

Integrated housing developments have the potential to assist in bridging the 'gap' between 'Breaking New Ground' (BNG) housing and affordable housing: Cosmo City as a case study.

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“Sustainable human settlements: well-managed entities in which economic growth and social development are in balance with the carrying capacity of the natural systems on which they depend for their existence and result in sustainable development, wealth creation, poverty alleviation and equity”. (Breaking New Ground Definition)

“The South African urban landscape is characterised by low-density sprawling urban areas and a lack of integration of urban opportunities such as places of employment and economic activity, recreation, education and health facilities, and residential areas. The focus of housing delivery has been mainly on the delivery of large numbers of housing units, rather than on the creation of vibrant human settlements that encompass a range of housing types and a variety of urban opportunities and activities. The preoccupation with the single-family detached dwelling proto-type, particularly for low-income housing on peripheral locations has fuelled urban sprawl and fragmentation. Spatial integration is a critical factor to address this in the future. An assortment of land uses in close proximity to each other must be manifested in the planning and development of housing.” (Department of Local Government and Housing – Western Cape, 2005)

ABSTRACT

This research project aims to determine whether fully subsidised BNG house developed within an integrated development such as Cosmo City can fetch sufficient value to bridging the 'gap' between BNG house and an affordable house and thereby assisting a house hold to leverage itself up the housing ladder.

Based on Cosmo City as a case study the research investigates real value verse perceived value of BNG houses within an integrated development. The information and data collected includes; the replacement cost of a BNG house, Cosmo City's BNG residents perception of value, professional commentary on BNG house value, capital growth within the entire development of Cosmo City, a comparable analysis of three houses within Cosmo City and official Municipal Valuations.

The literature review reveals that the creation of integrated developments are the way forward to urban and community sustainability, as they provide a platform for social and economic development by alleviating poverty and assist with wealth creation. This is achieved by constructing environments which have better access to amenities and work opportunities and which provide for lifestyle and income changes.

The analysis of the research determined that a BNG house has real value (replacement cost), perceived value, (BNG and professional interviews) and market value (Municipal Valuation) and should command sufficient value as a result of the attributes associated with integrated development's, which include mobility, accessibility, service levels and locality.

The conclusion is that my hypothesis cannot be substantiated as yet as a BNG house cannot be sold or purchased due to the pre-emptive clause which restricts the sales of BNG houses for a period that is no sales of BNG houses have as yet taken place. However, the research does determine that BNG house has both perceived and real value.

DECLARATION

I, Sandra Lynne Ruiter, declare that this report is my own, unaided work. It is submitted in partial fulfilment of the requirements for the degree of Master of Science in Property Development and Management at the University of the Witwatersrand, Johannesburg, South Africa. It has not been submitted before for any degree or examination at this or any other university.

Sandra Ruiter

Date

DEDICATION

This research is dedicated to my husband, Roger Rousseau, without whose support I would have never completed this work. Your patience, kindness and confidence in me have been infallible. Thank you, my love.

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1. Introduction

Housing is a fundamental part of any country's economic fabric. It reacts to increased economic stability whilst re-enforcing economic stability within a country as a consumption product. Housing stimulates investment and the development of infrastructure from which both the government and private sector benefit in terms of profits and taxes, respectively. Housing assists with the creation of personal wealth through capital growth and the generation of income through rentals, while simultaneously responding to the basic human need for shelter.

Since the publishing of South Africa's Housing Policy 12 years ago, the government, aided by the private sector, has built approximately 2.4 million subsidised houses, which makes up 15% of all housing units in South Africa. This is the largest contribution any country has ever made towards fully subsidised housing worldwide.

However, this achievement has been marred by a substantial backlog in the provision of housing, as approximately 2.5 million fully subsidised houses and approximately 650 000 (Nel *et al*, 2005) affordable houses are still needed across the country, which is exacerbated by the dysfunctional lower-income housing sub-market. The government is delivering neither the quantity nor the quality of housing to meet its expected target. The backlog exists within the entire Affordable Housing Sub-Market, which includes fully subsidised ('give-away') houses, partially subsidised (credit-linked) houses and affordable (bonded) houses.

The government recognises that to create self-sufficient and sustainable settlements, communities living within them must have access to opportunities. 'Breaking New Ground,' (BNG) is a new government policy that aims to reinforce the initial policy of creating a non-racial, integrated society through sustainable human settlements and quality housing. In all aspects, the policy encourages integrated community development as part of a stable, fully-functional single-residential property market, which caters for the demands and needs of different types of housing and affordability levels.

Recent research commissioned by the South African Banking Association by Matthew Nel *et al*, 2005 explains why delivery has decreased. **The research highlights that in the Affordable Housing Sub-Market there is a significant house price difference between a RDP house and an affordable house, which limits the mobilisation of households up the property ladder creating a 'gap'.**

The Housing Policy recognises the important role the private sector plays in contributing to the delivery of housing in South Africa, particularly with regard to construction and delivery. However, a fully functioning housing sector requires the effective participation of both the public and private sectors as each plays a necessary role. One solution to the challenges to delivering housing has been the increase in Public Private Partnerships (PPPs), which

provide a vehicle to the various role players and assists in meeting delivery needs in a sustainable environment.

This research attempts to determine whether a fully subsidised BNG house developed within an integrated development such as Cosmo City can command sufficient value to bridging the 'gap' between a BNG house and an affordable house. Thereby assisting a household to leverage itself up the housing ladder.

Section 2 of this report includes the definitions of the terms used in the report. Section 3 is a contextual background analysis in the form of a literature review, which examines the Affordable Housing Sub-Market internationally and within South Africa and appraises its functionality.

Section 4, details the research problem and methodology. Section 5, delimits the scope of the research. Section 6 provides details of the research design related methodology. Section 7, details the hypothesis as:

“Integrated housing developments have the potential to assist in bridging the ‘gap’ between ‘Breaking New Ground’ (BNG) housing and affordable housing: Cosmo City as a case study.”

Section 8 details Cosmo City as the case study. Section 9, details the key findings of the research and interprets the information which includes; determining the replacement cost of a BNG house within an integrated development; analysing and describing the information collected from interviews with Cosmo City's BNG residents and professionals in the Affordable Housing Sub-Market, analysis and interpretation of deeds data, conducting a comparable valuation of a BNG house within Cosmo City and Municipal Valuation collation and interpretation.

Section 10 provides a conclusion based on the key findings.

2. Definitions

In the lower end of the housing market there are many different terms used by government, financial institutions and professionals which describe similar aspects within the housing market. It is thus essential that common understandings of the terms in the market are defined for the purpose of this research project, this will allow for better understanding.

For the purpose of this project;

- **“Reconstruction and Development Programme (RDP)”** means fully subsidised houses for households with an income below R 3,500. The currently politically correct term for this type of housing is ‘Breaking New Ground’ (BNG) housing, which is also known as “give-away” housing in that the owner receives full title to the house as well as the property on which it stands. For the purpose of this report, RPD housing built as part of an integrated development is referred to as BNG housing. RDP housing that is not part of an integrated development is simply referred to as RDP housing.
- **“Credit-linked”** means an individual grant for housing determined on a sliding scale according to household income between R 3,500 and R 7,000. (It is now known as FLISP, Financial Linked Individual Subsidy Programme)
- **“Affordable Housing”** means houses for households with an income from R 1 928 to R 9 670 as defined by the Financial Sector Charter (FSC) which increases at CPIX on an annual basis. (2008)
- **“Affordable Housing Sub-Market”** means the portion of the housing market which includes BNG housing, credit-linked housing and affordable housing.
- **“Integrated Sustainable Human Settlements”** means settlements that include mixed land use, mixed income, mixed tenure and mixed housing typologies.
- **“Value”** means “the amount a person / legal entity is willing to pay on the date of valuation between a willing buyer and willing seller in an arm’s length transaction after proper marketing wherein the parties acted knowledgeable, prudently and without compulsion.”
- **“FSC”** means the “Financial Services Charter”, being a charter released by the financial sector which supports housing delivery on a national scale and which therefore, in relation to this Agreement, means that income group which has a monthly household income of

between R3 501.00 and R7 500.00 and which income level is to be escalated by CPIX on an annual basis as from 2004;

3. Literature Review

3.1. Housing and its effect on macro-micro economics

The relationship between housing and macroeconomics affects both the demand and supply side of the economy (Meen, 2003).

- The relationship between house prices and consumers' expenditure

During boom times, there is an increase in disposable income which translates to an increase in demand for housing and further transforms into an increase in house prices. Also, an increase in house capital growth translates into an increase in equity usage in a house to gain additional credit and increases consumption. This increased consumption fuels the economy to produce more, thus increasing Gross Domestic Product (GDP).

- The effect on wages, migration and labour markets

Housing costs are a component of consumer costs, CPIX (The inflation index excluding the interest on mortgage bonds and therefore have a direct effect on wage pressures. House prices can be a barrier to mobility.

- The contribution of housing activity to economic cycles - housing construction, growth and economic cycles.

The development of housing not only adds to the GDP and employment but also contributes as a producer by increasing capital stock. This directly affects supply and demand and in turn contributes to economic cycles.

- The link between housing and the spatial concentration of business start-ups

Businesses often require foot traffic to ensure their economic viability. The higher the concentrations of people in an area, the more they rely on foot-traffic to ensure their viability or success. Integrated developments are essential in maintaining and establishing new business areas as they often have a business sector associated with them. They provide businesses with the potential numbers they require to be profitable while simultaneously servicing a group of people who may initially not have had access to such amenities.

3.1.1. Land values

Land value is a consequence of derived demand. People buy land not because it has value but because it is an essential input in the construction of buildings which have either a production or consumption value. The primary factor that influences the value of land in an urban area is the particular location relative to other points of attraction.

The values of residential properties are affected by their accessibility to centres of attraction such as work venues, shops, schools, friends and recreational areas. The more accessible these attractions are to the site, the more valuable the site becomes. This is largely due to transport cost minimisation. As such, transportation costs are a function of locality. The further a site is from centres of attraction, the greater the transport cost and the less valuable the site. The urban fabric reflects that denser developments and more product land uses are often closer to centres of attraction e.g. Central Business Districts (CBDs) or transport nodes.

Land values are also affected by supply and demand. The demand for housing increases when a country experiences economic growth. This demand must be satisfied by the construction of new housing or the rejuvenation of suburbs and townships, which helps to increase densification. Large scale development takes place on the periphery of cities, increasing the demand for land. As land is always a limited resource within and surrounding any city, this increased in demand increases the value of land,

The value of a plot of land determines the type of housing built on it. If the value is high, the choice is influenced by, among other factors, the relative rate of return a developer and owner can expect to achieve from the development compared to other types of housing. The demand for housing is influenced by, among other factors, the relative market valuations (sales price). Disruptions to a sub-market's supply or demand are conveyed sequentially throughout the sub-market by home-owners and developers who change their supply decisions according to their expected rate of return and potential home-owners to purchase. (Galster, 2003)

Building new integrated communities, which includes BNG, credit linked and affordable housing, increases the supply of housing within the Affordable Housing Sub-Market. Currently however, the demand significantly exceeds supply of both the credit-linked and affordable housing and this mismatch has arisen as there are multiple buyers for every home resulting in an inelastic Affordable Housing Sub-Market which is further exacerbated by competitive bidding between the buyers driving up the transaction price of the home which increases the house's market value and its rate of return thereby, making houses unaffordable for most people in South Africa.

3.1.2. Land and Urban forms

Land forms are determined by highest and best use real estate activities and investment decisions. When the market demands it, new housing developments are often the highest and best use for a parcel of land. It is however, essential that housing developments are effectively designed and maintained. The design of the urban fabric attracts investors into the area who provide amenities such as retail centres to generate profit. Government benefits from effective design through taxes and owners in an area benefit through capital growth and some from rental incomes.

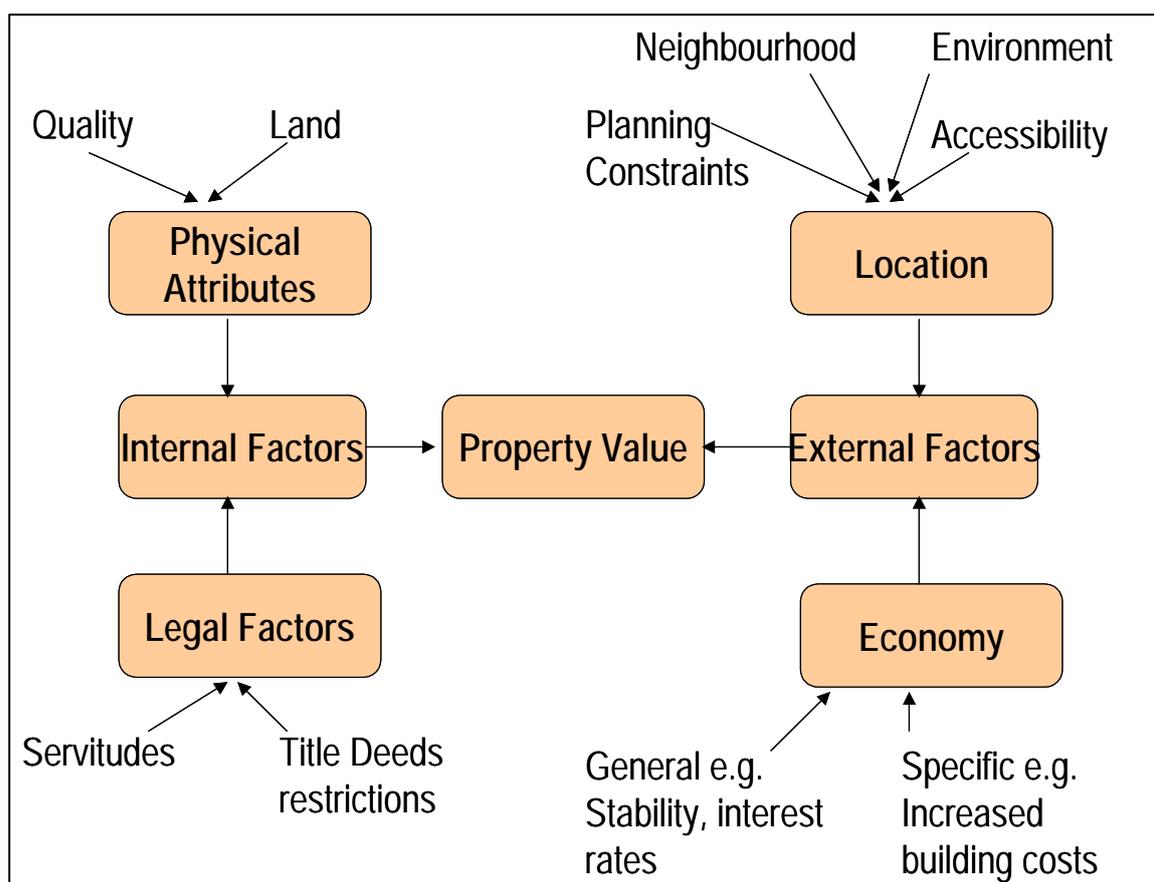
Urban form determines accessibility and thus people's potential mobility. It relates to the design of the urban fabric and ultimately the typologies, densification and land uses within an area, all of which influence the marketability of an area and its value. Zoning and town planning regulations are the most frequently used policies to regulate urban design. These are often more restrictive than enabling strategies for effective development such as urban edges, which push up the price of land, making it very difficult to build affordable housing. (Alida Kotzer, 2007)

3.1.3 Valuation

Housing is a complex three dimensional commodity and can be consider in terms of spatial immobility, durability and heterogeneity. (Galster, 1987; Grigsby et al 1987)

- Immobility refers to a property's locality and its associated characteristics, which are inherent in the bundle of attributes in the locality.
- Durability refers to the dwelling as a financial asset which can be improved upon through modifications. Modified houses form an important source of housing supply in any housing market.
- Heterogeneity refers to a dwelling's physical attributes or characteristics e.g. the number of rooms, house size.

