sup>2</sup> )	598,6	609,7	620,7	631,4	641,8	652,1	662,0	671,4	680,1	688,0
Households (number)	2 977 490	3 066 398	3 162 250	3 319 343	3 369 960	3 450 336	3 560 607	3 650 785	3 733 423	3 802 968
Formal sector employment (number)	3 914 816	4 011 776	4 058 474	4 171 759	4 200 866	4 244 342	4 364 944	4 445 263	4 677 830	4 921 029
Informal sector employment (number)	289 142	329 995	400 786	545 768	653 224	714 516	606 715	615 407	626 853	777 776
Total employment (number)	4 203 958	4 341 771	4 459 260	4 717 527	4 854 090	4 958 858	4 971 659	5 060 670	5 304 683	5 698 805
Average annual household income (rand)	70 921	78 507	84 141	88 944	98 545	106 275	116 070	125 059	134 379	145 282
Real household income growth (%)	-	1,9	0,3	0,5	5,1	2,0	0,0	1,8	6,0	4,6
Personal income (% of national total)	48,2	48,5	49,4	49,9	50,5	51,2	51,7	52,1	52,3	52,4
Gross domestic product (% of national total)	55,6	56,1	56,4	56,9	56,7	56,7	56,3	57,5	58,0	58,4
Real economic growth (%)	-	3,0	1,4	3,4	4,5	4,2	4,2	3,6	5,5	5,7
<b>Rural areas</b>										
Population (number)	31 519 959	31 989 590	32 455 672	32 919 751	33 381 065	33 836 899	34 289 377	34 726 381	35 140 611	35 530 120
Population growth (%)	-	1,5	1,5	1,4	1,4	1,4	1,3	1,3	1,2	1,1
Population density (people per km <sup>2</sup> )	26,2	26,6	27,0	27,4	27,7	28,1	28,5	28,9	29,2	29,5
Households (number)	6 695 848	6 947 709	7 207 177	7 535 712	7 740 532	7 968 757	8 249 876	8 493 927	8 712 368	8 902 598
Formal sector employment (number)	4 254 505	4 297 318	4 229 167	4 267 757	4 279 608	4 250 083	4 354 422	4 473 036	4 517 273	4 501 276
Informal sector employment (number)	527 664	603 916	726 840	996 017	1 184 970	1 275 973	1 077 073	1 083 920	1 112 681	1 384 799
Total employment (number)	4 782 169	4 901 233	4 956 008	5 263 774	5 464 579	5 526 055	5 431 495	5 556 956	5 629 954	5 886 075
Average annual household income (rand)	33 875	36 805	37 874	39 315	42 031	43 794	46 756	49 438	52 472	56 279
Real household income growth (%)	-	0,0	-3,7	-1,3	1,5	-1,4	-2,2	-0,1	4,7	3,7
Personal income (% of national total)	51,8	51,5	50,6	50,1	49,5	48,8	48,3	47,9	47,7	47,6
Gross domestic product (% of national total)	44,4	43,9	43,6	43,1	43,3	43,3	43,7	42,5	42,0	41,6
Real economic growth (%)	-	2,1	-0,6	1,1	3,8	0,9	2,9	2,4	3,9	4,2

