

Key considerations for Inclusionary Housing

8 October 2018



CITY OF CAPE TOWN
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PRINCIPLES OF ENGAGEMENT

- Partnership approach => seeking technical input prior to the policy-making process commencing
- Transparency => what you're seeing today is a reflection of where we are in the process & commitment to continue open lines of communication to ensure openness around the policy development process
- Pragmatism => we have to meet certain spatial transformation/spatial justice objectives, but want to do so in an economically sustainable way
- END GOAL: Policy that is efficient, transparent, fair, doesn't create onerous burden for any party



WHY INCLUSIONARY HOUSING?

- SPLUMA introduced several sweeping changes to the planning environment, including principles of spatial justice & transformation
- Numerous objections tabled at the MPT - halted many new residential developments – knock on economic effects
- City's long-standing concern: lack of affordable housing in well-located areas
- State housing programmes not optimally addressed access to affordable housing for low-middle income households amid the growing housing backlog & exacerbated apartheid spatial divides
- National Department of Human Settlements: govt subsidised housing programme is not financially sustainable in long term
- As a result, City of Cape Town developed an exploratory Concept Document as a precursor to a policy



WHAT IS INCLUSIONARY HOUSING?

- I.H. uses the development application process for new residential developments to incentivize the development of affordable housing
- Requires developers to reserve a certain proportion of housing units in a market-rate development for low- or moderate-income households (on-site), or through:
 - paying a fee in lieu of such development
 - developing affordable housing elsewhere (off-site)



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INCLUSIONARY HOUSING PRINCIPLES

- **Land value sharing** to more fairly distribute the benefits of urbanisation in a context of post-apartheid property market;
 - An **additional mechanism** to provide more well-located, affordable housing in the property market;
 - Affordable housing developed as a result of an Inclusionary Housing Policy needs to be **well-located and aligned to the City's TOD Strategic Framework & MSDF**, as well as in areas with sufficient access to public education, health, and social facilities;
 - Inclusionary housing needs to contribute towards the **density objectives** of the City's TOD Strategic Framework and MSDF;
 - Affordable housing created by the Inclusionary Housing Policy should be **affordable in perpetuity**;
 - Aims to create more **integrated and inclusive neighbourhoods** thereby redressing spatial inequalities caused by apartheid spatial planning;
 - Promote a **partnership approach** between the public & private sector towards the development of affordable housing
- ***Desired outcome: provision of long term affordable housing in well-located areas developed by the private sector.***



PROPOSED IMPLEMENTATION APPROACHES

- **Voluntary approach:**

Inclusionary Housing provision will apply to all new residential developments that request additional development rights across the City;

OR

- **Mandatory approach:**

Inclusionary Housing provision will apply to all new developments across the City;

OR

- **Targeted approach (combination of voluntary and mandatory)**

Mandatory within an I.H. overlay zone (Identified areas with strong urban land market), and voluntary in areas outside of these zones, when developers request additional development rights – need to decide on ‘threshold’.

➤ ***International best practice shows that inclusionary housing policies are effective in strong residential land markets, where residential developments are likely to elicit more value – therefore the creation of an Overlay Zone that aligns with stronger land markets***

AFFORDABLE HOUSING CONTRIBUTION

- **Set amount:**

A proportion of the extra development rights given must be set aside as the contribution towards affordable housing (e.g. 30% of bulk departure). This should be expressed in m² (or in the case of fees in lieu, in the rand value)

OR

- **Negotiated:**

Each application is considered on a case-by-case basis, with negotiations taking place based on a standard formula – based on residual land value & development costs

➤ ***The proposed inclusionary housing approach for the City of Cape Town:***

- *Targeted approach - combination of mandatory inclusionary housing in certain areas (overlay zones), and voluntary inclusionary housing across the rest of the City.*
- *The affordable housing contribution should be negotiated on a case-by-case basis, based on financial modelling that takes into account the residual land value & development costs – a standard pro forma document that outlines this should be submitted at development application stage.*



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IMPLEMENTING METHOD FOR I.H.

- **On-site contribution:**

Affordable units are built on-site as part of the market related development.

- **Off-site contribution:**

Affordable units are built off-site in well-located areas identified by the City.

The units can be built on city-owned land, or on land owned by private developers.