These three dimensions affect a house's market value. The market price is usually based not only on a house's intrinsic attributes but also on a comparison of attributes in competing neighbourhoods. Similarly other attributes such as proximity, school quality and public safety affects house prices. The construction of new large-scale communities change the relative attractiveness of an existing area because they alter the flow of resources across space and create changes within the existing neighbourhood (Galster, 1987; Grigsby et al 1987). The new neighbourhoods benefit from the existing infrastructure and provide mobility and accessibility to amenities to those who previously had no access to such facilities.



Data Source: Wyatt P (1995) A spatial analysis of property values

3.2. Integrated Housing

3.2.1 Mixed-Income Developments

Mixed-income developments are a popular way of revitalising urban areas and transforming public housing. (Bohl, 2000; Boston 2005). They range from private-sector, market-rate developments that include a small percentage of affordable housing to developments built exclusively for moderate and affordable housing families (Joseph 2006). They can also include 'inclusionary' housing depending on the housing terminologies in different countries.

Mixed-income communities have been the policy aspiration of many governments in Europe and the Americas, and can be traced back as far as post World War II. They are a response to urban poverty and social isolation. Wilson (1987) described urban poverty as a geographically high concentration of unemployed and welfare dependant people; high proportions of female-headed households, out-of-wedlock births and teen pregnancies; and high levels of social disorganisation, violence and crime in an urban area.

The construction of mixed income developments is a strategy to alleviate the social isolation of the urban poor. The majority of mixed-income developments are rental units. However, over the past 10 years, home ownership has been

encouraged. Mixed-income developments are often considered as inclusionary housing developments, which must include a percentage of and low-income housing. Different countries have varying mechanisms to encourage the inclusion of affordable housing, either through incentives or as result of housing development policy.

In theory, mixed-income developments can reduce the incidence of social ills while providing an opportunity for low-income households to gain access to better neighbourhoods, to network and to build relationships with higher-income families. Another motivation is the poor quality often associated with subsidised housing. By including market-rate units, developers should be forced to build and maintain a high-quality housing development. Finally, a mixed-income approach is viewed as a means of alleviating the severe shortages of affordable housing.

Mixed-income housing provides a mechanism to address the “severely distressed” public housing by revitalising neighbourhoods and stimulating economic development, which benefits cities and local economies. This revitalisation elevates the perceptions associated with low-income housing, and NIMBY (not-in-my-back-yard) attitudes as it has been proven that property values surrounding mixed-income developments either increase as a result of increased development and stability within the area or remain unaffected by them. (Urban Land Institute, 2003)

The rationale behind mixed-income developments is to create communities which are more socially and economically stable than single / monocultural developments. They embrace the concept of improving life conditions of lower-income households by altering or creating new neighbourhoods in which they live. Providing a full range of house sizes and types, ensuring a high quality external environment and enabling households to move within the development, as well as attracting newcomers, are all important aspects of providing ‘housing of choice’.

Mixed-income housing is mostly rental stock however home-ownership is encouraged. It can be considered as inclusionary housing and is most frequently used as infill sites or as rejuvenation projects. However, new large greenfield developments are being built to relocate people in areas which are considered severely distressed.

3.2.1.1. Social Benefits to Mixed-Income Housing

In areas of concentrated poverty, unemployment and poor health are higher, vandalism and crime are more prevalent and the quality of schools and education attainment are lower. These areas also experience lack of access to employment opportunities, a broad range of shops, health facilities, entertainment facilities and the provision of services are usually below standard.

Concentrated poverty and social isolation influence neighbourhoods, although there is widespread disagreement on their exact nature and impact (Atkinson and Kintrea, 2001), and can create a trap which makes it very difficult for people to break out of their poverty cycle. This is reinforced by many previous housing policies which site developments for low-income households on the periphery of cities or unfavourable areas due to land costs and NIMBY objections from higher-income neighbourhoods.

The social benefits of mixed income housing include

- 1) Social networking – mixed-income housing facilitates social networking between lower- and higher-income earners. Granovetter (1973, 1983, 1995) argues that networks that provide people with access to information and opportunities are an important source of upward mobility, particularly for employment. They provide people with resources they wouldn't normally have access to. Research indicates that social networks are indeed valuable in securing employment (Granovetter 1995; Lin and Dumin 1986; Lin, Vaughn, and Ensel 1981; Stoloff, Glanville, and Bienenstock 1999). Though there is little or no evidence to support it, mixed-income developments, when appropriately designed, may also facilitate relationships between individual residents (Joseph, 2006),
- 2) Manage social control – Joseph wrote that higher-income earners, particularly home owners, facilitate higher levels of accountability to socially acceptable behaviour through increased informal social control, which results in a safer environment. Sampson, Raudenbush, and Earls (1997) suggest that higher-income earners are more likely to take action against social ills, which benefits the entire community.
- 3) Behavioural changes which offer greater life possibilities – Besides higher-income earners reducing negative social behaviour, they may influence constructive behaviour amongst residents, including encouraging a “culture of work”, showing respect for property and abiding by other social norms (Joseph, 2006).

Mark Joseph (2006) assessed whether the social implications mentioned above are in fact occurring and whether they are advantageous to mixed-income housing. His research suggests that there is no conclusive evidence of increased social benefits for people living within a mixed-income development as empirical evidence is difficult to obtain and so insufficient thus inconclusive.

Alastair Smith (2002) suggests from his analysis of previous research that there was more interaction among residents when developments included moderate ranges of income and fewer interactions between them when there were significant lifestyles and income differences between them.

3.2.1.2. Economic benefits of mixed-income development

- 1) Research performed in Ireland by Ballymun Regeneration Ltd in 1998 showed that poor concentrated neighbourhoods often experienced the demise of their local business and shopping centres (Norris, 2006). Boughton's research (1997:60) shows evidence that introducing mixed-income communities in the form of mixed tenure can have a marked positive economic impact on local shops and services.
- 2) Higher income households attract resources to a neighbourhood and promote development.

The ability to attract higher-income households to a development is subject to factors such as location, design, size and the maintenance condition of the development; the surrounding neighbourhoods and the state of the regional housing market (Schwartz; Tajbakhsh, 1997).

The location of the development is critical in attracting higher-income households. It underpins the difficulties experienced in rejuvenating public housing areas as this type of housing is placed in remote and in the least desirable areas within and around cities. It is with this in mind that design, size, physical characteristics and amenities are necessary in attracting household with increased income into a mixed-income development.

3.2.1.3. Increased building quality and design

- 1) High level design and planning is critical to the success of a new development as it determines the community's sustainability. At the planning stage, key decisions are made regarding density, mix, design of individual houses and layout of the whole estate. The design process determines the extent to which the development is integrated and thus how viable it is.

On a macro scale, social isolation of low-income households is reduced through effective urban design, integrating the community into the larger urban economy (Duany, Plater-Zyberk, & Speck, 2000; U.S. Department of Housing and Urban Development [HUD] 2000; Wilson, 1996) (Brent Ryan and Rachel Weber, 2007).

- 2) The design of the dwellings in mixed-income developments should be externally indistinguishable to prevent stigma.
- 3) Mixed-income developments must be built to a high standard to attract potential residents that are willing to buy or rent the properties. This ensures a higher quality subsidised house. Internationally, most mixed-income projects or programmes require that the affordable housing units be a similar design to the other houses and interspersed with the market-rate units.

- 4) Mixed-income housing developments must be regularly maintained to attract higher-income household's buyers or renters

Cross-subsidisation may assist government by reducing subsidies and assist low-income earners with maintaining the characteristic of the development. However, this may increase the rental or market-rate of the middle-income market, thus making mixed-income developments less attractive to middle-market households.

An assessment of a development's critical factors shows that it is the marketability of the product and its suitability to the households needs at a particular time that attract potential households.

3.2.2 New Urbanism / Sustainable Urbanism

Sustainable urbanism, also known as new urbanism in the US, or as, 'Traditional Neighbourhood Design' (TND), refers to mixed-use developments, typically known as 'neo-traditional developments. It is a design method that enhances the mixed-income model as it addresses issues such as amenities, accessibility and mobility, all of which are critical factors in attracting households to a development.

Sustainable urbanism has three basic aspects: environmental, social and economic. It is an environmentally sustainable urban form, which enables its inhabitants to adopt a more ecologically-aware, lower-carbon lifestyle. In particular, a sustainable layout enables people to walk to amenities, rather than be forced to use a car. Whereas many 20th century developments made the use of a car necessary by separating different activities and indeed social groups into different neighbourhoods, sustainable urbanism puts dwellings, retail, leisure and commercial uses into much closer, walkable proximity. It supplements this approach with effective public transport connections, in many ways reflecting the urban structure of traditional pre-car neighbourhoods.

In social terms, sustainable urbanism involves an appropriate mix of dwellings of different tenures, sizes and types, and a variety of spaces and buildings for recreational and community activities, as well as for service providers and commercial enterprises. Such a set of activities can enable self-sustaining and balanced communities to develop, thus providing households with increased options as to where they can live and work. Sustainable urbanism also seeks to facilitate the mobility of a household through its life stages, thus catering for new entrants, families and retirement. (The Prince's Foundation for the Built Environment, 2006)

In economic terms, sustainable developments contain business activities and opportunities capable of providing jobs for many of their inhabitants.

A sustainable development can be characterised by its high density of housing units. The densification provides the critical mass of households

necessary to sustain local commercial, community activities and public transport facilities. Densification is also necessary to create “walkability” developments, which is central to the sustainable urbanism concept.

Densification directly impacts on the value of the development as the land yields more units. Unlike conventional high-density developments, sustainable urbanism includes commercial, industrial, amenities and a variety of different housing typologies, which facilitates household mobility throughout their life stages. Ryan and Weber, 2007 show that developments that display a considerably higher “land-use efficiency” contain high levels of “walkability”, mixed uses and strong urban form, and are among the highest valued residential properties in the UK. New urbanism features also increase value and marketability of buildings (Hirschhorn and Souza, 2001; Bohl, 2003, Song and Knaap, 2003). Eppli and Tu (2000) found that new urbanism developments sold for an average of \$20,189 more than comparable homes in more conventional communities, an 11% increase in value. Smith and Gihring (2003) concluded that proximity to public transit services significantly increases property values.

Diversification of housing typologies assists in reducing the risk of over supply by spreading the risk across a series of housing sub-markets while maximising potential value by creating attractive environments for both household and commercial markets. The Prince’s Foundation concluded in its research on various identified sustainable urbanism developments (SUD) that the developers of the particular developments experienced healthy rates of sales, reducing the development risk of exposure.

The incorporation of mixed-land use into a development creates a lively local economy by creating work opportunities. Developments which provide amenities and work opportunities in close proximity reduce the necessity to own a car and thus increasing the inhabitant’s disposable income. Research by the New Economics Foundation, 2008 demonstrated that the close proximity design of mixed-land uses in a SUD helped to revive depressed communities by creating economic amplifiers within the local economy as monies remained within the local economy.

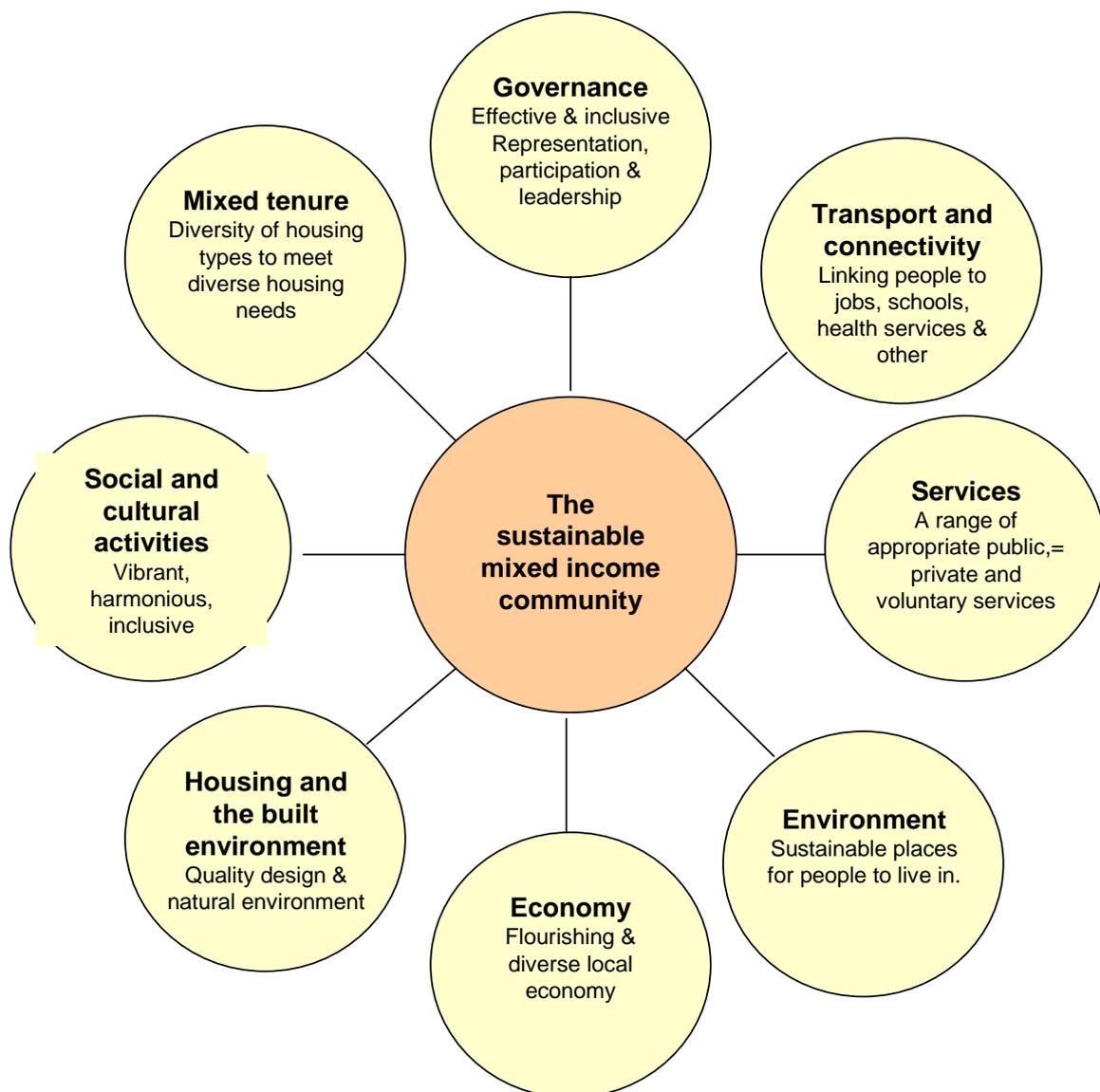
To achieve SUDs, policy changes had to be made as zoning, which separated land use areas, was a challenge. To achieve mixed-use and high-land efficiencies, local authorities had to update their guiding regulations to facilitate an effective urban fabric. The Princes Foundation states that planning policies have begun to change as government in the UK has realised that mixed-use developments promote settlement sustainability.