Source: Global Insight

**Table 6: Average Nominal House Prices**

Average nominal house prices											
	2003 Rand	2004 Rand	2005 Rand	2006 Rand	2006			2007			
					Q2 Rand	Q3 Rand	Q4 Rand	Q1 Rand	Q2		
									Rand	q/q % Δ	y/y % Δ
<b>National</b>											
Middle segment (80m²-400m², ≤R2,7m)	433 973	573 862	704 571	812 002	797 159	822 096	856 266	893 853	919 046	2,8	15,3
Small (80m²-140m², ≤R2,7m)	308 500	418 570	501 975	580 964	575 118	589 640	605 159	624 300	632 765	1,4	10,0
Medium (141m²-220m², ≤R2,7m)	397 286	536 378	664 608	772 266	756 545	787 226	819 734	860 524	890 442	3,5	17,7
Large (221m²-400m², ≤R2,7m)	599 510	779 137	977 504	1 122 008	1 092 282	1 126 705	1 193 076	1 250 150	1 289 837	3,2	18,1
New (80m²-400m², ≤R2,7m)	583 481	672 712	742 912	827 482	816 580	839 704	867 599	911 275	943 823	3,6	15,6
Existing (80m²-400m², ≤R2,7m)	414 506	553 449	696 833	810 105	795 590	820 607	854 370	890 674	914 251	2,6	14,9
Affordable (40m²-79m², ≤R370 000)	124 977	150 981	188 760	216 875	211 603	219 665	230 247	242 763	249 714	2,9	18,0
Luxury (>R2,7m-R5,9m)	2 598 975	3 163 464	3 414 490	3 774 556	3 746 934	3 838 819	3 862 091	3 952 472	4 093 241	3,6	9,2
<b>Provinces</b>											
Eastern Cape	355 385	515 401	643 953	749 010	745 992	751 264	778 964	828 914	833 683	0,6	11,8
Free State	301 953	408 676	492 558	571 035	565 225	573 541	607 022	628 322	655 743	4,4	16,0
Gauteng	478 982	610 580	734 341	846 845	831 969	870 767	904 669	945 966	964 740	2,0	16,0
KwaZulu-Natal	411 907	553 094	682 469	817 493	817 326	829 259	830 412	853 958	900 779	5,5	10,2
Limpopo	334 343	438 696	566 557	710 751	697 075	720 140	755 024	802 012	848 568	5,8	21,7
Mpumalanga	303 061	407 231	528 939	665 320	653 606	694 460	710 831	731 245	761 708	4,2	16,5
North West	332 879	418 163	527 694	622 091	605 308	646 920	651 222	671 576	704 545	4,9	16,4
Northern Cape	271 366	365 499	436 113	545 943	529 102	564 879	601 071	610 173	581 236	-4,7	9,9
Western Cape	483 265	646 459	827 929	944 202	930 745	949 654	981 194	1 017 949	1 037 948	2,0	11,5
<b>Metropolitan regions</b>											
PE/Uitenhage (Eastern Cape)	372 827	539 302	672 258	771 697	750 523	804 661	832 543	838 867	839 581	0,1	11,9
East London (Eastern Cape)	356 725	495 867	708 902	796 631	781 688	802 127	836 454	884 663	933 511	5,5	19,4
Bloemfontein (Free State)	372 173	518 074	641 063	760 667	750 378	778 765	809 007	844 862	900 893	6,6	20,1
Greater Johannesburg (Gauteng)	480 853	616 784	741 088	875 013	858 088	895 608	933 968	981 064	1 000 874	2,0	16,6
Johannesburg Central & South	385 635	536 704	617 684	759 872	758 196	781 044	810 844	864 557	888 439	2,8	17,2
Johannesburg North & West	612 301	762 480	920 534	1 074 115	1 051 919	1 086 545	1 147 296	1 189 033	1 212 553	2,0	15,3
East Rand	369 058	505 274	638 641	753 914	740 636	771 855	795 808	835 114	866 004	3,7	16,9
Pretoria (Gauteng)	539 931	671 212	813 542	924 195	900 222	945 514	987 507	1 021 021	1 048 256	2,7	16,4
Durban/Pinetown (KwaZulu-Natal)	401 129	541 044	722 272	853 509	847 531	857 677	883 523	926 453	973 681	5,1	14,9
Cape Town (Western Cape)	498 827	665 558	846 206	969 943	960 023	971 373	1 003 108	1 038 103	1 055 208	1,6	9,9

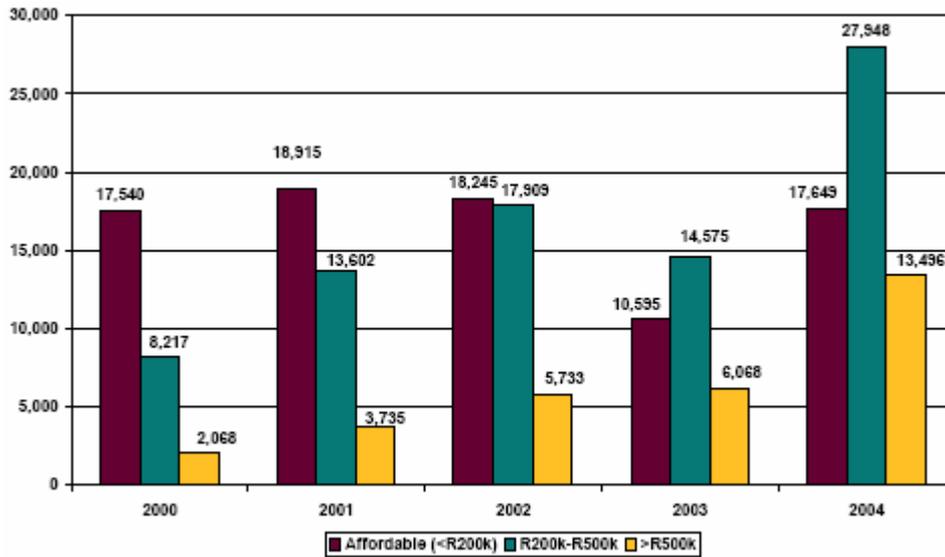
House prices are based on the total smoothed purchase price of houses (including all improvements) in respect of which loan applications were approved by Absa Bank. House prices for the provinces and metropolitan regions are smoothed for all houses between 80m² and 400m², up to R2,7 million.

