

REPORT BACK FROM INCLUSIONARY HOUSING WORKSHOP
Held on Thursday 20 September 2018 at the River Club, Mowbray

BACKGROUND TO THE WORKSHOP

The City of Cape Town recently announced it was embarking on the drafting of a policy on inclusionary housing that will result in private developers being asked to contribute in some form to the provision of affordable housing in the metropole. The aim of the workshop, called for and hosted by the Western Cape Property Development Forum (WCPDF), was to enable industry to present its position in an audience with the City of Cape Town, and to agree to the technical input that the industry would give towards the drafting of the policy.

The following are the highlights from each presentation/section delivered at the abovementioned workshop, presided over by master of ceremonies, Bafikile Simelane (a member of the WCPDF Management Committee) and Deon van Zyl (Chairperson, WCPDF), and attended by a full house of approximately 125 delegates.

Presentations from the morning, where these are available, can be found on the WCPDF website at: <http://www.wcpdf.co.za/inclusionary-housing/>

PRESENTATION 1:

Cllr Brett Herron: City of Cape Town Mayoral Committee Member, Transport & Urban Development
“THE CITY’S POLICY DRAFTING PROCESS AND INPUT REQUIRED FROM THE INDUSTRY”

Cllr Herron set the scene by noting that the City of Cape Town had exceeded its housing delivery target in 2017 for the first time, delivering 8 000 units. However, as the current housing database sat at 325 000 households, and was expected to rise within 20 years to 650 000, it was evident that there was a major housing delivery crisis at hand.

The City needs to improve efficiencies in terms of delivery of units, and it is thus turning to the private sector for assistance in terms of inclusionary housing delivery, whereby private developments would make some contribution towards the provision of affordable housing.

However, the City does not expect the private sector to achieve this delivery on its own. It also realises that the delivery by the private sector would not generate massive numbers in housing units.

To date, although other South African cities have begun to draft their own inclusionary policies (for example, Johannesburg, which has a draft on the table for a blanket 20% of every development to be inclusionary), there are yet no legislated mechanisms in place for the implementation of inclusionary housing policy. This although the Constitution, the National Development Plan and SPLUMA all make general reference to spatial justice via the provision of affordable housing in residential land development.

Realising the need for input from the industry in order for the policy to be embraced by the private sector, Cllr Herron said he wished to break the mould on the drafting of this policy in terms of process: In the past, policies have been drafted by the City and only thereafter was public participation called for in terms of draft policy. This time around, he wished to have input from the industry from the outset and hoped that the policy would be drafted in unison – and as speedily as possible. To quote: “I do not want this policy to take two years.”

Cllr Herron noted that the policy would not affect existing development rights – it would only kick in when additional rights were applied for, and it would more than likely apply to both residential and commercial applications. All new development rights would have to contribute to the provision of inclusionary housing.

While various approaches are still being investigated, the City’s preferred approach lies in the development of a standard **Formula** or “**Calculator**” (ie: a calculation per development application based on rights being asked for) which would enable each application to be considered on a case-by-case basis, based on residual land value and development costs. To this end, three options towards making contributions are on the table:

- **Fees in lieu:** cash contributions to the value of acquired bulk rights, with fees payable to be ring-fenced by the City for the development of affordable housing.
- **Off-site contribution:** whereby affordable units are built off-site by the party receiving new development rights, such units to be developed in well-located areas identified by the City.
- **On-site contribution:** whereby affordable units are built on-site and integrated into a market-related development.

The City defines affordability as a monthly household income of <R20 000, which would enable a housing product price in terms of:

- rental at R6 000 per month, or
- the sale of a unit at R600 000.

Among the most important questions to be addressed by the policy would be how to ensure “affordability” in perpetuity in terms of title deed restrictions (while still enabling a homeowner to climb the property ladder) or – in terms of rental – who would manage this process [although Social Housing Initiatives (SHIs) were already in existence and are specialists in the field of management and screening applicants.]

PRESENTATION 2:

Bill Rawson: Chairperson, Rawson Property Group

“STATUTORY DELAYS AND PRACTICAL EXPERIENCE DEALING WITH THE TOPIC”

Calling on all property developers to work together to resolve the issues at hand and noting that the South African real estate industry already had more regulations than any other in the world, Rawson expressed his concern over the objections that have been lodged over the past few weeks by the activist group Ndifuna Ukwazi against 37 development applications. As a result, his company alone was looking to retrench around 400 people. He was aware that the WCDPF had estimated that an additional 4 000 jobs would be at risk if the objections were not resolved timeously. He also questioned whether the funders behind the activist group are even aware of the enormous damage that the objections are having on the local economy.