The range housing typologies within a SUD supports social integration and the provision of housing for low-income earners by offering a higher quality of lifestyle and access to work opportunities, higher level of services and improved amenities e.g. better quality schools. The success of integration depends on the balance of social and affordable housing, which has been determined by a thorough analysis of the local housing need.

The Prince's Foundation found that sustainable urbanism developments have greater success closer to the town-centre as the transport infrastructure already exists. The outer urban areas do not have the diversity or the convergence of the various transports systems nor the densities to support them. It is therefore necessary to develop "walkable" neighbourhoods by increasing densification, diversification of land uses and public sector investment in the form of amenities such as school, clinics and public transportation.

It is noted that in both the US and UK, developers still continue to build homogenous developments as developers generally find sustainable developments more complex and less profitable.

Source: The Prince's Foundation, Valuing Sustainable Urbanism, 2006



3.2.3. Smart Growth

'Smart growth' is a reaction to urban sprawl. In many municipalities, smart growth by-laws are being implemented which restrict zoning rights and therefore restrict development to certain areas. This 'containment policy' has two objectives: to promote compact, contiguous, and accessible development provided with efficient public services; and to preserve open space, agricultural land and environmentally sensitive areas that are not currently suitable for development. Smart growth is very environmentally focused on the quality of place particularly natural, recreational and lifestyle. The concept is to create compact complete communities where access to services from residence is a five-minute distance on foot. One of its main focuses is higher density, using a range of townhouses and duplexes to meet housing needs. It is a mixed-use housing concept where, mixed housing, jobs, and green infrastructure form part of the development. Creating housing diversity and commercial viability through sensitive densification that does not compromise the character of the neighbourhood as well as sharing of public facilities are but some of its strategies.

Smart Growth Principles

- Mix land uses
- Takes advantage of compact building design
- Creates a range of housing opportunities and choices
- Creates walkable neighbourhoods
- Fosters distinctive, attractive communities with a strong sense of place
- Preserves open space, farmland, natural beauty, and critical environmental areas
- Strengthens and directs development towards existing communities
- Provides a variety of transportation choices
- Makes development decisions predictable, fair, and cost effective
- Encourages community and stakeholder collaboration in development decisions

Containment or growth management policies provide a number of drawbacks. The most prevalent is that they raise land and housing prices, though Nelson *et al*, 2000 says some argue that due to increased densities, a larger number of households within a development reduce house prices as there are more households to share the costs, while others Nelson *et al*, 2000 suggest that the prices of houses within a smart growth development are elevated due to restriction on land supply and amenities being capitalised into the value of

the housing unit. These two effects potentially raise the prices of housing thus keeping low-income earners out of the development. However, due to inclusionary policy, many of these developments have no choice but to include low-income housing for which they receive density bonuses and are able to build higher density residences.

According to Nelson et al.:

“Typical growth management programs have affordable housing and inclusionary elements that are designed to lower the costs of construction and broaden choices to more housing segments. The most important programs include measures to ensure an adequate supply of land for dwellings of many types. Local governments sometimes complement land-supply restrictions with housing subsidy programs and affordable housing requirements. The latter essentially cross subsidize the construction of low cost units with profits generated from high cost units. In general, however, these types of programs do not lower housing unit prices but rather increase the range of housing types available – That is, they assure affordability at the neighbourhood or municipal scale, rather than at the scale of the individual dwelling unit. By permitting, or encouraging, the construction of smaller and denser forms of housing, housing units are made available at lower prices and rents, even though the cost per unit of housing services may be higher.”

(Arthur C. Nelson, Rolf Pendall, Casey J. Dawkins, and Gerrit J. Knaap, 2002)

3.2.4 HOPE VI

HOPE VI is legislation which passed in the US in 1992 primarily aimed at redeveloping distressed low-income public housing urban neighbourhoods into mixed-income communities. Its objective is to eradicate the concentration of poor families and provide services in support of family self-sufficiency efforts (Wexler, 2001; Finkel et al., 2000).

When HOPE VI was initially launched, it was realised that significant amounts of capital were needed to demolish obsolete structures, clear and prepare large sites, partially install needed infrastructure and build replacement structures. Partnerships were thus formulated with the private sector. Furthermore, the scale of the projects were enormous, with thousands of houses being built, which led planners to engage in a broader vision of new urbanism and “living space”.

From 1993 to 2002, Housing and Urban Development (HUD) funded a total of 165 HOPE VI developments at a cost of over US\$4.5 billion as well as an additional US\$293 million for demolition activities associated with the programme (Popkin et al., 2002:ii). In total, as of 2001, these efforts resulted in the demolition of 78,000 distressed public housing units and the

development of 56,000 newly-constructed rental units, 12,000 renovated rental units and 21,000 home-ownership units (HOPE VI Quarterly Progress Report, 2001 as cited in Popkin et al., 2002 cited in Frase, 2006)

The development's has been found to be of fundamental importance for the economic viability of a mixed-income project. Finkel et al. (2000) state that "if a site is convenient and attractive, higher-income residents will be drawn to the newly built residences and, where available, the home-ownership opportunities" (p.113-114). Good management of the estate has also been identified as an important attribute. A critical mass of high-income households is also necessary for sustainable development in any mixed-income development as a fully functional housing market attracts higher-income residents.

In some cases, "housing authorities have failed to implement their HOPE VI redevelopment plans effectively," (Popkin et al., 2004, p. 33) as the number of demolished public housing units far out number the replacement units planned and the resources necessary to support the relocation process have been insufficient.

The project's budget has significantly decreased over the last five years and the Bush administration has sought to end the programme because it is not cost-effective. However, even though the expected and actual benefits of mixed-income developments are unclear, private sector involvement is increasing as a result of the demand for affordable housing.

Boston (2005) found that over a seven year period, families that had been relocated into 'better neighbourhoods', revitalised areas and mixed-developments had experienced significant socio-economic improvements and were able to live in higher quality neighbourhoods.

"While conceptually the mixed-income housing redevelopment is purported to promote both positive neighbourhood change and opportunities for low-income households, thus serving both people and place-based objectives, some urban scholars have noted that the "benefits of HOPE VI [mixed-income] have chiefly been place-based: reclaiming particular neighbourhoods, reducing criminal activity in those areas, and significantly upgrading the physical environment. In many cases, HOPE VI-style redevelopment has spawned or facilitated gentrification...." (Goetz, 2005:409)." (Fraser, 2006)

3.2.5 Transit Oriented Developments

Transit Oriented Developments (TOD) are planned developments that focus on rapid transit stations which provide services to other major employment, shopping, and entertainment centres. Ideally, this rapid transit station should be no more than a 10-minute walk or approximately 400m from all residential housing units. This close proximity necessitates higher residential density.

The TODs are mixed-use communities, designed specifically in relation to the transit station.

Although the number of TODs expected to be built in the US is still a fraction of the number of overall residential developments in the country, and new residential construction will still overwhelmingly be automobile-oriented, this new opportunity cannot be ignored by the homebuilding industry.

3.2.6. Inference for International Literature Review

There are two schools of thought in assessing integrated development theory at an international level - mixed-income developments and sustainable urbanism.

Mixed-income developments simply consider income as a differentiator of integration within the development. These developments are usually revitalisation or rejuvenation projects within the urban fabric aimed at diluting concentrations of poverty in an urban environment. However, it does appear that new developments are being constructed as Greenfield developments, as infill as well as large new developments. These developments are inclusionary, with most of the lower-income housing as rental stock. Developers are encouraged to include affordable housing through policy and incentives such as tax incentives and increased densities.

Mixed-income housing is not true integration as it does not take into consideration factors such as mixed use, mixed tenure and typology. On the other hand, sustainable urbanism, a mechanism of design applied to developments, can be considered as integrated as such developments include mixed-tenure, mixed-housing typologies, mixed-income and mixed-use. These developments arose as a means of constraining urban sprawl in various countries. However, with the constraint of land, limited supply and the increase in accessible amenities, land prices and housing prices are increasing, which is decreasing affordability. This is a continuous debate, however the challenge is overcome through policy and incentives that encourage developers to include affordable housing into their developments.

Although there are many different meanings of integrated housing, each being specific to its country of origin and relating to its specific development needs, the fundamental concepts of integration are similar throughout the world. The concepts are as follows;

- Densification – to prevent urban sprawl;
- Prevention of poverty concentrations by inclusion;
- “Walkability” neighbourhoods – reduction of carbon emissions and providing alternative transport methods; and

- Economic development by revitalising neighbourhoods and the development of new communities.

A significant amount of research has been done on the social and economic necessity of creating sustainable environments in which people live. Research has suggested that social benefits include networking, behavioural changes and social control. Economic benefits are also achieved through urban rejuvenation and revitalisation. This encourages business growth and in turn creates job opportunities thus further stimulating the economy as a whole.

The concepts of densification and diversification are paramount to sustainable development. Densification creates better networking, walkable neighbourhoods, which contributes to the reduction of motor car usage and thus reduces carbon emissions. Densification assists with cross-subsidisation of affordable housing units thus making rental and home ownership more affordable while providing the façade to ensure that different size units are part of the development and thus eliminating segregation. It must be noted that in most of these developments, affordable housing is not undertaken through choice but on an inclusionary basis, either through policy and/or incentives.

Diversification of land use is essential for economic development and the creation of an environment where everything is in an accessible, walkable environment. Diversification ensures efficiency of land use. In order to develop these mixed-use environments, governments and local authorities have had to adjust their 'zoning' criteria. That is, land uses cannot be separated into different areas, but the highest and best use of the land must determine its usage.

Internationally, most subsidised and affordable housing stock is rental stock. Countries have only begun to encourage home ownership in the past few years yet "give away" house do not exist and even the poorest of the poor are required to pay some form of rental. In socialist countries such the UK, people are required to pay a portion of their social grants toward their rent.

3.3. Integrated Development Housing in South Africa

South African cities are characterised by low-density sprawling urban areas. These are mono-functional in that they lack amenities and are homogenous in both housing type and income levels. Most of the subsidised and low-income housing is found on the periphery of the cities, reinforcing segregation and preventing people from benefiting from the infrastructure of the city such as access to work opportunities and other urban amenities and social networks.

The BNG policy encourages the concept of creating integrated sustainable human settlements that are mixed-use, mixed-tenure and mixed-income in nature and provide access to vital resources as well as cater for individual needs.

Mammon and Ewing (2005) define the concept of the 'compact city' as the instrument to mitigate inefficiencies and fragmentation associated with the provision of single detached RDP housing and the lack of positive public space. This is done by creating diversity in the urban fabric through densification and providing a range of housing typologies. Compact cities ensure the mobility of people, cater for flexibility in tenure and take the interaction of people into consideration by designing a network of inter-linking pathways.

The aim of integration is to create sustainable human settlements that have a sense of social and cultural place, commercial viability, local identity, environmental harmony and functional efficiency while providing the community with access to opportunities.

3.3.1 Housing in South Africa

3.3.1 Policy

3.3.1.1 1994 Policy

In 1994 Housing Policy was a major political issue as most people in South Africa had not had the opportunity to own their own homes until then and had been segregated and pushed to the periphery of every city. As a result of the policy, housing became both a basic and constitutional right. The subsidy from the preceding administration was expensive and was designed to support a racially segregated-framework.

The policy introduced two basic objectives - to address the backlog of housing by scale-delivery of houses and to build communities that are fully functional in the broader property market and contribute to the economy. The policy details the private sector as the key delivery agent as it has the capacity to deliver at scale, thus reducing the delivery backlog. The policy also details the financing involvement of the private sector by mobilising housing credit and

savings facilities and providing bridging finance for subsidies for developers. The policy also documents the private sector's obligation to stabilise the housing environment. Essentially, the housing policy would provide breadth to beneficiaries in the form of subsidies and tenure, and a potential asset essential for poverty alleviation while establishing active participation in the building process, which would facilitate sustainable active communities.

The two objectives were substantiated by the following strategies;

3.3.1.1.1 The National Housing Subsidy Scheme

The initial scheme provided a subsidised housing unit to eligible households defined as first time home owners with dependants earning less than R1,500 per month. The scheme included a project subsidy, individual subsidies, consolidation (top-up amount) and institutional (for rental) housing. The subsidy was originally intended for starter units onto which the beneficiary could add on sections. It had two objectives, namely to facilitate the process of qualifying beneficiaries and thus provide tenure and to provide the necessary demand for the private sector, who was to build the housing.

The scheme, updated in 2005, included the following tier ring;

- The poorest of the poor (R0 – R1 499 per month) households earning less than R1 500 per month qualify for a fully subsidised home valued at R 43,506. This is a “give away” house to the value of R 43,506 for a top structure.
- The very low household income bracket (R1 500 – R3 500 per month) qualifies for a subsidy of R 41,027 and must make a contribution of R 2,479. (The payment of the contribution is at the municipalities discretion and is most often not required)
- Those who qualify for a credit-linked subsidy (households earning R3 500 – R7 000 per month) receive a collateral subsidy according to their income. This can range from R3 000 – R30 000. “The aim is to promote access to mortgage finance. The subsidy is being designed in partnership with the financial services sector and will constitute government support to the sector to achieve its lending targets for affordable housing defined in the Financial Services Charter (FSC). It is hoped that this initiative will help develop integrated and viable communities that contribute to the tax base of local governments. (Provincial Budgets and Expenditure Review 2003/04 – 2009/10).

The credit-linked subsidy has, however, only recently been used in a project-related manner. One of these projects is Cosmo City.

Source: Government Website

The South African Housing Subsidy Scheme subsidy quantum amounts for the period 2008/2009 in respect of a 40m² house only.			
Individual and Project Linked Subsidies	Top Structure Funding only	Own Contribution	Product Price
R0 - R1 500	R43 506.00	None	R43 506.00
R1 501 - R3 500	R41 027.00	R2 479,00	R43 506.00
Indigent: Aged, Disabled and Health Stricken R0 - R3 500	R43 506.00	None	R43 506.00
Institutional Subsidies			
R0 - R3 500	R41 027.00	Institution must add Capital	At least R43 506.00
Consolidation Subsidies			
R0 - R1 500	R43 506.00	None	R43 506.00
R1 501 - R3 500	R41 027.00	R2 479,00	R43 506.00
Indigent: Aged, Disabled and Health Stricken R0 - R3 500	R43 506.00	None	R43 506.00
Rural Subsidies			
R0 - R3 500	R43 506.00	None	R43 506.00
People's Housing Process			
R0 - R3 500	R43 506.00	None	R43 506.00

The subsidy is in the form of a housing product, a proto-type house known as a RDP houses. The house is typically 36m² in size, with two bedrooms, a small bathroom and an open-plan room (sitting area) and kitchen. It is built of brick and mortar with a galvanised iron roof or roof tiles, depending on the development, and is fitted with metal doors and windows. It has running water and water-borne sewage. Some such houses have no electricity, while others do. The top structure cost / subsidy amount is R43 506 yet because the government does not take land and services into consideration, the perception in the market is that the house is worth R40, 000.