**Table 7: Mortgage amounts of fixed monthly repayments at varying interest rates**

Mortgage amount at fixed monthly repayment (rand, calculated over a period of 20 years)											
Mortgage repayment	Mortgage amount at different interest rates										
	10,0%	10,5%	11,0%	11,5%	12,0%	12,5%	13,0%	13,5%	14,0%	14,5%	15,0%
1 000	103 625	100 162	96 882	93 771	90 819	88 017	85 355	82 824	80 417	78 125	75 942
2 000	207 249	200 325	193 763	187 542	181 639	176 035	170 710	165 649	160 834	156 250	151 885
3 000	310 874	300 487	290 645	281 313	272 458	264 052	256 065	248 473	241 250	234 375	227 827
4 000	414 498	400 649	387 526	375 083	363 278	352 069	341 421	331 297	321 667	312 501	303 769
5 000	518 123	500 811	484 408	468 854	454 097	440 086	426 776	414 122	402 084	390 626	379 711
6 000	621 748	600 974	581 289	562 625	544 916	528 104	512 131	496 946	482 501	468 751	455 654
7 000	725 372	701 136	678 171	656 396	635 736	616 121	597 466	579 770	562 918	546 876	531 596
8 000	828 997	801 298	775 052	750 167	726 555	704 138	682 841	662 595	643 335	625 001	607 538
9 000	932 622	901 460	871 934	843 938	817 375	792 156	768 196	745 419	723 751	703 126	683 480
10 000	1 036 246	1 001 623	968 815	937 708	908 194	880 173	853 551	828 243	804 168	781 251	759 423
15 000	1 554 369	1 502 434	1 453 223	1 406 563	1 362 291	1 320 259	1 280 327	1 242 365	1 206 252	1 171 877	1 139 134
20 000	2 072 492	2 003 245	1 937 631	1 875 417	1 816 388	1 760 346	1 707 103	1 656 487	1 608 337	1 562 503	1 518 846

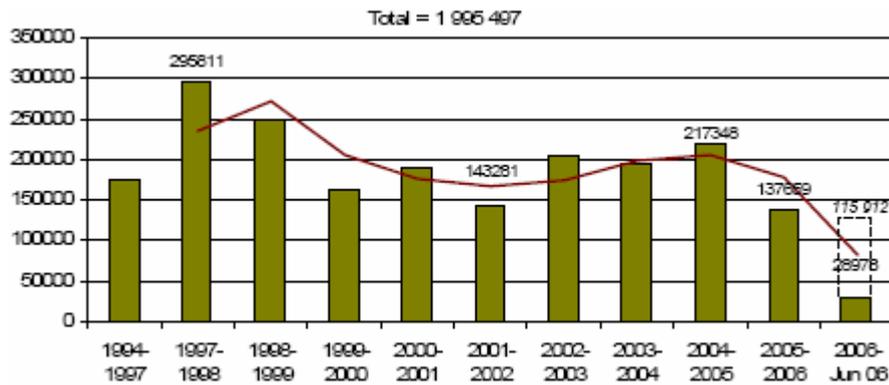
**Appendix 3: Public and Private Sector Housing Delivery**

**Figure 7: Private Sector Housing Delivery: NHBRC Enrolments 2000 - 2004**



Source: Analysis of South Africa's Housing Sector Performance (Rust, 2006)

**Figure 8: Public Sector Delivery: Subsidised Houses Completed or Under Construction 1994 - June 2006**



Source: Analysis of South Africa's Housing Sector Performance (Rust 2006)



House price in range of a household income of R7 500 per

Appendix 4: Breaking New Ground

Table 8: Housing Demand Sub- Markets in South Africa

	INCOME (R/month)	SOUTH AFRICAN HOUSEHOLDS (% of All Households - LFS Sept 2004)	AFFORDABILITY (% inc & R/Mnth)	ELIGIBILITY (R Total)	CONTRIB. (R min)	SAVINGS (R Total)	AFFORD (R Total)	PRICE (R Total)
8	V HIGH			NO	NO		YES	
Max	>R 8001							
Min	R 7,500	10%	25% / +R1875/m		R 18,921		R 170,286	R 189,207
7	HIGH			NO	NO		YES	
Max	R 7,499	4%	25% / to R1874.75/m		R 18,918		R 170,264	R 189,182
Min	R 5,500		25% / to R1375/m		R 13,875		R 124,877	R 138,752
6	MID-HIGH			NO	NO		YES	
Max	R 5,499	3%	25% / to R1374.75/m		R 13,873		R 124,854	R 138,727
Min	R 4,500		25% / to R1125/m		R 10,669		R 96,025	R 106,694
5	MIDDLE			NO	NO		YES	
Max	R 4,499	4%	25% / to R1124.75/m		R 10,667		R 96,003	R 106,670
Min	R 3,500		25% / to R875/m		R 8,052		R 72,471	R 80,524
4	MODERATE			YES	NO		YES	
Max	R 3,499	6%	25% / to R874.75/m	R 34,000	R 10,529		R 72,451	R 116,980
Min	R 2,500		25% / to R625/m	R 34,000	R 8,231		R 51,765	R 93,996
3	LOW INCOME			YES	YES		YES	
Max	R 2,499	10%	25% / to R624.75/m	R 34,000	R 2,479		R 17,603	R 54,082
Min	R 1,500		25% / to R375/m	R 36,000	R 2,479		R 6,408	R 44,887
2	V. LOW INCOME			YES	YES		YES	
Max	R 1,499	25%	25% / to R374.75/m	R 36,000	R 2,479		R 6,404	R 44,883
Min	R 1		25% / to R0.25/m	R 36,000	R 2,479		R 4	R 38,483
1	NO WAGE INCOME			YES	NO		NO	
Max	R 500	38%	0% / to R0/m	R 36,000	R 0		R 0	R 36,000
Min	R 0		0% / to R0/m	R 36,000	R 0		R 0	R 36,000