To quote Rawson: “I call on the industry to help Brett [Cllr Herron] and Deon [van Zyl] to step up to the challenge; reduce the objections, get the policy up and running as soon as possible.”

PRESENTATION 3:

Thabo Mashologu: Communicare General Manager, Property Development & Investment “STRADDLING THE WORLDS OF COMMERCIAL DEVELOPMENT AND SOCIAL HOUSING”

Setting the scene in terms of Communicare, a social housing institution (SHI) registered as a non-profit company, he noted that the company had been active as a social landlord in Cape Town for over 89 years and currently owned and managed 3 375 residential units in the social and affordable housing markets. It developed most of its own stock and other residential property, which was then leased or sold in the affordable and middle-income markets.

Apart from obtaining finance, one of the biggest challenges facing SHIs was the perception of NIMBY-ism (“not in my back yard”). This had resulted in several objections being lodged against Communicare’s own projects (by neighbouring communities) who did not want “someone with a low income living next door to me.”

Mashologu noted that, according to census data, there were around 37 000 households in Cape Town living in informal conditions who were earning between R3 200 and R13 000 per month and who were dynamic contributors to the economic fabric of the city. There were a further 46 000 households with incomes between R13 000 and R26 000, and yet many of these lived as tenants in informal settlements or backyards. There was also a huge disconnect between what families could afford versus what was available to rent or buy in the formal market. The data supported the notion that there is a deep rental market in Cape Town, and that the target population has embraced the concept of rental housing as opposed to the post-1994 preoccupation with subsidised ownership as the only model of housing delivery.

He urged the City to think beyond the current scenario and to think further into the future in terms of town planning and the ever-increasing demand for housing, looking perhaps towards the innovative models starting to arise elsewhere on the continent, such as Eko Atlantic City in Lagos, Nigeria.

His organisation was very happy with the City’s intention to “crowd in” (via its “Purple Turtle” model¹) in order to target areas with existing infrastructure and economic opportunities, and within which it hopes to incentivise developers to drive social and affordable housing.

Returning to the challenge of financing, he noted that government subsidies in respect of social housing did not keep pace with inflation in the industry. Furthermore, the derivation of the grants did not cater for the type of high density, multi-storey developments that the City of Cape Town is encouraging in the transit oriented development model. SHIs were required to raise as much as 50% of development costs

¹ The “Purple Turtle”, as it has been nicknamed, refers to the City of Cape Town Transport & Urban Development Authority’s (TDA) model in which five catalytic areas have been identified in the metropole within which there will be investment in the improvement of existing infrastructure to ignite urban renewal, economic growth and job creation. The areas include the Cape Town CBD, Bellville, Philippi East, Athlone and Paardevlei.

through other equity streams (other than subsidies), and as a result, market-related units in certain of Communicare's projects were having to work exceptionally hard to cross-subsidise the social housing components. He therefore lauded the "Cash in lieu" model being proposed by the City as a means by which SHIs could potentially access capital. Banks have become very cautious of social housing in light of recent rent boycotts and unrest in certain developments in Cape Town. As a result, funding terms have become very conservative to price in the perceived risk. Shocks to the system such as interest rate increases, rental boycotts, etc meant that SHI's were extremely vulnerable without the cushion of a cross-subsidization model.

Outlining some of the other challenges facing social housing and its existence in perpetuity, he stressed that among these were the management of stock, which needed to include appropriate and affective mechanisms to stop people from buying stock and then speculating with it.

PRESENTATION 4:

Deon van Zyl: WCPDF Chairperson & AL&A Director

MEMBER FEEDBACK

To set the scene: while the WCPDF supported and fully acknowledged interest groups 'right to lodge objections, Van Zyl noted that the 37 objections lodged by Ndifuna Ukwazi would delay or event stop in excess of R20 billion of investment into Cape Town. This was at a time when the industry was already suffering badly in terms of the economy, facing a lack of responsiveness from authorities, and against a transportation crisis facing the metropole overall along with issues around gentrification and affordability. He also noted that, to date, there had yet been little consultation by the City with the broader industry, and the primary focus of the workshop was to bring these parties together to negotiate a way forward.