The housing subsidy may be used to purchase or rent the following;

- A newly constructed single housing unit.
- A unit in a newly constructed multiple unit complex including flats.

- A unit in a reconditioned or refurbished building.
- Existing housing of any type.
- A unit in an existing unserviced or minimally serviced settlement, which is upgraded.
- A serviced site in an incremental housing scheme where the top structure is to be built with the residual of the subsidy.

The following additional conditions are stipulated in terms of the general rules:

- Residual amounts apply when a beneficiary purchases a property and would like to use the residual amount of the subsidy to build or enhance the top structure. Provincial Governments are required to develop their own rules in these circumstances. Guidelines are provided to assist in this regard.
- Hidden subsidies refer to the provision of unacknowledged financial assistance through providing, for example, serviced land at a nominal cost, consultant fees paid out of departmental budgets, grants in respect of building materials etc. Government's policy is that hidden subsidies undermine national subsidy standards, particularly in terms of ensuring that all South Africans receive an equitable subsidy and are therefore not permissible. All subsidies must be transparently acknowledged and deducted.

3.3.1.1.1.1 Project linked subsidies

This subsidy is made available to developers who undertake approved projects on behalf of a group of individuals. These subsidies enable developers to sell the properties in the projects undertaken by them to approved beneficiaries. In order to access the subsidies, developers are required to submit applications for projects to the Provincial Housing Development Board (PHDB), who reviews them in terms of the overall needs within the Province and other set criteria.

The total amount of the subsidy allocated to a particular project is paid to the developer in parts or progress payments, which are linked to specific milestones which the developer must achieve.

Each buyer wanting to purchase a property from the developer is assessed by the PHDB to determine whether she or he is eligible for the housing subsidy.

3.3.1.1.1.2 Individual subsidies

This subsidy is made available to a person who wants to purchase a property that is not part of an approved project. The property can either be an existing

property or a property that is to be developed in a project which has not been approved by the Provincial Housing Department Board (PHDB).

There are two types of individual subsidies:

- A non-credit linked subsidy, where the subsidy beneficiary only has the subsidy to buy a property or where the beneficiary makes up the difference between the price of the property and the subsidy amount with his or her own funds.
- A credit linked subsidy, where in addition to the subsidy amount, the beneficiary borrows money to pay the difference between the price of the property and the subsidy amount.

Individual subsidies are granted by the PHDB. In the case of credit linked subsidies, the subsidies are accessed from the Province via accredited financial lenders. With non-credit linked subsidies, they are accessed directly from the PHDB.

To apply for a subsidy, a beneficiary must have entered into a sales agreement for the acquisition of a property, subject to the approval of a subsidy and the approval of a loan, if applicable.

With non-credit linked subsidies, the subsidy amount is deposited into the conveyancer's trust account. With credit-linked subsidies, the subsidy is deposited with the lender. The subsidy amount is paid directly to the developer or seller of the property by the conveyancer or lender once the transfer of the property into the beneficiary's name has been completed or in the case where the top structure is being built, when this has been completed." (Housing Code)

It must be noted that although the Housing Code stipulates the availability of individual non-credit linked subsidies, these have not been issued to individuals as the Government does not have the service infrastructure to award these subsidies to beneficiaries. Project-linked subsidies are the only subsidies awarded to beneficiaries with a household income of R 0 – R3 500 per month

The Housing Code also makes reference to no hidden costs – however one must remember that the subsidy amount stipulated only covers the top structure. The Code makes no reference to the amount the Government contributes to land and services thus devaluing the amount it actually contributes to a fully and partially (R0 – R3 500) subsidised house.

3.3.1.1.2 Stabilising the housing environment

The Housing Policy detailed the necessity to mitigate unnecessary risk by establishing initiatives and institutions. These would be some comfort for the

existing banks and therefore encourage lending in this market. They also included establishing wholesale financing enablers that would assist in financing a range of lenders in the low-income market. As a result, two financial institutions were established namely, the National Housing Finance Corporation and the Rural Housing Loan Fund.

The table below is taken from the Shisaka report (2003, Nov, Element 4) and portrays the initiatives and institutions which Government established as risk mitigators.

Date	Event	Description	Relevance
1994	Servcon Housing Solutions	Part of the strategy to "stabilize the housing environment", Servcon was established as a JV between the Department of Housing and the Council of South African Banks. Servcon was mandated to manage a ring fenced portfolio of 33 322 properties in possession and nonperforming loans with a value of R1,277 billion.	Enabling environment (risk mitigation): Servcon's mission is to normalise the lending process by managing PIPs and NPLs where the normal legal process has broken down. Servcon takes these properties off the banks' books and offers residents a series of options to resolve their responsibilities.
1994	Launch of the Masakhane Campaign	Translated as "build together" this initiative was designed as a national campaign to encourage residents to resume payment for rates and services charges. Part of the strategy to "stabilize the housing environment"	Enabling environment (risk mitigation): The campaign was directed at financiers' and builders' claims that housing consumers did not respect the sanctity of contract. By encouraging an increase in payment for rates and services charges, it was expected that a "culture of payment" would be established, spreading widely beyond such local authority responsibilities to also include housing loan repayments and an end to payment boycotts.
1995	Development Facilitation Act (Act 67 of 1995)	The Development Facilitation Act (DFA) established a new process for land release, assembly and development which ran parallel to the existing system. It introduced the concept of Local Development Objectives and Land Use Tribunals. The DFA was originally promulgated by the Department of Housing but is administered by the Department of Land Affairs.	Enabling environment (risk mitigation): the purpose of this legislation was to streamline the development process, dealing with many of the administrative risks (i.e. delays) inherent in the existing system. It was hoped that this would facilitate the development process and encourage greater developer participation.
1995 (June)	Launch of the Mortgage Indemnity Fund (MIF)	Part of the strategy to "stabilize the housing environment", the Mortgage Indemnity Fund (MIF) was established as a short-term intervention to provide mortgage lenders with indemnity insurance against political risk. As part of the methodology, the MIF assessed areas for 'political	(risk mitigation): The emphasis of the MIF was to provide cover against Non-commercial risk. In part, this intervention was to demonstrate to the private sector that lending in low income areas to low income households was a viable business enterprise, manageable in

		stability' to determine if cover could be granted.	the normal commercial way.
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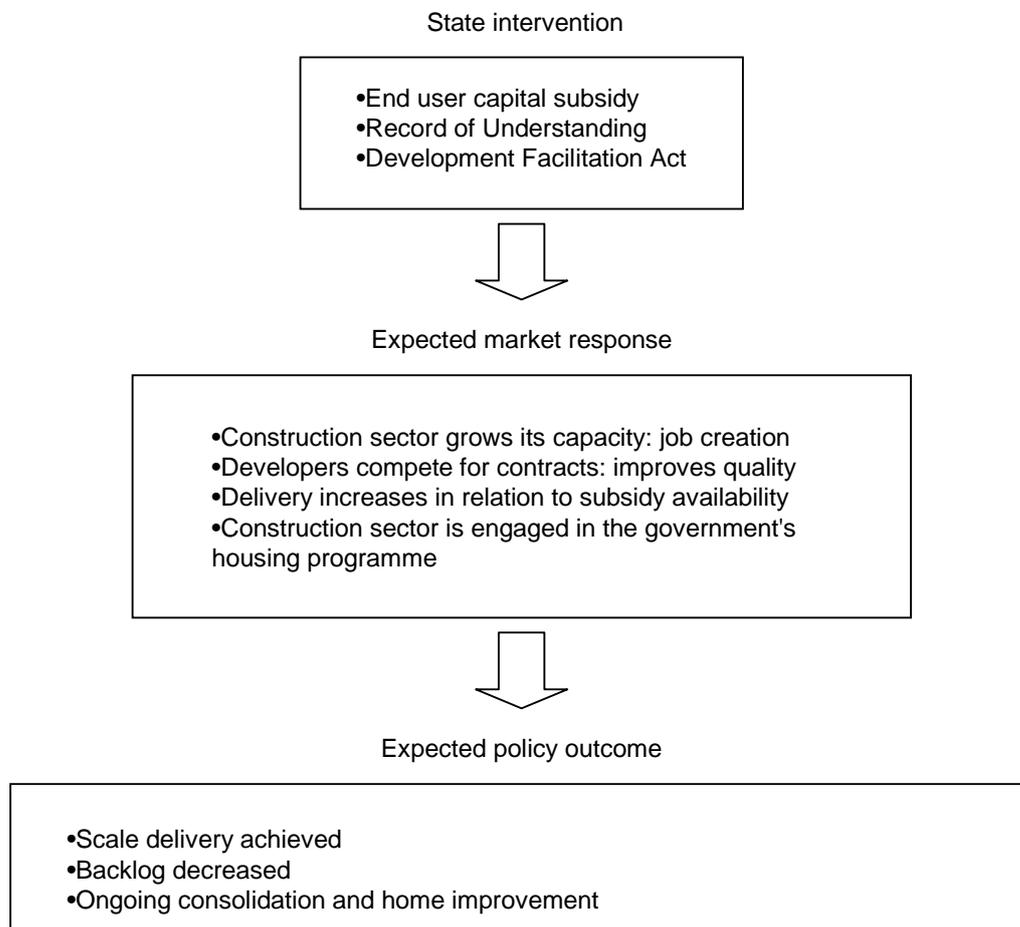
3.3.1.2 Private Sector Involvement in the Housing Policy

From the very start, the government recognised the importance of collaboration between the private sector and the public sector in the delivery of housing and eliminating the substantial housing backlog. The detail in the policy regarding the private sector input defines the roles the two sectors must play.

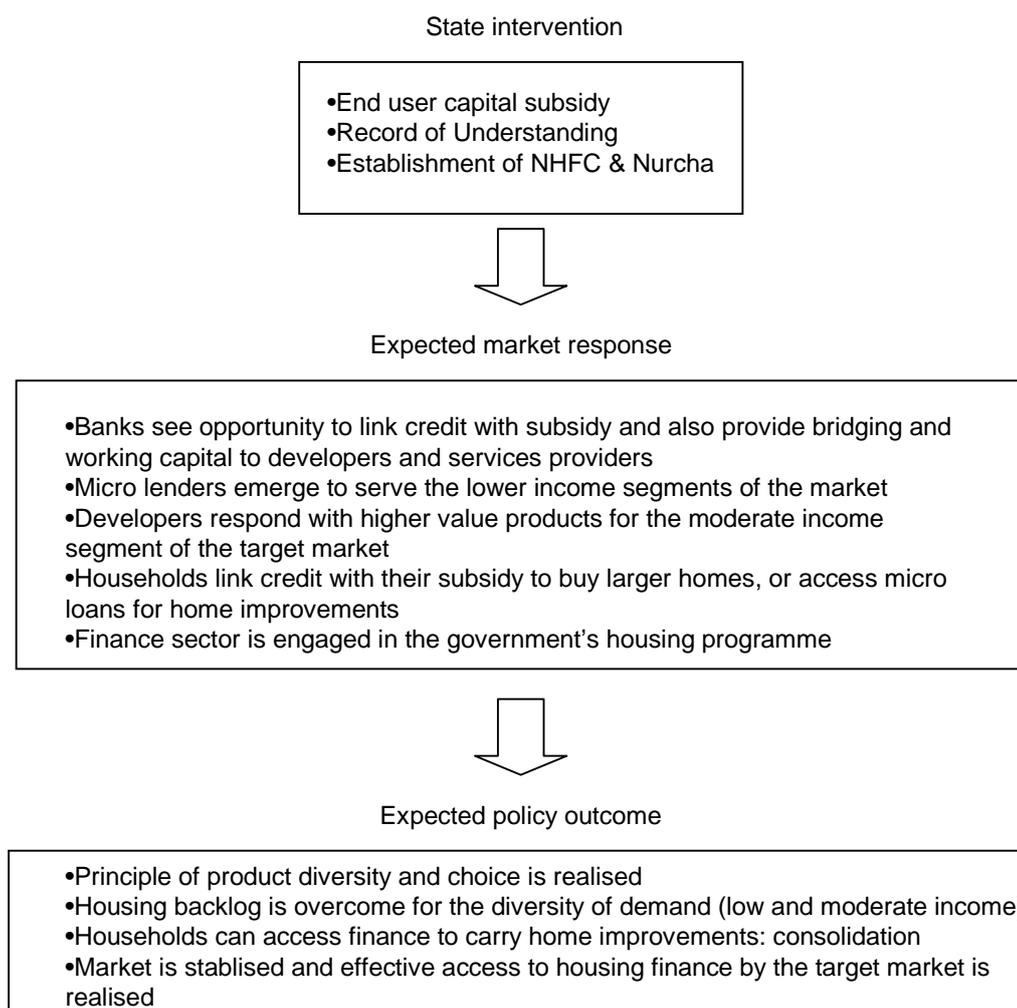
The essence of the Masakhane (“build together”) initiative stated that *“government is committed to a housing process built on the foundations of people-centred development and partnerships. Certainly, government cannot meet the housing challenge alone. All housing role players, including the private sector ... must participate in meeting the housing challenge. This principle calls on all players to contribute their skills, labour, creativity, financial and other resources to the housing process, in partnership with one another.”*

The two diagrams below illustrate the government’s intentions from a facilitation perspective of government and the implementation perspective of the private sector, which includes the financial institutions and private developers.

Policy goals for the housing delivery sector



Policy goals for the housing finance sector



In the last ten years, a distinctive split has occurred in the private sector regarding the delivery of housing. The larger, more well-established developers have moved out of the Affordable Housing Sub-Market as higher margins could be obtained in the upper markets, while the banking sector has become more involved in both development and financing in the Affordable Housing Sub-Market. This was due to the Financial Sector Charter (FSC) signed in November 2003 by the banking institutions.

3.3.1.3 1994 Policy Performance and the Delivery of RDP housing

Although the 1994 policy was based on sound principles and government has delivered over two million fully subsidised houses, there is still a substantial housing backlog. Zack, T and Charlton, June 2003 describe the widespread unhappiness with government as housing delivery has been in the form of dysfunctional low-density mono-functional, low-income housing suburbs on the periphery of South African towns and cities, which are unsustainable both

spatially and social-economically. These urban development patterns have resulted in increased costs in terms of travelling to work, and impacts negatively on optimal provision and usage of physical infrastructure, energy and public transport.

The challenges regarding RDP housing, which has been delivered thus far, include; Rust , 2006

- The subsidy is provided to a household within a predetermined income bracket. This has two consequences. It reinforces economic and affordability segregation and segregation is further perpetuated as fully subsidised RDP units are built on the periphery of the city due to land prices being low and thus more affordable to government. Affordability is reduced as access to work opportunities and amenities decrease, creating unsustainable, poverty concentration of homogenous communities, as people have no disposable income to upgrade their homes.
- Government has not supplied any grants for credit-linked houses, which has resulted in no houses being built within the R 90,000 – R150,000 range thus people are either renting or living in shelters below their means. The absence of houses within this price range has caused a 'gap' between affordable housing and RDP housing market.
- Low residential densities in many of the housing projects cannot support a wide range of activities and services in a sustainable way.
- The houses are of poor quality
- There has been little or no collaboration between government departments, which has resulted in some communities having little, or no access to amenities such as schools, clinic etc.
- Delivery of RDP housing has decreased over the last ten years as a result of diminished capacity in government and the retraction of the private developers.
- In the main, people do not value their houses. They are rarely improved and are occasionally sold for less than their worth.
- The subsidy scale is inappropriate as it does not crater sufficiently for the credit-linked individual and its breadth in the Affordable Housing Sub-Market is insufficient. Affordability is a major challenge and housing prices have increased substantially over the past six years due to increased demand and building costs.
- Government has solely focused on the poorest of the poor and has not considered the housing market in its entirety.