**Appendix 5: Affordability Scales**

**Table 9: Median Multiples**

Table ES-1 Demographia Housing Affordability Ratings	
Rating	Median Multiple
Severely Unaffordable	5.1 & Over
Seriously Unaffordable	4.1 to 5.0
Moderately Unaffordable	3.1 to 4.0
Affordable	3.0 or Less

All values are taken from Appendix One table 4

Average price of a home in Johannesburg 2005 – R741 840

Average Annual Household income 2005 – R145 282

Median Multiple = **5.1**

Average price of a home in Durban 2005 – R723 887

Average Annual Household income 2005 – R145 282

Median Multiple = **4.98**

Average price of a home in Cape Town 2005 – R846 571

Average Annual Household income 2005 – R145 282

Median Multiple = **5.8**



Appendix 6: US Inclusionary Housing Policies

Table 10: Comparative Inclusionary Housing Policies in the US

	Year of Inception	Affordable Units Produced	Threshold Number of Units	Set-aside Requirement	Control Period	"In lieu of" payment/ Off-site Development	Density Bonus	Other Developer Incentives
Boston, Massachusetts	2000	68	Development exceeding 10 units	10% of on-site units	"Maximum allowable by law"	May build off-site if 15% of all units affordable In lieu of payment permitted	None	Tax break for developer
Boulder, Colorado	1999 <sup>1</sup>	Approx. 50 of nearly 200 anticipated	No threshold #--applicable to all residential development	20% low-income in for-sale and rental developments <sup>2</sup>	Permanent affordability by deed restriction	Fee permitted for smaller developments; Half of for-sale units may be built off-site; Developers have flexibility with rental unit obligation <sup>3</sup>	None	Waiver of development excise taxes
Davis, California	1990	1474	Development exceeding 5 units	25% in for-sale developments <sup>4</sup> 25-35% in rental developments <sup>5</sup>	Permanent affordability for rental units No control period for for-sale units	In lieu of payment permitted for developments under 30 units, or other demonstration of "unique hardship"	25%	None
Fairfax County, Virginia	1991	1723	Development exceeding 50 units <sup>6</sup>	12.5% in single family home developments 6.5% in multi-family developments	15 years for for-sale housing 20 years for rental housing PHA may purchase 1/3 of all units to keep affordable	Not permitted	20% for single family units 10% for multi-family units	None
Irvine, California	1978	Over 3400	No threshold #--applicable to all residential development <sup>7</sup>	Voluntary goal: 15% of all units	20-30 years; determined case-by-case depending on financing	In lieu of payments and other alternatives to on-site units permissible <sup>8</sup>	25% <sup>9</sup>	None currently offered <sup>10</sup>
Longmont, Colorado	1995	104 of 352 anticipated	No threshold # <sup>11</sup>	10% of all units in annexation areas	No control period for for-sale units 5 years for rental units	May make in lieu of payment to Affordable Housing Fund Case-by-case consideration of off-site construction	Yes	Relaxed regulatory requirements <sup>12</sup>
Montgomery County, Maryland	1974	Over 10,000	Development exceeding 50 units	12.5-15% of all units Of these, PHA may purchase 33%, and qualified not-for-profits may purchase 7%	10 years for for-sale units 20 years for rental units	May request approval to make in lieu of payment or build affordable units off-site in contiguous planning area if low and moderate income residents will not be able to pay expected housing costs	Up to 22%	Waiver of water, sewer charge and impact fees. Offer 10% compatibility allowance and other incentives <sup>13</sup>
Santa Fe, New Mexico	1998	1 of 36 anticipated	No threshold # <sup>14</sup>	11% in developments targeted over 120% AMI <sup>15</sup> 16% in developments targeted over 200% AMI <sup>16</sup>	30 years for all units; 30 year period starts over with each new occupant	Not permitted, except in case of economic hardship	Bonus equals set-aside %. 16% in developments targeted under 80% of AMI <sup>17</sup>	Waiver of building fees



**Appendix 7: An Overview of the Debate on Inclusionary Housing**

**Table 11: Positive and Negative Aspects of Inclusionary Housing**

	<b>POSITIVE FEATURES AND OUTCOMES</b>	<b>NEGATIVE FEATURES AND OUTCOMES</b>
1	Creation of mixed income, diverse, integrated communities	Shifting the cost of providing affordable housing to other groups in society
2	Smart growth, less sprawl, preservation of open spaces	New housing production decreases
3	De-concentration of poverty	Inclusionary program requirements are a stealth tax
4	Housing for a diverse labour force	Relies on the private sector to finance affordable housing based on the sale of market rate units
5	Increase in affordable housing supply	Resale controls are economically inefficient
6		Increase in unplanned growth
7		Does not address the factors that cause high housing costs
8		High Implementation Costs
9		Number of people benefiting from the program is small