- **Fees in lieu:**

Cash contribution ring-fenced in a Municipal Fund for the development of affordable housing by the City.

This can go towards ensuring the financial sustainability of social housing developments, or towards planned off-site development of affordable housing by the City via existing national housing programmes. Other uses of the Fund in developing affordable housing, still need to be explored.

POSSIBLE INCENTIVES TO BE OFFERED

Most effective incentives:

- **Density bonus/zoning:** Most common form of planning incentive given in inclusionary housing programmes.
- **Fast-tracking of approval processes by a dedicated project team:** Save time & money. Projects that meet the mandate of the City are “put to the top of the pile” & dealt with by a specialised project team. Proactive zoning could immediately save time.

Other incentives used internationally:

- **Reduced parking requirements**
- **Bulk services contribution:** Decrease the monthly bulk services contributions payable by developers for inclusionary housing projects. The more affordable units, the greater the proportionate decreases in bulk services contributions. Provision of services amounts to approximately 29% of overall cost of unit.
- **Connection time:** Decreasing the time it takes to connect a development to bulk services infrastructure.

POSSIBLE INCENTIVES TO BE OFFERED

- **Bulk services infrastructure payment “holiday”:** Delaying upfront infrastructure payment to help curve the initial expenses of the developer.
- **Alternative Development Standards:** Flexible planning and engineering standards that provide a range of alternatives to the current standards used for design and construction.
- **Municipal rates:** Consider reducing rates and taxes payable by households living in inclusionary housing.
- **Lending rates:** Establish a relationship between financial institutions & private developers to ensure favourable lending rates to developers providing inclusionary housing. Could be piloted through a specific project that has both the private developer and financial institution on board.

AFFORDABILITY THRESHOLDS

Affordability relates to profile of end-user, housing product type, affordability of financing – in context of states responsibility to enable housing within available resources.

Households should not spend more than 30% of their income of housing.

Affordability could be define in three different ways:

1) **Standard definitions of affordability across the City:**

Monthly household income: R20 000 & below.

Housing product price: rental must not exceed R6 000 per month, units for ownership must not exceed R600 000.

2) **Differentiated definition of affordability across the City (per sub- area):**

International best practice - define affordability per sub-area of a City.

Based on 80% of median household income or average property value per sub-area.

3) **Location-driven affordability criteria**

Affordability could align with the method of the affordable housing contribution. If development is on-site, a differentiation definition of affordability according to a proportion of sub-area median income and below, could apply. If it's off-site or as a result of use of fees in lieu, then a standard definition could apply.



AFFORDABILITY IN PERPETUITY

- Affordability to remain in perpetuity, in order to meet the spatial transformation imperative of the City
- **Mechanisms:**
 - Title deed restrictions are suggested for sale units
 - On-site rental units could be managed by rental agency, but follow restrictions placed on annual increases outlined in the policy
- **Maintenance and operational expenditure:**
 - Affordable units should be cross-subsidized by the market units in a building (e.g. levies). However, the financial modelling and practical implication of this still need to be explored.
- Because of practical/institutional implications, social housing remains the simplest mechanism to ensure affordability in perpetuity – is already regulated & managed by specialist institutions, & screens qualifying applicants
- More work on institutional mechanisms to monitor affordability in perpetuity need to be done



ROLES AND RESPONSIBILITY

DEVELOPMENT MANAGEMENT DEPARTMENT

- Key responsibility for negotiating with developer
- Negotiating parameters needs to be informed by Guidelines for pre-consultation stage & common pro forma used based on financial model
- If the negotiation will be tied to an off-site option, then significant inter-disciplinary support is required at this stage (project packaging)
- Final approval needs to depend on the delivery of the affordable units