- No individual subsidies have been granted as there is no infrastructure to support them.
- Most people are excluded from the formal housing market. Only 15% of households can benefit from the potential asset value of housing by being able to buy and sell property through the formal housing market. There is a pre-emptive clause which restricts the beneficiary from selling their property within eight years, the owner must also offer it back to the government, as first right of refusal, at its original replacement cost. This clause also substantially reduces people's mobility and their ability to change their lifestyles according to their financial states and changing needs.
- The location of new housing projects has tended to reinforce apartheid urban patterns and existing inequities, which results in a concentration of poor people and adds to the lack of social integration. This persistence of disintegration and fragmentation undermines the creation of settlements that can meet the needs of all its inhabitants.

Government realised towards the end of 2004 that the housing policy needed to be reviewed and improved. The refocus was towards sustainable human settlements, which considered the housing market as a whole and fully-functional sector.

South Africa's urban landscape is characterised by fragmented urban sprawl due to government's focus and preoccupation on mass delivery of single-family detached dwellings that lack amenities and facilities and are located on the periphery of towns and cities. The new BNG policy addresses these issues as a solution as it conceptualises well-designed mixed-use, mixed tenure, mixed-income, fully integrated developments. Those such as the Cosmo City development elevate all of the above mentioned challenges, as they are; well located, allowing access to work opportunities; contain amenities; offer a mixture of tenure and housing types, thus facilitating mobility; and provide a sustainable, vibrant community where people want to live, which. establishes intrinsic value of the houses within the community.

3.3.1.4 The 'Breaking New Ground' (BNG) policy

The recognition of the policies inadequacies came in the form of the Comprehensive Housing Plan for the Development of Integrated Sustainable Human Settlements in September 2004. This latest housing programme was introduced by Ms Lindiwe Sisulu as the "Breaking New Ground" programme. It provides a framework for housing and includes a comprehensive oversight by government of the entire residential property market while reinforcing the development of quality housing in non-racial, integrated sustainable human settlements and communities.

The BNG policy aims to achieve the following benefits:

- Housing delivery will be demand-driven and will involve a great deal of flexibility.
- The role of the private sector will be enhanced by the collapse of subsidy bands, as well as the removal of blockages relating to down-payments for indigents and pensioners. Beneficiaries' spousal income will also be assessed. A fixed rate and other new loan products will be developed, including an option to convert the capital grant, where linked to home ownership or rental, into an annuity-based grant or benefit.
- Employers will be encouraged to make their contribution through employer-assisted housing.
- Barriers to housing trade will be removed through amendments to the Housing Act, 1997 (Act 107 of 1997), to reduce the period during which resale on the private market is prohibited from eight to five years.
- Access to title deeds will be enhanced through the implementation of measures to stimulate a renewed uptake in the Discount Benefit Scheme, and the establishment of a high-priority focus on completing the registration of transfer in respect of houses constructed under the existing housing programme.
- All programmes will be focused on ring-fencing informal settlements and replacing these with more adequate forms of housing. Additional funding amounting to R500 million in 2006/07 and R1, 5 billion in 2007/08 has been allocated to step up the housing programme so that all informal settlements can be upgraded by 2014. A number of pilot projects will inform the further development of the informal settlement upgrading programme.

Key focus areas identified by the comprehensive housing plan include:

- Accelerating housing delivery as a key strategy for poverty alleviation
- Using housing provision as a major job-creation strategy
- Ensuring that property can be accessed by all as an asset for wealth creation and empowerment
- Leveraging growth in the economy,
- Combating crime and promoting social cohesion
- Supporting the function of the entire single residential property market to reduce duality within the sector by breaking barriers between first economy residential property boom and the second economy slump.

- Utilising housing as an instrument for the development of sustainable human settlements, in support of spatial restructuring.

(Ref: *Breaking New Ground: A comprehensive plan for the development of sustainable human settlements. September 2004*)

Improving housing delivery will;

- Reduce the number of slums /squatter and concentrations of poverty
- Increase labour and social mobility
- Reduce traffic congestion and pollution

Better housing markets can;

- Serve as important vehicles for saving
- Wealth creation
- Entrepreneurial business development

Better housing markets will impact;

- Improved cities
- Economic development and stability

There are four primary objectives to the BNG policy (Kecia Rust, 2006)

- **Sustainable human settlements:** “well-managed entities in which economic growth and social development are in balance with the carrying capacity of the natural systems on which they depend for their existence and result in sustainable development, wealth creation, poverty alleviation and equity.”
- **Integration:** The shift from “housing units”, to “sustainable human settlements” in BNG largely captures the integration end. Spatial restructuring is also critical and sustainable human settlements are seen to support spatial restructuring: “... utilising housing as an instrument for the development of sustainable human settlements, in support of spatial restructuring”. There is also an institutional dimension as integration is both intra-governmental (within a sphere of government) and inter-governmental, requiring integrated planning and coordinated investment.
- **Housing assets:** “ensuring property can be accessed by all as an asset for wealth creation and empowerment” and “supporting the

functioning of the entire residential property market to reduce duality ...”

- **Upgraded informal settlements:** progressive eradication of informal settlements and urban inclusion: “informal settlements must urgently be integrated into the broader urban fabric to overcome spatial, social and economic exclusion”

The enabling elements of this policy include: (Kecia Rust, 2006)

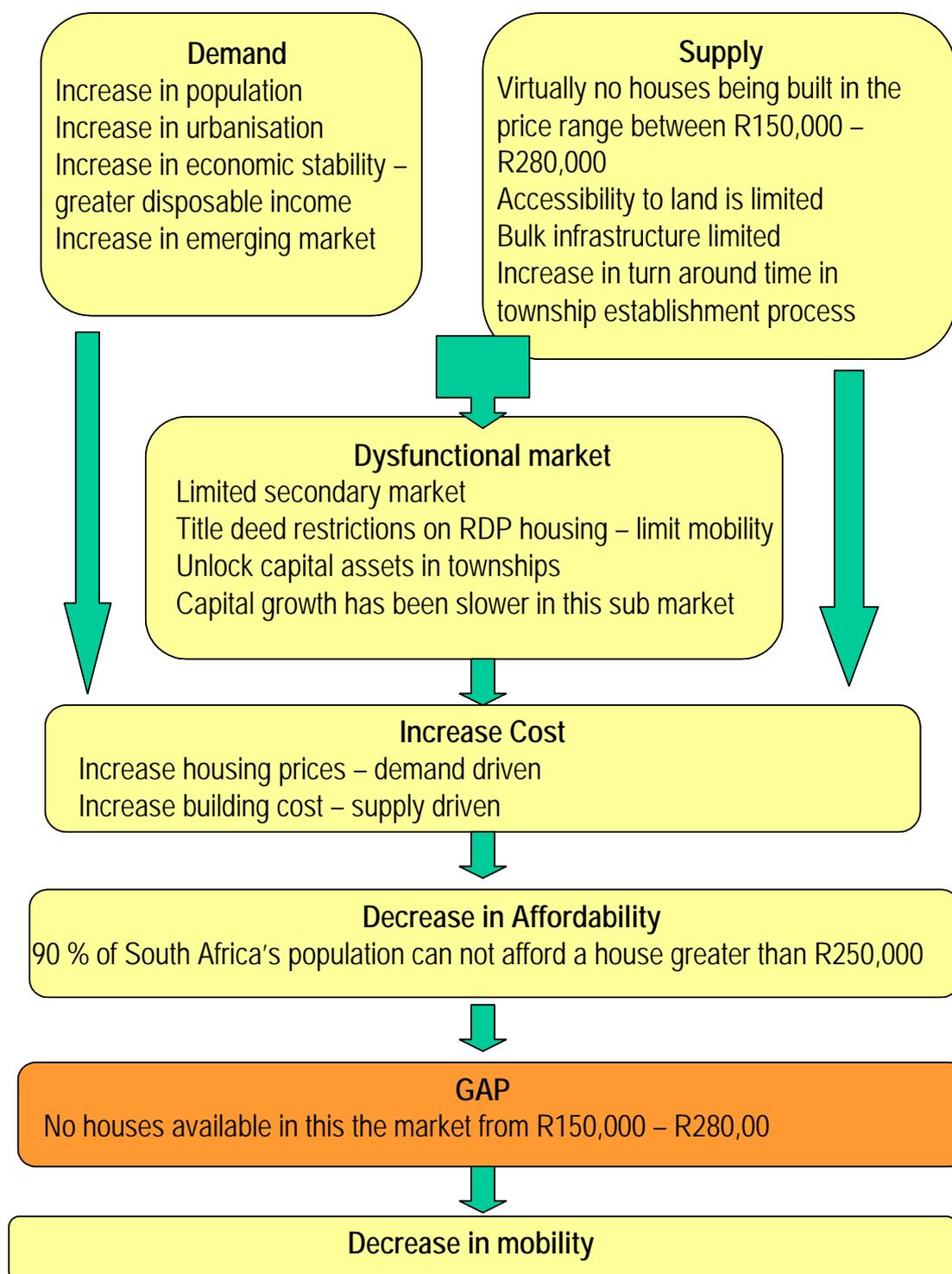
- **Municipal accreditation:** Municipalities will need to become accredited, meaning that they will have to qualify their capacity to deliver housing against a set of standards. The municipalities under the BNG policy are responsible for the implementation of linked and bulk services for BNG housing units to facilitate delivery. The funds flow directly from National Government to the accredited municipalities avoiding transactional cost and unnecessary administration.
- **Effective collaboration between government departments:** “Coordination and alignment is essential to ensure the effective and efficient flow of resources. This will be achieved through the enhanced planning framework; bilateral co-operation between the Department of Housing, the Social Cluster partner departments and the other spheres of government, particularly municipalities; the Department of Housing (DoH) and the metros working together to achieve the required alignment.” (Kecia Rust, 2006)
- **Housing needs driven by demand:** This is a response to provide appropriate tenure and housing types to the market
- **Focus on the housing market in its entirety:** The housing market needs to be considered as a whole and fully functional market catering for changing demands, lifestyles and family needs by linking the primary and secondary market.
- **The BNG policy identifies the need to create sustainable integrated communities.** It places full responsibility on the Municipalities as the mechanism to deliver housing through increased responsibility and resources from National Government.

3.3.2. The ‘gap’ in the Market

The ‘gap’ refers to the significant price difference between a BNG and an affordable house and can be attributed to three main dysfunctionalities in the Affordable Housing Sub-Market namely; affordability, demand and supply.

There is a substantial mismatch in affordable housing demand and supply as the demand for affordable housing far exceeds its supply. Thus there is a substantial shortage of affordable house on the market which is further exacerbated by competitive bidding which further increases the prices of

these houses making unaffordable to household with an earning capacity between R 3,500 and R 9,670 and consequently limiting households mobility to move up or even get on the housing ladder.



3.3.2.1. Affordability

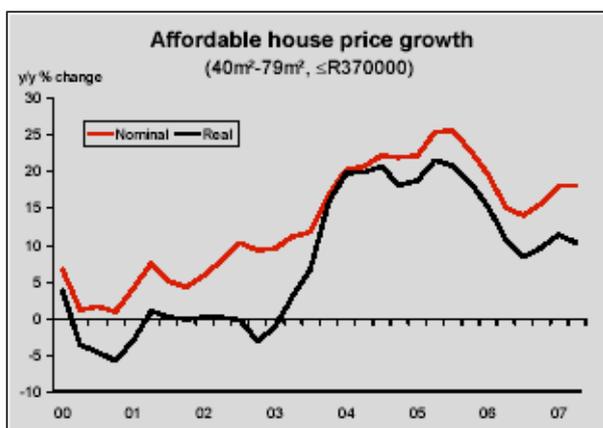
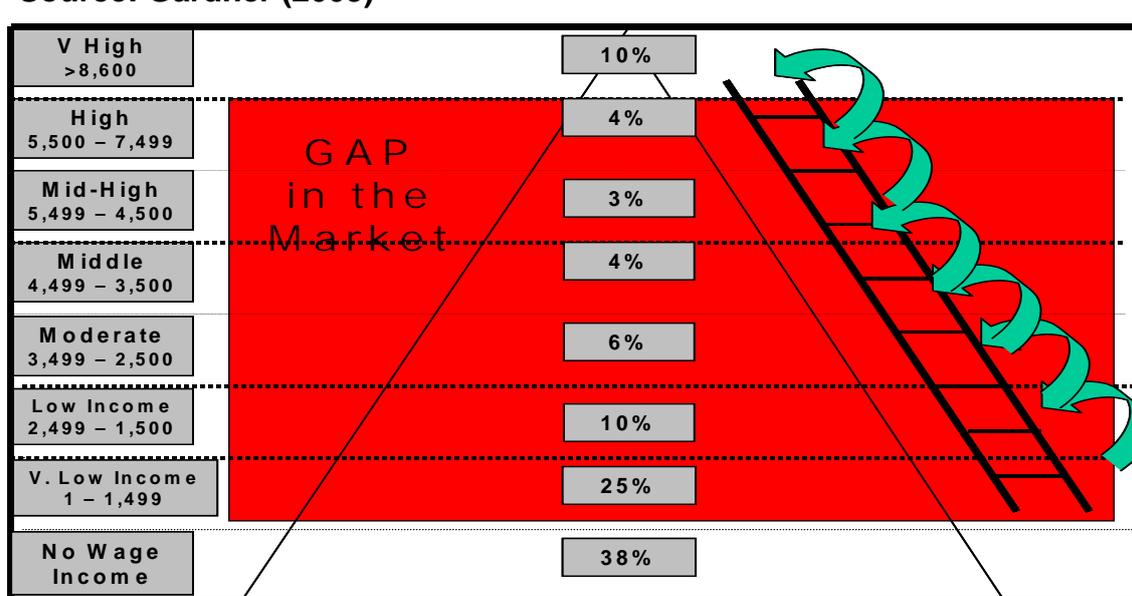
There are two major 'gaps', defined as the excessive difference between house prices in certain price bands within the greater housing market. The

first is between BGN and affordable housing units, and the second is between affordable housing and middle market housing. As stated in the hypothesis this thesis only considers the first “gap”

The graph below details the missing rungs in the housing ladder, i.e. the inability of people to move within the housing market. Each sector (rung) in the housing market is moving further away from the one below it, creating and reinforcing segregation as people become entrenched in their income groups, unable to leverage themselves out and into better wealth creation opportunities.