**Appendix 8: Institutional Architecture**

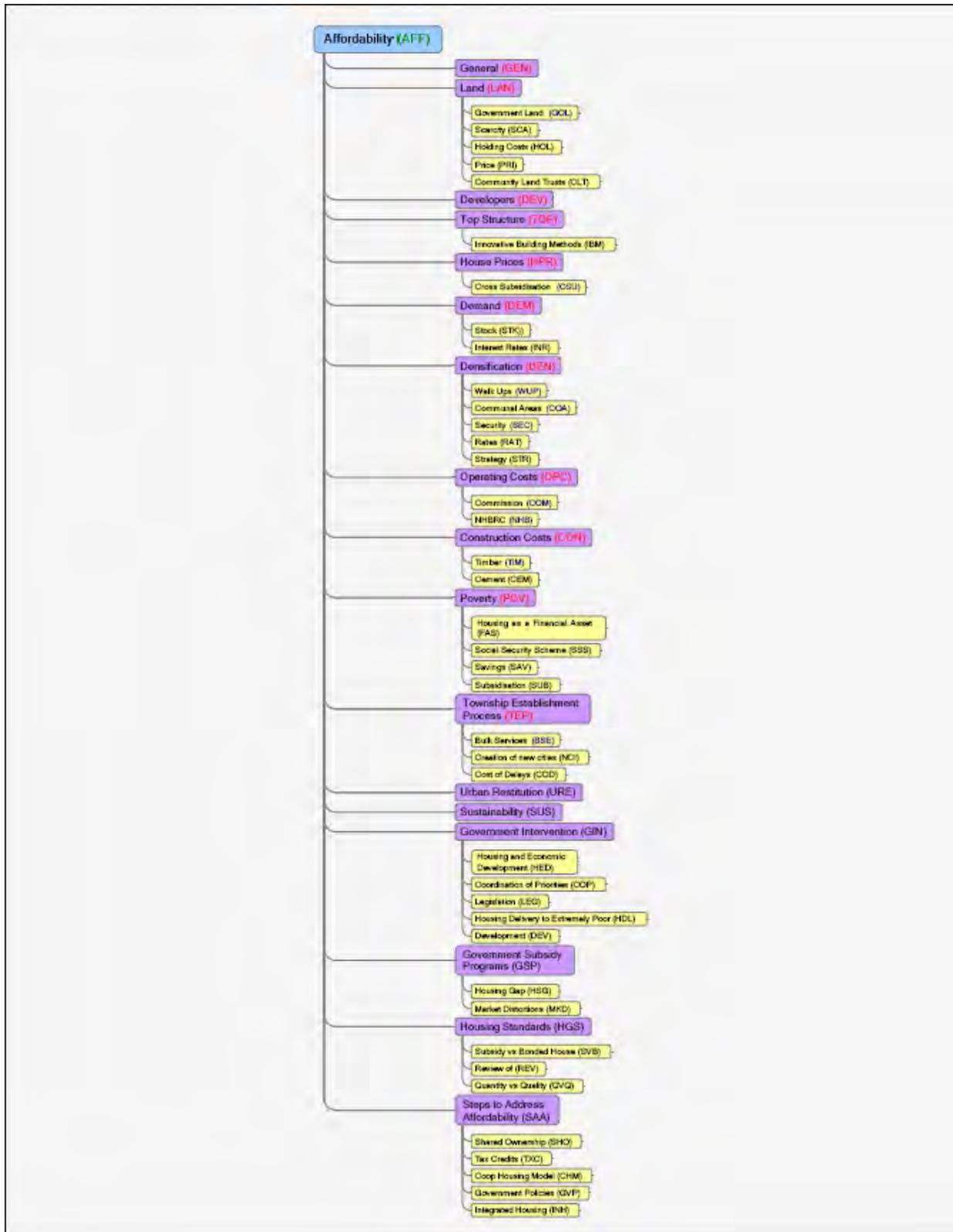
	<b>NDOH</b>	<b>PROVINCES</b>	<b>LOCAL AUTHORITIES</b>	<b>PRIVATE DEVELOPERS</b>
<b>POLICY PARAMETERS AND LEGISLATION</b>	Sets overall targets and parameters  Introduces legislation requiring LA's to draw up IHP's	Augments National parameters where desirable or necessary  Possible Provincial Legislation		
<b>IHP PLANS</b>	Draws up plan for involvement in VPADD	Draws up plan for involvement in VPAD	Draw up IHP's for achieving inclusionary outcomes re both VPADD and TPC	
<b>INCENTIVES</b>	Land for VPADD  Tax Credit Scheme (Treasury)	Land for VPADD  Housing Subsidies (for VPADD and TPC)	Land for VPADD  Density bonuses for TPC  Bulk and Link infrastructure (both VPADD and TPC)  Fast-tracking of development regulation processes (VPADD).	
<b>IMPLEMENT</b>	May initiate and drive priority initiatives (VPADD)	May initiate and drive provincial priority initiatives (VPADD)	Prime implementer of TPC  May initiate and drive VPADD initiatives	Can initiate VPADD initiatives  Partner in other VPADD initiatives
<b>FACILITATE</b>	Access to land via National SPV	Drawing up of IHP plans by LA's		
<b>MONITORING AND EVALUATION (M&amp;E)</b>	Monitor Achievement of National outcome indicators.	Monitor performance of local authorities and report regularly to National	Report on performance regularly	