To this end, he summarised the concerns received from the industry around the following:

In terms of: Inclusionary housing within a housing policy context

- *"What is national government policy on inclusionary housing?"*
- *"What is City's full housing strategy and what percentage of delivery (and resources) should be allocated to inclusionary housing?"*
- *"How much City land has to date been made available for inclusionary housing? How many units have been developed?"*
- *What can we learn from international precedent?"*

In terms of: Value capture

- *"There is already value capture – CGT."*
- *"City already values highest and best-use value – will the valuation roll be changed?"*
- *"The cost and risks associated with new rights already reflect risk reward. There is money in optimised process. What about a fast-track fee?"*
- *"The end user will pay in any case."*
- *"If this pushes developments over the affordability threshold or scares the market, development will stop."*

In terms of: The concept of inclusionary housing

- *"This is just another tax to make up for government's inefficiencies."*

- *“We should contribute as long as industry can find the savings through process optimisation (fast track and quick decision making – ie: City proactively zones land and developers only pay for new bulk when they use it. The pot is only so big.”*
- *“Need to provide new products in any case (which may include affordable segment) because affordability levels are already under pressure.”*

In terms of: Money and payment in lieu of obligation

- *“What is the calculation methodology – one size fits all?”*
- *“Can I trade my obligation, ie: carbon tax model?”*
- *“I don’t trust the City with the money – we need an industry body to control the money and ensure delivery.”*
- *“Are the SHIs not best suited to develop, own and manage these units as rental stock?”*

In terms of: On-site vs off-site

- *“Retrofitting units into existing designs and feasibilities takes a lot of work and time – right at the end of the process.”*
- *“Not all developments are suitable for on-site.”*
- *“Small developments will generate bits and pieces – how do you manage them?”*
- *“Developers are not necessarily asset managers.”*
- *“Can developer rather sponsor SHI units?”*

In terms of: Other role players

- *“What about the private sector using its expertise to deliver units using government money? Government does not seem to be able to do what we do on a daily basis – implement.”*
- *“It seems that the development industry must deal with the challenge on behalf of all sectors. What about employers signing rental surety on behalf of employees and subsidising rents?”*
- *“Will the construction material suppliers provide discounts?”*
- *“Will the banks give cheaper finance?”*

DISCUSSIONS AND Q&A

Tabling these as the challenges and questions that needed to be resolved in the formation of an Inclusionary Housing Policy, Van Zyl then opened the floor for general discussion around the following key areas:

Discussion 1: Does industry have a role to play in the provision of affordable accommodation?

- It was agreed that industry should indeed be playing a role in this and must be at the table to discuss its future.
- The City in turn undertook to look at speeding up processes around decision making, which it hoped to accomplish through the establishment of overlay zones (identified areas of the city with strong urban land markets).

Discussion 2: What can, and should industry bring to the table?

- It was proposed that the industry needed to get involved to create the vision of what Cape Town should physically look like in 20 to 30 years’ time.

- It was also suggested that a social media campaign be launched to create awareness around the economic damage that objections were causing, with a question raised as to whether the funders of activist groups were even aware of this impact. It was further suggested that industry players contribute towards a legal fund to take on the objections.
- It was also proposed that National Government be approached to legislate that the R5 billion invested by the NHBRC (made up of developers' 1.3% contributions) be made available towards social housing, particularly as the interest on this amount lay in the region of R350 million per annum, against which only R50 million was being utilised in claims pay-outs.
- Industry would contribute to the drafting of the policy by providing technical expertise, model potential policy scenarios to ascertain workability and affordability in project viabilities and contribute creative ideas.

Discussion 3: What should City/Province/National Government bring to the table?

- In response to a question posed to Cllr Herron as to what interim plans were in place by the City to deal with the objections that had been lodged, Herron noted that the process would have to be allowed to be completed, but that the City was looking at ways in which to remove frivolous appeals. It was further noted that while the City could not stop the current objections, it urged developers, on their own accord from here onwards, to include how applications intended to deal with spatial injustices.
- Concerns were raised around the City's lack of urban planning towards creating a well-designed city for the future.
- The City was doing everything it could to identify appropriate land that could be used for affordable housing.

Discussion 4: What other sectors should be at the table when drafting a policy?

- The WCPDF felt strongly that mid-level bureaucracy who were often responsible for unnecessary delays, or who took arbitrary decisions in the absence of existing policies, needed to be dealt with.

Discussion 5 & 6: What speciality work groups should industry create to engage with City during the drafting of a policy?

1. Legal
2. Town planning
3. Financial modelling
4. Ideas and dry runs (developers)
5. What else? Maybe it's time for an Industry Ombudsman to hear the developer.

In terms of these, the WCPDF would, as a matter of urgency, be calling on the industry for volunteers to step forward both to convene these groups as well as to sit on them, for the WCPDF to formalise submissions on each of these in time for the next round of engagements with the City.