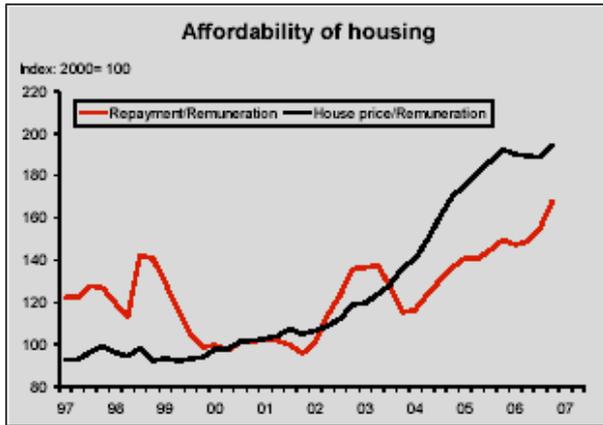
In 2003 when Gardner released this diagram the fully subsidised house was given to household with household income up to R 1,500 and credit linked grants were given to household with a household income between R 1,501 and R 3,500 and thus the graph below illustrates that 63% of household incomes fall within the fully subsidised income bracket. 11% fall within the credit-linked sub-sector and 11% into the affordable housing. Thus in 2003, 90% of all households fell within the Affordable Housing Sub-Market and that 90% of South Africa’s population could not afford a house over R 250, 000.

Source: Gardner (2003)



From 2000 to mid 2006, house prices in the middle and upper housing sector increased substantially, with a nominal increase ranging between 15 – 20%. This growth took place predominantly in the ‘white areas’ as a result of lower interest rates and a stable economy.

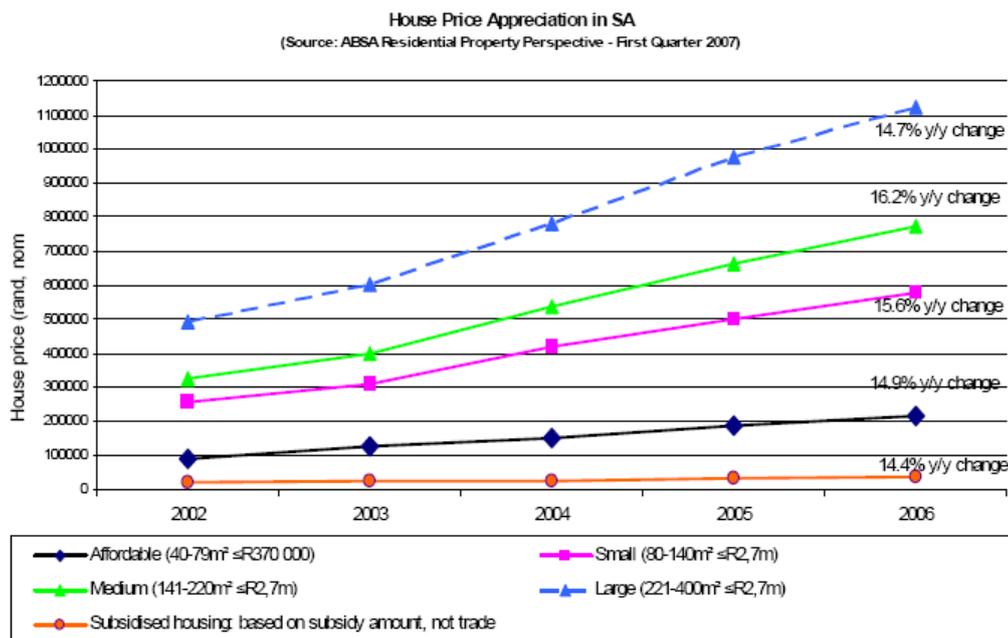
Source: Absa – Residential Property Perspective. Third Quarter 2007- Jacques du Toit



Affordable houses in the second quarter of 2007 increased by a 18% year – on–year (y/y) growth. However, it has been recorded by the FNB housing barometer that since the beginning of 2007, the former black townships, which were traditionally part of the Affordable Housing Sub-Market, are seeing a 30% to 40% nominal growth, which is higher than the middle-class market.

The graph below depicts Absa Bank’s Price Index figures from 2002 to March 2006 and illustrated the significant gap in the market between BNG and affordable housing units. Between 2002 and 2006, ‘small’ houses in the affordable houses appreciated by 70% while BNG/RDP houses appreciated by only 26%. The least expensive affordable housing unit one can purchase today is R210,000. An RDP or BNG house has a perceived value of R39,000 (subsidy amount) thus making the step up to the next level in the housing ladder virtually impossible for an RDP home-owner. In terms of affordability, the BNG unit owner has to be able to afford a R171,000 increase (the difference between R210,000 – R39,000). A mortgage on this amount at 13.5% over 20 years requires an instalment of R2,064 per month, which is affordable to a household earning about R8,258 per month.

It is essential that the gap is closed by considerable construction of housing units valued at R90,000 – R250,000. Essential focus needs to be placed on home improvements, which will increase the value of the property and assist in bridging the pricing/affordability gap between a BGN and an affordable housing unit.



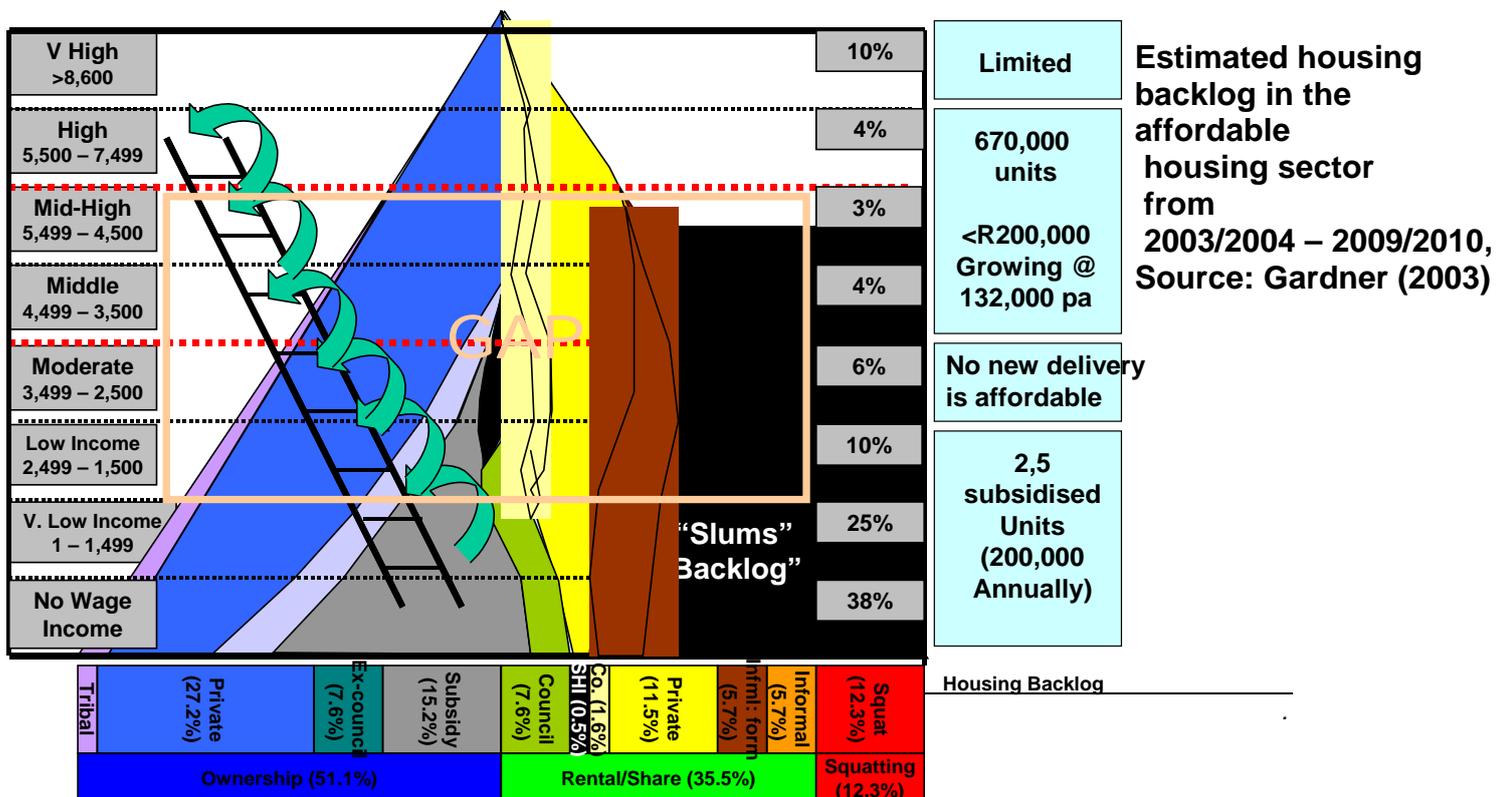
The second issue this graph demonstrates is the fact that an RDP house has shown virtually no capital growth over the last five years whereas the affordable house, although initially slow, has shown a more substantial growth and in some townships, growth has been recorded at a nominal growth of 40%. Also, due to the lack of capital growth often as a result of poorly located developments which have poor service levels, people are less inclined to invest in their homes by extending or making quality improvements. This undermines the potential of the neighbourhood and further reinforces fragmentation. It also means that people cannot rely on their properties to leverage themselves up on the housing ladder. As they must rely on credit to move up, many simply do not move. People not selling their homes creates 'locks' in the market, decreasing supply. Essentially, the financial value of the housing "asset" becomes null and void. (Rust, 2006)

This lock in the market is further exacerbated by the restrictions in the title deeds that prevents owners from selling their property within eight years of obtaining them (the initial housing policy stated eight years but a draft amendment to reduce the restriction to five years has been sitting with parliament for three years). This constraint further limits mobility within this segment and undermines access to higher priced markets

These three factors are significant as they prevent mobility and thus wealth creation through asset-growth. People are forced to down-grade their homes or live in informal settlements.

3.3.2.2. Demand

It is necessary to understand the profile of the housing market in order to conceptualise the nature of the housing demand in South Africa. Gardner (2004) divides the housing market into eight sub-markets by their income bracket and their type of tenure in which they live based on Census 2001 and 1996 figures.



The above graph highlights that the housing backlog and the people living in informal settlements and renting backyard shacks are mostly very poor people. It must also be noted that many people living in informal settlements earn as much as R 7,500 per month and live informally as there is no suitable accommodation available, be it rental or ownership. However the preferred tenure of people is not clear. Integrated housing is of assistance as it gives people a variety of options in both the affordability and tenure type.

Eligibility for the subsidy has decreased since 1994 as the amount of the subsidy has increased in line with inflation but not with the eligibility ceiling, thus increasingly fewer people are qualifying for a subsidy. If a household does not qualify, it needs to access credit in order to improve its affordability for housing, though this is often also limited.

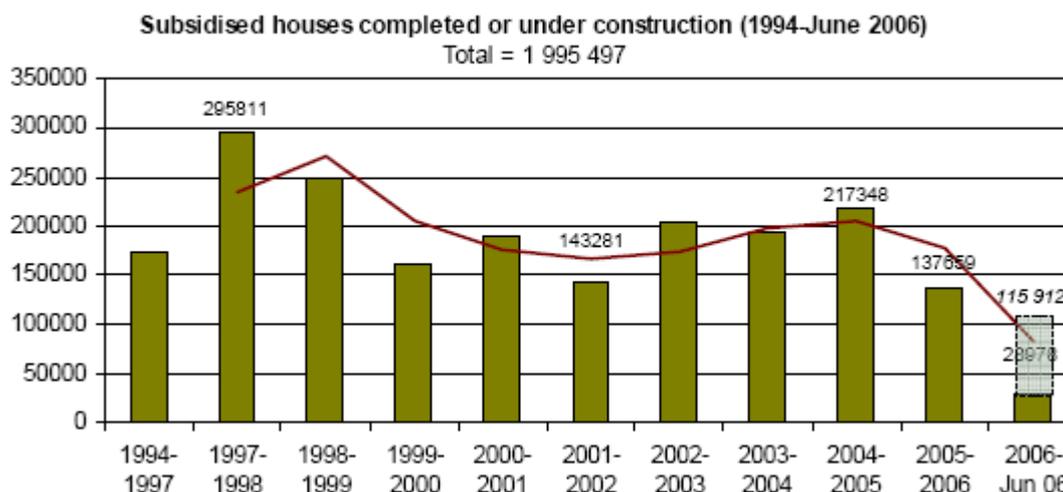
Access to credit for those in the FSC target market (household income between R 1 928 to R 9 670 per month) is limited due to credit profile (judgements against them), age of a person and most frequently their affordability. Only 47% of this market is eligible to access mortgage finance and currently only one bank has the ability to finance BNG/RDP housing units. This is a result of the restriction of sale – a RDP owner is not allowed to sell the property before eight years. The government also has first option to buy for the amount of the initial subsidy.

The demand for housing continues to grow due to increases in the emerging market, population increase and urbanisation. Integrated housing will not only assist with providing housing but will offer a potential resident the opportunity to become part of a sustainable community with its associated amenities and services. As a result, this becomes a preferred community in which to live. This preference will ensure a greater demand for housing in integrated communities, consequently relaying this onto the value of the housing unit.

3.3.2.3. Supply

Kecia Rust (2006) highlights the increasing 'gap' in the market by comparing the current demand profile and the housing supply trend.

It must be commended that just over two million BNG houses have been built since 1994; however public sector housing delivery has declined steadily over the last 10 years with the lowest amount of BNG units delivered in 2006/2007.



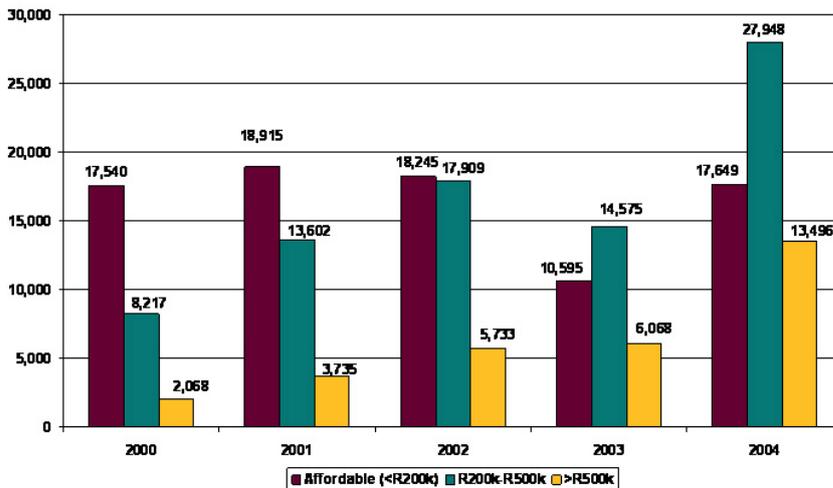
Source: Analysis of South Africa's Housing Sector Performance – Kecia Rust (2006)

It must also be noted that government have produced very little credit-linked houses in the past 13 years of delivery as the focus has been housing for the poorest of the poor. "There is little doubt that in-situ upgrading [i.e. upgrading of informal settlements] and the provision of new greenfields RDP housing stock are due to receive the largest allocation of subsidies. In total, some 26,8% of allocations are being utilised for the upgrading of informal or shack settlements and 36,2% for the period concerned goes to the construction of new greenfields projects. That is an overall total of 63% of available subsidy allocations. In contrast, only 36,888 or 5,6% of the total subsidy allocations between 2004 and 2009 are intended to support credit-linked projects." (Nell et al, 2005)

Project Type	2004/05	2005/06	2006/07	2007/08	2008/09
In-situ upgrade	6 527	56 777	73 175	31 898	8 620
Greenfields	9 864	81 607	95 220	40 171	11 825
Credit linked	370	3 349	7 026	21 289	4 854
Social Housing (Rental)	440	610	2 018	1 500	-
In fill Housing	4 334	6 303	7 077	5 769	-
Consolidation	-	150	600	2 768	-
Peoples Housing Process	-	997	2 009	750	-
TOTAL	21 535	149 793	187 125	104 145	25 299

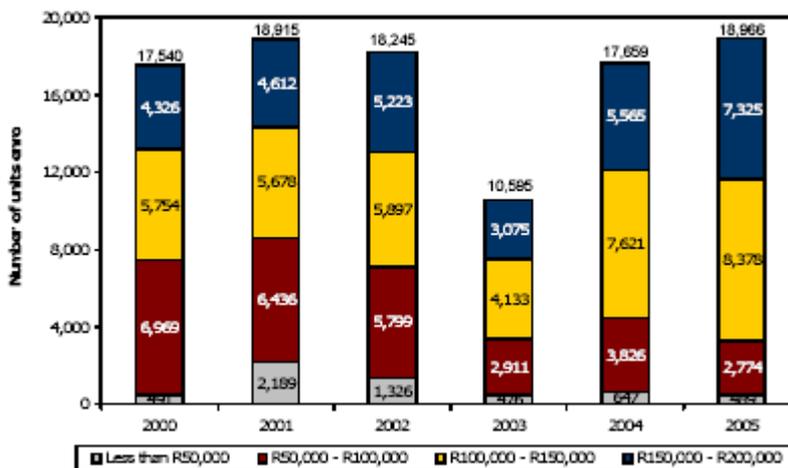
Source: Nell & Associates, Housing Supply and Functioning Markets (2005)

Nell *et al* (2005) document that from 2000 to 2004, the private sector delivered proportionally fewer houses below R200,000 i.e. 63% of the total units built in 2000 were valued at under R200,000. In 2004, this dropped to just 30% yet the total number of affordable housing units built remained fairly constant as seen in the graph below.