## Appendix 9: Short and Long Term Inclusionary Housing Performance Measures

Exhibit 2: Measuring Program Performance		
Goals of Affordable Housing Policy	Indicators	
	Short-Term (one to five years)	Long-Term (five to 20 years)
Preserve and Expand the Supply of Good-Quality Housing Units	<ul style="list-style-type: none"> <li>• Number of units built or rehabilitated</li> <li>• Number of units improved/upgraded</li> <li>• Share of new units affordable for very low-, low-, and moderate-income households</li> </ul>	<ul style="list-style-type: none"> <li>• Number of housing units affordable for very low-, low-, and moderate-income households</li> <li>• Number of physically deficient housing units</li> <li>• Number of over crowded housing units</li> </ul>
Make Housing More Affordable and More Readily Available	<ul style="list-style-type: none"> <li>• Number of vouchers issued</li> <li>• Share of available vouchers utilized</li> <li>• Number of households relocating with housing search assistance</li> </ul>	<ul style="list-style-type: none"> <li>• Number of very low-, low-, and moderate-income households paying more than 30 percent of income for housing</li> <li>• Number of very low-, low-, and moderate-income households paying more than 50 percent of income for housing</li> </ul>
Promote Racial and Economic Diversity in Residential Neighborhoods	<ul style="list-style-type: none"> <li>• Share of new (assisted) units in low-poverty and nonminority neighborhoods</li> <li>• Share of voucher recipients moving to low-poverty and nonminority neighborhoods</li> <li>• Racial and economic mix of assisted developments</li> <li>• Number of pro-integrative moves</li> </ul>	<ul style="list-style-type: none"> <li>• Index of residential segregation by race and ethnicity</li> <li>• Index of residential segregation by income level</li> </ul>
Help Households Build Wealth	<ul style="list-style-type: none"> <li>• Number of new homeowners</li> <li>• Average house price appreciation among assisted buyers</li> </ul>	<ul style="list-style-type: none"> <li>• Average household assets, by income and race/ethnicity</li> <li>• Homeownership rate, by income and race/ethnicity</li> <li>• Average house price appreciation rate, by neighborhood</li> </ul>
Strengthen Families	<ul style="list-style-type: none"> <li>• Number of families re-unifying</li> <li>• Number of assisted households completing self-sufficiency programs</li> <li>• Number of assisted households moving from welfare to work</li> </ul>	<ul style="list-style-type: none"> <li>• Share of children living with two parents</li> <li>• Share of children with elevated blood lead levels</li> <li>• Share of children completing high school</li> <li>• Average household income, by neighborhood</li> <li>• Share of households with wage income, by neighborhood</li> </ul>
Link Housing with Essential Supportive Services	<ul style="list-style-type: none"> <li>• Number of units with transitional services</li> <li>• Number of nonprofits serving special needs</li> </ul>	<ul style="list-style-type: none"> <li>• Number of homeless people</li> <li>• Number of frail elderly without services</li> <li>• Number of disabled without services</li> </ul>
Promote Balanced Metropolitan Growth	<ul style="list-style-type: none"> <li>• Share of new affordable housing in suburban jurisdictions</li> <li>• Volume of residential investment in older, urban neighborhoods</li> </ul>	<ul style="list-style-type: none"> <li>• Geographic concentration of affordable housing</li> <li>• Average commute times, by jurisdiction</li> <li>• Ratio of jobs to housing, by jurisdiction</li> </ul>