OR

INCLUSIONARY HOUSING MANAGER

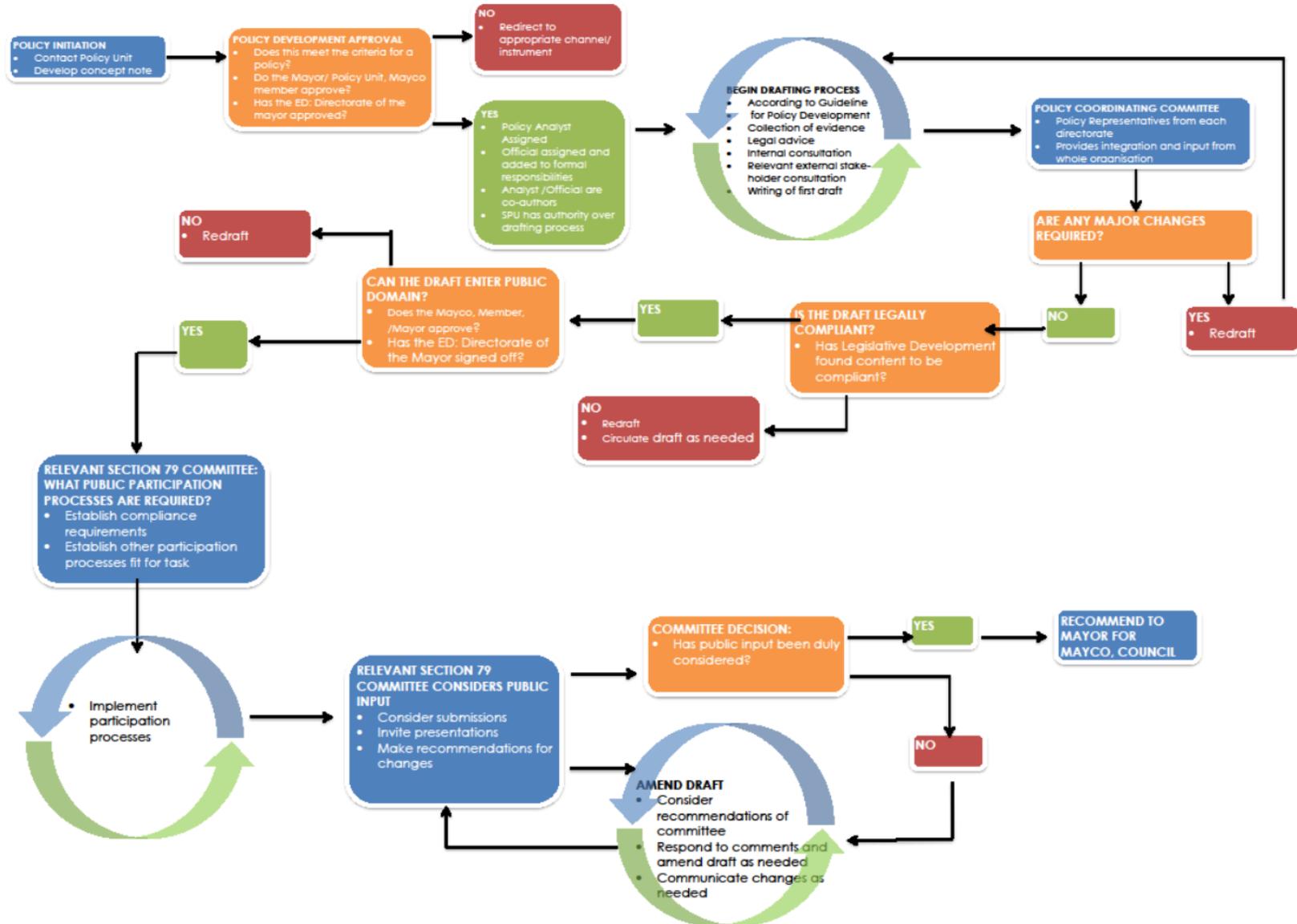
Individual works closely with Development Management Dept to implement programme – New York City example

MUNICIPAL PLANNING TRIBUNAL

- Make decision based on Inclusionary Housing Policy

WAY FORWARD

- Begin the formal policy-making process: serve before the PCC in October



WAY FORWARD

- Develop ToR for technical support on: economic analysis of inclusionary housing areas; financial calculator
- Continue engagements with international experts (Lincoln Institute) and key stakeholders to refine future policy
- **Reference group: technical engagements going forward**



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KEY QUESTIONS

- Do you agree with the principles of Inclusionary Housing?
- What is deemed as a practical incentive and what impact will it have on your development?
- From your perspective, what are the pros and cons of: on-site, off-site, and fees in lieu, and why?
- What variables should we take into consideration when we calculating the affordable housing contribution?
- How do you foresee a partnership with Social Housing Institutions unfolding in the development of affordable housing?
 - What prerequisites do you need to make this work?



THANK
YOU



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