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

Melzer (2006) discovered that the delivery of houses between R50,000 – R100,000 decreased by half yet those between R100,000 – R150,000 and those between R150,000 – R200,000 increased by 40%. This shows that developers were moving away from the lower ends of the market. It should be noted, however, that the delivery of affordable units has not increased as reflected in the previous graph too.

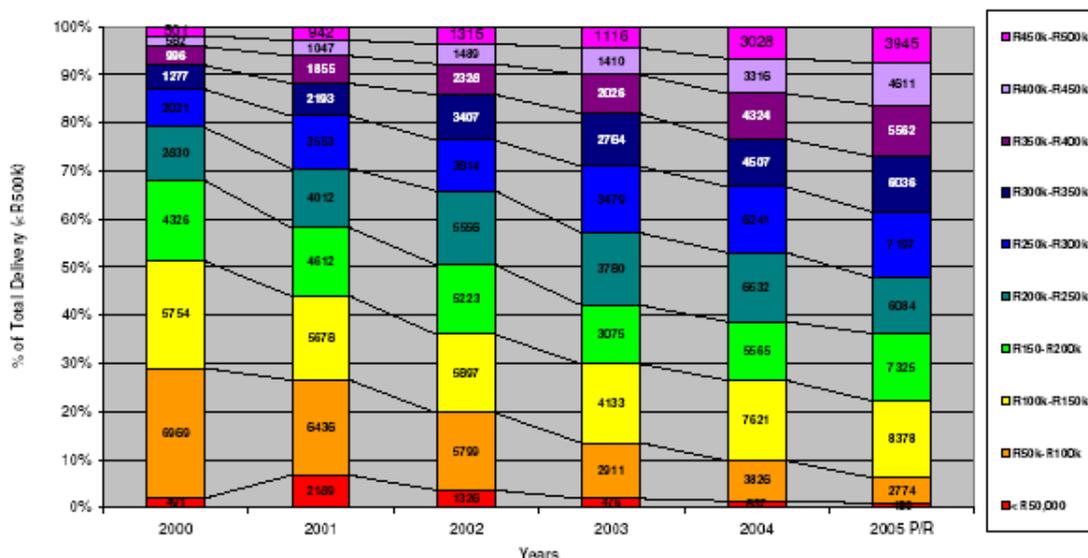


Source: Analysis of South Africa's Housing Sector Performance
Kecia Rust (2006)

Nell's report (2005) based on the study commissioned by the Banking Association determined a the backlog in the Affordable Housing Sub-Market (for house-holds earning R2,500 – R7,500 per month) of 622,220 units in 2005. This was address by the delivery of 19,703 houses. At the current rate of delivery, the projected backlog will increase to 750,000 units in 2010. If the backlog is to be reduced by 60% by 2010, the rate of delivery will need to increase substantially to 140,000 housing units per annum.

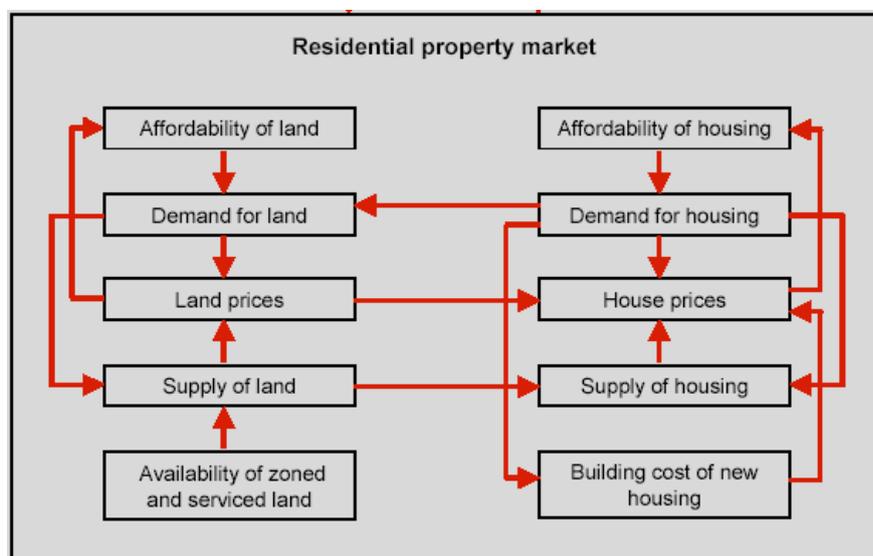
The graph below demonstrates that private sector developers as well a many of the larger player have moved away from the Affordable Housing Sub-Market and into the middle and upper market as profit margins are better. The Cato Manor Development Agency (CMDA) (July 2002) reported that "high levels of developer demoralisation" with "many indicating that the insistence

on meeting higher norms and standards together with static subsidy levels was making projects unviable.” Further comment by developers indicated that increased political interference exacerbated the problem. More recently, developers are deterred from entering the Affordable Housing Sub-Market as late payments by government are placing a strain on developers’ cash flows, leaving them with all the risk.



Source: Analysis of South Africa’s Housing Sector Performance – Kecia Rust (2006)

3.3.2.3.1 Factors Influencing Supply



Source: Absa – Residential Property Perspective – Third Quarter 2007- Jacques du Toit

- Building cost

The cost of building a new house has increased year on year by a nominal 12,2% in the second quarter of 2007, compared with 10,8% in the first quarter of 2007, but has decreased in the third quarter of 2007 to 11.1%. This decrease is thought to be a result of increased interest rates and yet it is still staying at a level well above inflation. Cement requirements have more than doubled since 2000 and local producers are operating at almost full capacity. The strong demand for building materials are associated with government's capital expenditure programme, for example the construction of the Gautrain, infrastructure for the 2010 World Cup. The Industry Insight Residential Building Cost Index details that new residential contracts that have been awarded based on the value and size have increased by 23,3% during the fourth quarter of 2006, compared with 18,7% in the third quarter. (Absa, Jacques du Toit)

This great demand for building materials increases the cost of building and ultimately makes it more difficult to build houses in the "gap" market. It also chases potential developers out of the "gap" market as these price increases reduce profit margins.

- Skill capacity in building market

As a result of economic growth and stability within the country, development in all construction sectors has boomed. Employment in this sector increased by 113% between 2001 and 2006. This substantial increase has led to serious constraints on the supply of skilled labour within the construction industry and has once again increased the cost of labour, adding to the increased cost of construction. Increased costs directly impact on housing prices and thus on a household's affordability to purchase a housing unit. (Rust, 2006)

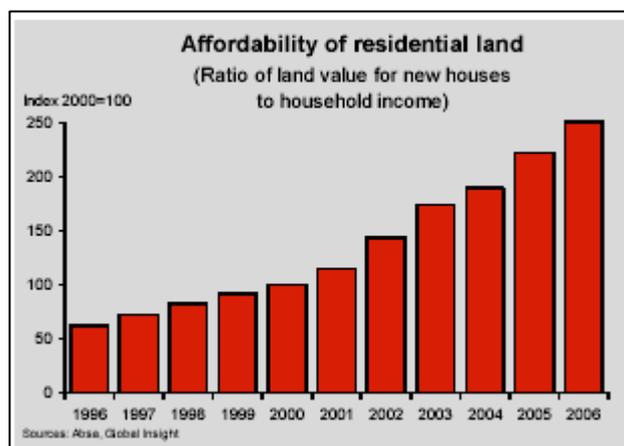
- Skill capacity in Township Establishment Process

The Banking Association undertook research to determine the constraints in the Affordable Housing Sub-Market. One of the issues it investigated was the turn-around times regarding township establishment. The results showed that whereas it took between 12-18 months to convert raw land into stands which could be registered, the process now takes between 30 and 59 months. Where it previously took five months to develop houses on such stands, it now takes about 19 months. (Rust, 2006)

- Availability of land

Available vacant land is becoming increasingly scarce. Areas which were not considered as prime sites in the past are now being developed. Due to supply and demand functionalities, land has increased by a nominal rate of 22% per annum and a real rate of 16,2% per annum from 2000 to 2006. Land affordability has decreased substantially as one measures this by the ration of land values to household income. From 2000 to 2006, the year on year nominal growth in land prices have surpassed the incomes related to the particular analysis completed by duToit (Absa, 2007.11.20)

Again, these land price increases will significantly affect the cost of a housing unit. As land price increases, so does the cost of the housing units, pushing the price of the housing unit out of the affordability range of the average South African and thus contributing to the increase in the 'gap' in the market.



Source: Absa – Residential Property Perspective – Third Quarter 2007- Jacques du

- Availability of bulk / link and internal infrastructure

As a result of rapidly growing areas such as the metropolitans, local governments have found it increasingly difficult to supply bulk services such as water, sewage and electricity and road infrastructure. The provision of such infrastructure has lagged significantly over the years and is preventing new development from taking place.

The developer is currently responsible for link and internal infrastructure. These additional expenses, incurred by the developer, are passed on to the end-user, which increases the price of the land, serviced site or top structure. A development's link services and BNG internal services should be the responsibility of the local authority. In middle- to up-market developments, the end-user incurs the cost of the internal services and link-services which are covered by the cost of the purchase price. In an integrated development, the government may contribute to certain service cost associated with the BNG units. Service levels within the development must be of the same standard, so the developer needs to cross-subsidise using profit margins to increase the BNG housing service levels. Developer's prevents profit loss by passing on the additional expenses to the end-user of the bonded affordable houses by increasing the prices of the houses. This increase as a result of cross-subsidisation assists in amplifying the pricing 'gap' between BNG and affordable housing.

3.3.3 Inference on South Africa's Affordable Housing Sub- Market

South Africa's housing policy emerged as a result of the significant disparities of apartheid policies which prevented most South Africans from owning property. The initial policy was founded on great fundamentals of community development, with government as the facilitator and the private sector as the delivery mechanism. However, a great policy with ineffective implementation and little support from stakeholders, including the private sector, is unlikely to succeed.

To some extent, the government has succeeded and to its credit, it has housed over two million people in the past ten years. This is the largest amount of people world wide who have been provided with fully-subsidised 'give-away' houses. However, the townships, which have been created by these developments, are homogenous and are usually located on the urban edges, far from work opportunities and without amenities. The government realised that the policy was flawed as it located people with similar income in peripheral locations thus reinforcing the apartheid structures in the cities.

As a consequence of these issues, the BNG policy was formulated, which reinforces the necessity to build communities that are equitable, non-racial and of good quality. The aim is to build sustainable human settlements defined as "sustainable human settlements: well-managed entities in which economic growth and social development are in balance with the carrying capacity of the natural systems on which they depend for their existence and result in sustainable development, wealth creation, poverty alleviation and equity". (Breaking New Ground).

Although the government has produced less housing for the poorest of the poor, people who are earning incomes that are too high to qualify for a subsidy and too low to afford an affordable house, are not being catered for in the housing market. There is thus an increasing "gap" between the 'give-away' housing and the affordable housing. The "gap" is the absence of houses for households who can afford a house price of R150,000 – R250,000 and have a household incomes between R 1 928 to R 9 670 per month.

The "gap" is made ever larger by the demand and the inelasticity of supply, which is exacerbated by limited accessibility to land, reduced skilled labour capacity, increasing building cost and limited bulk infrastructure.

3.4. Literature Review Conclusion

It is clear from the international research that to prevent social and economic ills, it is necessary to prevent concentrations of poverty within the urban environment. The most effective remedy is mixing households of different income. These are associated with different types of urban developments, the most effective being sustainable urbanism, which includes mixed-income, mixed-land use and mixed-housing unit typologies. The success of this type of development is based on densification, which prevents urban sprawl and

enables the effective mobility of people, and diversification, which provides accessibility to work opportunities and amenities.

Research has demonstrated that housing units in such sustainable urban developments command higher prices in comparison to developments with homogenous developments. However it has also been suggested that the costings of these developments are higher as land supply is limited. Increased land prices and amenities are thus cross-subsidised by the housing, which renders the housing units in such communities inaccessible to households needing affordable housing.

To overcome these challenges, many governments have introduced policies,, which specifies and encourages developers to include affordable housing in their developments. This is either done as a matter of course in the development approval process or as incentives, such as tax deductions or regulation relaxations. Increasing the unit density of a development ensures higher margins and project viability.

It must be noted that there are very few fully subsidised “give-away” houses around the world. Governments do not provide fully-paid housing for ownership to households who cannot afford to purchase a house. Governments do provide fully-subsidised housing, known as rental stock. The household pays a monthly rental for a unit using social welfare grants. However, home ownership is generally encouraged and governments and parastatal financial institutions and private institutions do provide financing tools or facilities to assist people to purchase their own properties.

South Africa’s Affordable Housing Sub-Market is highly complex and is currently not functioning effectively. The government’s main focus has been to provide fully subsidised “give-away” housing to the poorest of the poor. It has been successful in delivering just over two million of such housing units, but the realisation has been that the policy, which delivers this type of housing, is flawed in as much as it reinforces income and social segregation. Although the government’s delivery is commendable, there are still a number of challenges. These include the ever-increasing backlog of housing needed by the poorest of the poor and that the government has not built any credit-linked houses in the past twelve years, which is contributing to the ever-increasing need for housing for those who do not qualify for a “give-away” house.