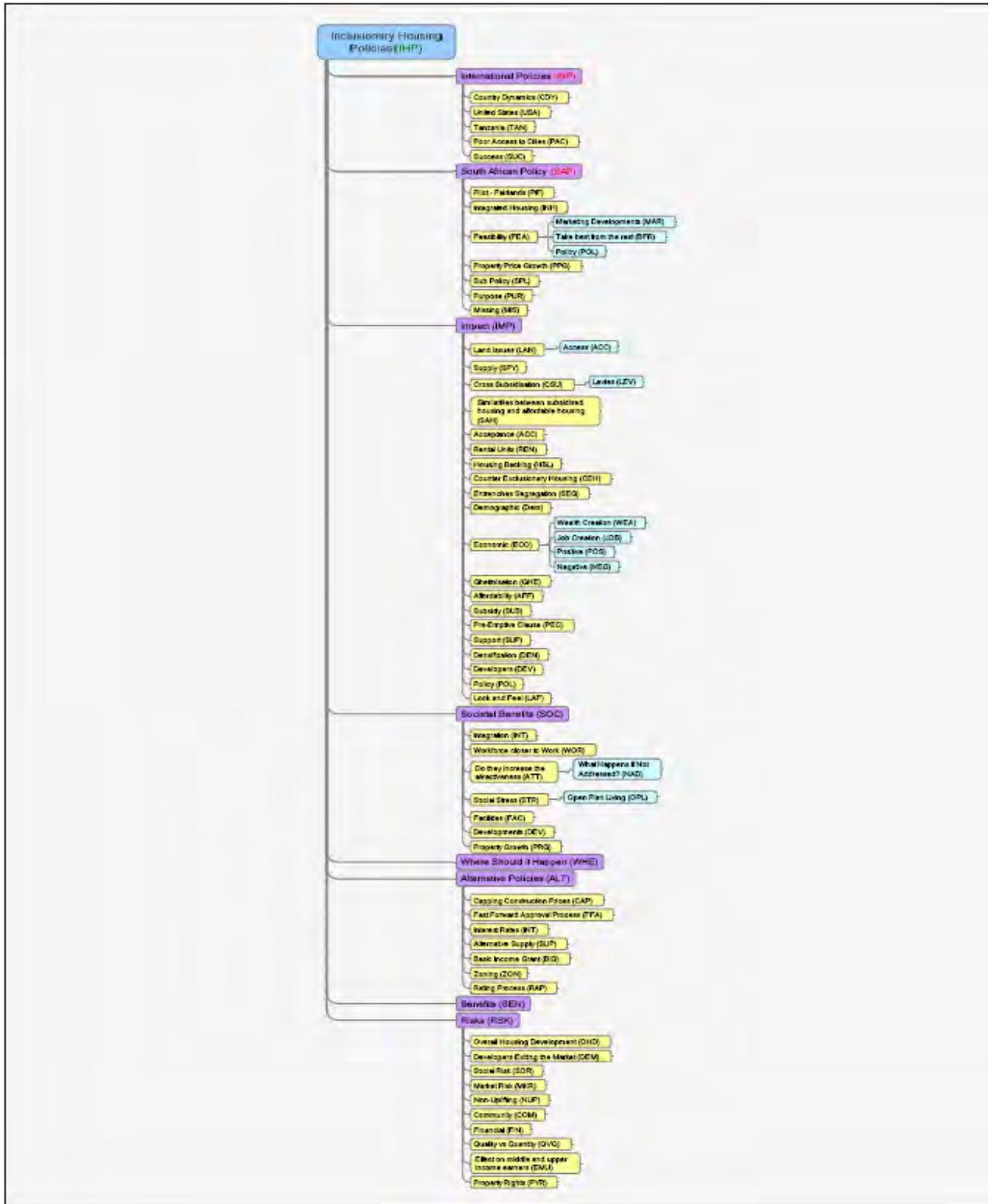
## Appendix 10: Categorisation of Interview Themes

### Affordability

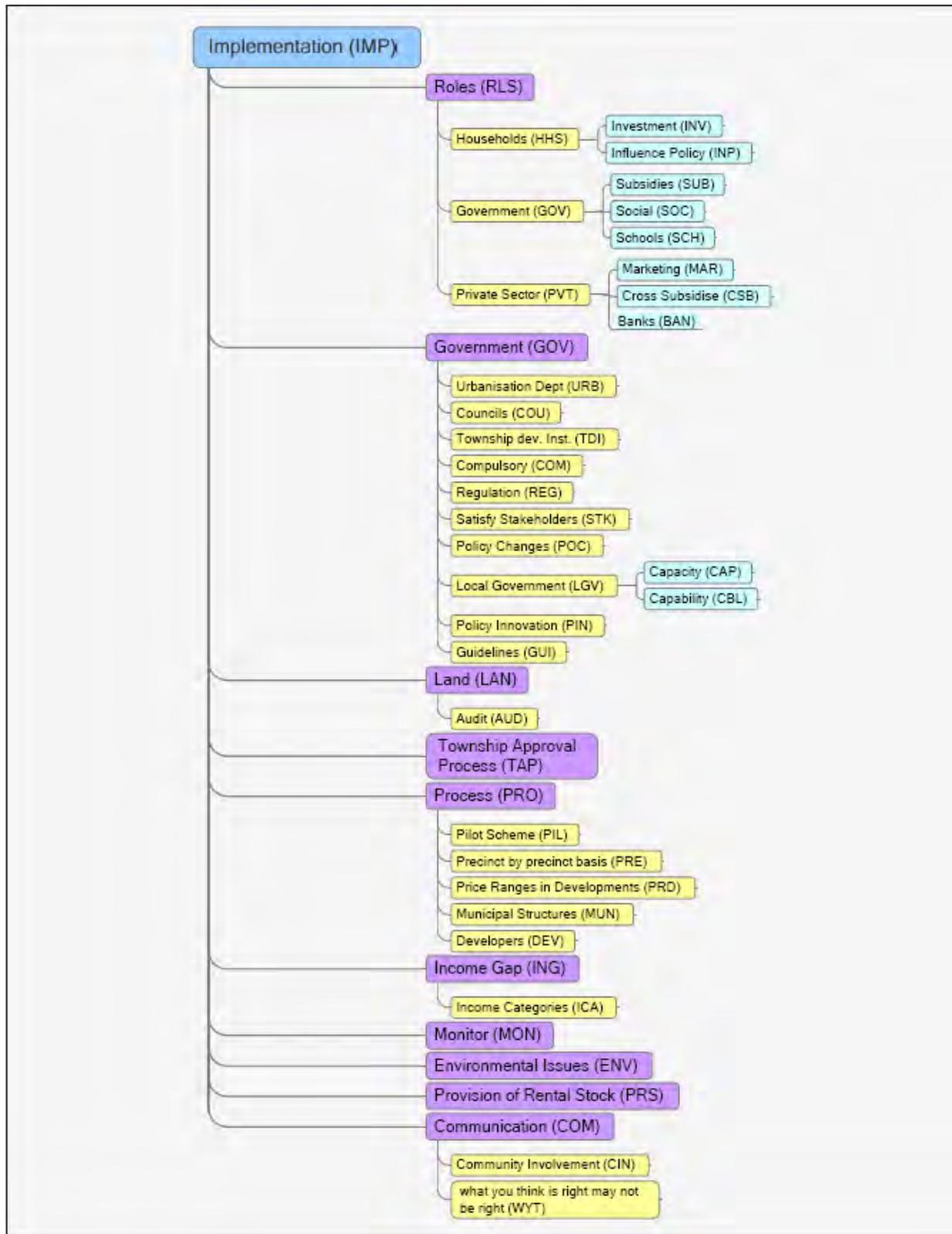




## Inclusionary Housing Policies



## Implementation





## Appendix 11: The Semi - Structured Interview Questionnaire

### Inclusionary Housing Research Project interview prompts

#### Introduction

Thank you for the opportunity to conduct this interview with you.

Just to recap, I am currently studying towards an MBA with the Gordon Institute of Business Science (GIBS). In partial fulfilment of this degree I am required to complete a research project entitled “The potential impact of an inclusionary housing policy on the affordability of housing in South Africa”.

I am currently conducting one on one interview’s with industry experts in order to obtain views and opinions on an inclusionary housing policy, and its applicability to the South African context.

The interview should not take longer than 60 minutes of your time. Should further information /clarity be required a follow up discussion/email may be required.

The in depth interview’s coupled with additional secondary research will form the basis of project.

#### Personal Details

<b>Name</b>	
<b>Company</b>	
<b>Position</b>	
<b>Brief Background</b>	
<b>Interview Date</b>	



## SECTION 1: THE AFFORDABILITY OF HOUSING

1. Do you believe that there is an issue of housing inaffordability in South Africa? Can you elaborate on your statements?
2. If you believe that there is a housing affordability crisis, what are the factors that contributed, or are continuing to contribute to this? Please explain.
3. What do you think can be done to address the current issues of housing affordability? How?
4. Do you feel that the current issues around housing affordability are poverty related or housing related issues? Please give reasons for your statements.
5. Do you believe that the government should intervene in order to halt the decline in housing affordability? Why?

## SECTION 2: INCLUSIONARY HOUSING

1. What are your views on the international experience with inclusionary housing? Please elaborate.
2. What, if any, are your views on the South African experience with inclusionary housing? Please elaborate.
3. What do you believe the impact of an inclusionary housing policy will be? Demographic? Economic? Socio-Economic? Governmental? Why?
4. What do you think the societal benefits of an inclusionary housing policy in South Africa would be, if any? Why?
5. Do the societal benefits identified in the previous question increase the attractiveness of an inclusionary policy? Why do you say that?



6. In your opinion, will an inclusionary housing policy in South Africa have an impact on the affordability of housing? Why?
7. What other supply side policies do you think could be used e.g. capping building material costs, capping construction costs etc? Please Elaborate.
8. In your opinion, what do you feel are the main benefits of an inclusionary housing policy? Why
9. What do you feel are the main risks of an inclusionary housing policy? Why?
10. What is the proposed South African inclusionary housing policy missing – if anything? Please elaborate

### **SECTION 3: IMPLEMENTATION OF INCLUSIONARY HOUSING POLICIES**

1. What role do you believe individual households and communities playing should play in the successful implementation of an inclusionary housing policy? Why do you say that?
2. What do you see as the role of the public sector? Please elaborate.
3. What do you see is the role of the private sector? Please elaborate.
4. If you were given the task of implementing an inclusionary housing policy, how would you go about it? What would you regard as the most important aspects for consideration? Why?
5. What steps would you take to ensure this happened? Why?

**THANK YOU FOR YOUR TIME**