In fact not even the private sector has been providing housing in this “gap” market even though there is clearly an immense demand. This is because developers have been realising higher profit margins / returns in the middle to upper housing market as a result of the economic booming from 2001 - 2005. However, times are changing, the market has slowed down and developers are recognising that the Affordable Housing Sub-Market can and have delivered greater profitability. Yet developers are still not building housing units for the ‘gap’ market and as a consequence the supply of ‘gap’ housing is severely inelastic. This inelasticity is perpetuated by increases in building costs, lack of available land and bulk infrastructure and limited skilled labour.

In 2004, the financial institutions, in collaboration with the government, formulated the Financial Sector Charter (FSC), to provide financial accessibility to the previously disadvantaged, with the majority (R42 billion) of the obligation going towards housing. The commitment was to facilitate the creation of wealth amongst the previously disadvantaged through home-ownership, while assisting in normalising the dysfunctionality of the Affordable Housing Sub-Market. The FSC target market falls within the “gap” market and due to the poor functionality and supply of this market, the banks are encouraging developers to be more involved in this market by providing specialised financial solutions specific to this market. The banks are also getting involved in creating “gap” housing, either by creating the developments themselves or through joint ventures with developers. Most of these developments, though there are few, are integrated developments of mixed-use typology, tenure and income levels such as Cosmo City. Cosmo City was included in this research project for being the first integrated development in South Africa.

This integrated approach is a direct consequence of South Africa’s flawed original policy. The new ‘Breaking New Ground’ (BNG) policy outlines the necessity to built sustainable human settlements. As the literature suggests, sustainability is obtained via integration as it supports social and economic growth via increased mobility and accessibility to amenities and work opportunities.

A critically element to keep in mind is that the number of people needing affordable and fully subsidised housing in developed countries is significantly lower than in developing countries. The challenges, simply due to the sheer numbers of affordable and subsidised housing units required, create a housing market complexity that needs effective and efficient contributions from both the private and public sector. These need to be supported by policy and regulations that enable and encourage the construction of integrated housing developments that are part of the greater spatial framework of the integrated urban fabric of a city or metropolitan area.

There is still some debate as to whether Cosmo City is a truly integrated development as the income and housing typologies are segregated. The BNG housing is separated by an open area which is fenced at GDACE’s instruction. However, the residents of Cosmo City are benefiting from the location, increased service levels and accessibility to amenities, which are the fundamentals of integration and which add value to a property. This point could lead to a further debate around whether integration is necessary if RDP developments are built in better locations with increased service levels and better access to amenities. This may result in people having access to work opportunities due to locality. People begin to extend their houses as a result of better affordability, creating integrated developments almost naturally.

There are various factors that may prevent the above scenario from occurring. Firstly the ‘NIMBY’ (not in my back yard) sentiment as people may regard a

large RDP development in a well located area as devaluing their property. Secondly, land prices in well located areas are high and thirdly, if government does not have the resources to provide such levels of service and amenities and so integrated developments, delivered by the private sector, supported of government become the only realistic solution.

4. Statement of the Research Problem

4.1 Overview

This research is based on results from research conducted by the Finmark Trust, Matthew Nell & Associates and Settlement Dynamics Project Shop in 2005 which was commissioned by the South African Banking Association. The intention of the research was to understand whether the financial institution could meet their FSC obligations in respect to housing. One finding of the research highlighted the significant absence of affordable housing and how this shortage of housing has created a price “gap” between BNG houses and the affordable houses. This shortage of affordable houses increases the price of these houses as people competitive bid for the limited supply, thus pushing the price of the affordable house out of reach for households earning between R 1 928 to R 9 670.

Simultaneously the RDP house value and price are being stifled by perceptions, a pre-emptive clause within the Deed of Title and the “informal” buying and selling of RDP housing. The perception of the value is based on the top structure subsidy (R43 506), that is people do not take into consideration the land value or the cost to service a site. Alida Koetzer the head of planning at Ekurhuleni indicated the replacement cost of a RDP house is R 110,000 to R 130,000 which includes land, internal services and top structure as well as roads and storm water. This is further verified by the municipal valuation register for Cosmo City whereby some of BNG houses were valued at R 130,000. The pre-emptive clause restricts the sale of an RDP house for eight years, thus preventing normal market transaction taking place between a willing buyer and willing selling and as a consequence an informal market has arise. The pre-emptive clause also gives government the first right of refusal on the fully subsidised house at the original replacement cost of the top structure.

Research in other countries suggests that integrated housing developments command a higher price than homogenous developments. Taking cognisance of the above and international research, the research project is based on a case study of Cosmo City the first integrated development in South Africa. The investigation includes the analysis of actual sales taking place within Cosmo City to determine year on year growth, obtaining the municipal valuations and a comparable between a BNG house and a credit linked house as well as two set of interviews to obtain a better understanding of the BNG residents of Cosmo City’s and professionals within the Affordable Housing Sub-Market. The research examines the perceived value verse the actual

value and tries to determine the potential value of a BNG house in an integrated development that has access to amenities and better services and suggests that the BNG house should command a sufficient value enabling mobility up a housing ladder in the Affordable Housing Sub-Market.

4.2 Hypotheses of the Research

Research was undertaken in the different housing market to test the following hypothesis:

‘Integrated housing developments as a type residential development have the potential to assist in bridging the ‘gap’ between ‘Breaking New Ground’ (BNG) housing and affordable housing: Cosmo City as a case study.’

The hypothesis is either accepted or rejected based on the information collected and analysed, detailing the “gap” in the low-income housing market.

The secondary hypotheses to be tested were the following:

- Cosmo City is considered an integrated development
- BNG houses within an integrated development have value
- The challenges surrounding the Affordable Housing Sub-Market supply and demand can be alleviated as a result of integrated developments.
- Integrated developments can potentially assist in normalising the Affordable Housing Sub-Market
- Formalising BNG property transactions help to maintain the value of BNG housing.

4.3 The research question

Integrated housing developments have the potential to assist in bridging the ‘gap’ between ‘Breaking New Ground’ (BNG) housing and affordable housing: Cosmo City as a case study.

5. Delimitations of scope

For the purpose of this report, subsidised housing refers to RDP housing which can be sold after eight years. Rental stock cannot be sold, as it belongs to the Social Housing Institution. However, instalment sale of rental stock does take place in this market and is not considered in this research.

There are currently two major gaps in the housing market, - the 'gap' between BGN and affordable housing units, and the one between the Affordable Housing Sub-Market and middle-market housing. As stated in the hypothesis, this study only considers the former.

This research project does not consider the affordability gap. However, it does discuss affordability in relation to supply and demand.

This research excludes the inclusionary market

6. Research design

The purpose of this study was:

- To understand the complexity of the Affordable Housing Sub-Market;
- To understand how 'gaps' between the BNG and affordable housing limit free-market trade in the low-income housing market;
- To understand the benefits of integrated/mixed income developments and understand if these communities are perceived by their inhabitants to have greater value
- To assess whether this value is sufficient to bridge the market gap
To assess that if the above is insufficient, what more needs to be done to normalise the market?

The research was undertaken in four phases.

6.1. Phase 1: - General research which comprised;

- A literature review on integrated developments
- Understanding the South African low-income housing market

6.2. Phase 2 – Detailed Research

6.2.1. Cosmo City – Case Study

- Background information
- Deeds data analysis on the sales that have taken place in Cosmo City to determine capital growth
- Assessment of the Municipal Valuations of the BNG units

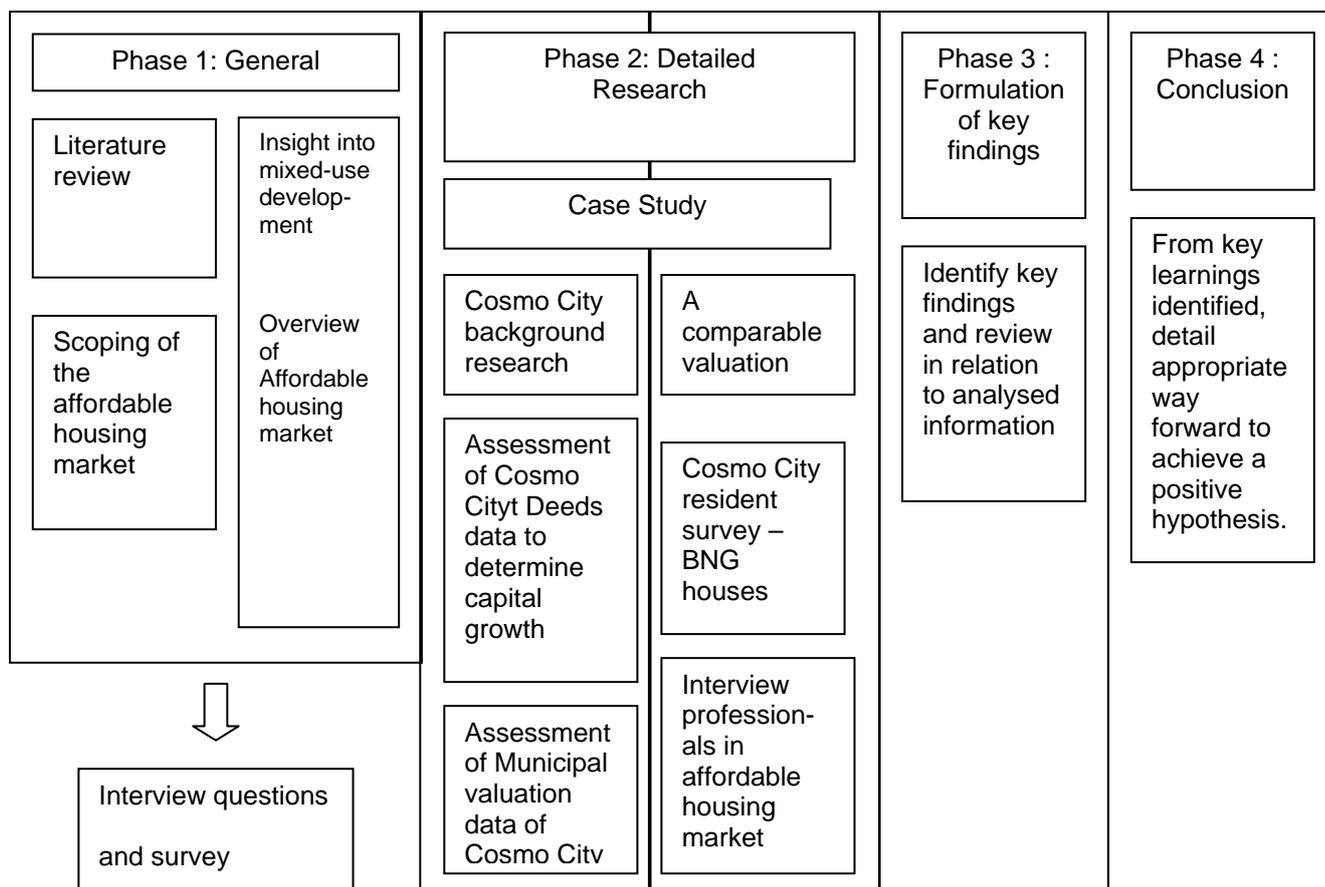
- A comparable valuation
- Interviews with BNG residents to obtain their understanding of value
- Interviews with professionals in the market including: developers, banks and government

6.3. Phase 3 – Formulation of Key Findings

- Identify key findings and review in relation to analysed information.

6.4. Phase 4 – Conclusion

Research design table. (This table is based on the table from the Township Residential Property Markets – Final report)



7. Research methodology

7.1 Phase 1: General Research

- Literature review: The literature review assessed the literature and includes case studies from both the South African and international market. As this study is based on the findings of the 'Research into Housing Supply and Functioning Markets' commissioned by the South African Banking Association, the review was broken down into economic conditions, housing supply, low-income housing markets and house price..
- Scoping of Affordable Housing Sub-Market: This involved understanding the state of the Affordable Housing Sub-Market at present, its demand and supply functionalities and how policy shifts have resulted in the development of integrated housing developments as a solution to normalising affordable housing markets.

7.2 Phase 2: Detailed Research

7.2.1 The Cosmo City Case Study

7.2.1.1. Background

The initial background information on Cosmo City was obtained by means of literature research as well as interviews conducted with the implementing partner of Codevco, the developer of Cosmo City as well as one other main contractor responsible for servicing of stands. This research provides insight to the challenges the project initially experienced and also the learnings which have been gleaned from a project of this nature. It also provided insight to the costings of the project and the funding thereof. The costings enabled one to determine the actual replacement value of the BNG houses which were built in Cosmo City. The funding of the project allowed for a better understanding of cross-subsidisation of the BNG houses in the development.

7.2.1.2. Deeds Data analysis

The deeds data for Cosmo City was obtained in its entirety courtesy of Property24. An interrogation of the deeds data pertaining to Cosmo City was undertaken. This investigation queries the data in order to establish the capital growth Cosmo City has experienced since the first transfer took place.

When the data was assessed, the data revealed that the actual selling price of the first house which was brought from the Johannesburg municipality was not reflected as most of the houses have been built on a plot and plan manner. That is, the land is paid for up front and then is financed by progress payments by the bank. So the deeds data of the initial sales only reflect the land sales. However, the deeds data does reflect the bond amount over the property, this has been used as the selling price. Although this is not an exact measure it must be noted that within this market 90% of the bonds are 100% LTV (Loan to Value). (Standard Bank). The data which has been utilised in

this analysis is data where a house has been transferred more than once, that is the house has been sold more than once since it was built. The first sale is reflected by the transfer from the Johannesburg municipality (seller) to purchaser e.g. Tina Dube with a bond registered in her name. The second transfer / second sale is reflects Tina Dube as the seller and Simon Tshabalala the purchaser with a bond registered in his name. The second selling price is reflected as the actual selling price as this transaction is a simple purchase of a property which includes the land, stand and top structure.

The data was screened and stands which were sold to developers such as RBA in lump sums was negated as one was unable to determine the initial selling price as the initial bond reflected is the RBA lump sum bond. The information was further screened to only incorporate the initial selling price / bond amount of houses up to R 300,000. In total 106 transfers of property were analysed over a period of three years. (See Appendix A for workings). The capital growth was calculated using the sales price minus the bond amount divided by the sales price.

7.2.1.3. Municipal Valuation analysis

The information was obtained via the valuation website. The values which where accessed correlate directly with the stand numbers of the Cosmo City houses which were interviewed. Note however, that only 192 properties were correlated as 5 house hold had 2 interviewees. The valuation done by the municipality is based on market value. "On a willing buyer, willing seller basis. The valuation system under the new Act will result in a more equitable system in that it will take into account what the property is actually worth" (Municipal website) (See Appendix B for workings). The capital growth of a BNG house was calculated using the Municipal Market Value minus the sales price (subsidy amount) reflected in the deeds date divided by the Municipal value.

A calculation to determine the actual potential capital growth using the both the Municipal value and the capital growth rate derived from the deeds data provides and indication of the potential amount a BNG could have fetched over the last 3 years.

7.2.1.4 Comparable valuation

A comparable valuation was then completed. This is subjective, however, is does compare two sales in Cosmo City with a BNG house. (Appendix C)

7.2.1.5. Interviews with Cosmo City Residents living in BNG houses

197 interviews were conducted with the residence of the RDP houses in Cosmo City at their homes. These were detailed qualitative interviews to gain

a better understanding of the fully subsidised market. The following issues were explored; ((Questionnaire – Appendix D)

- Number of residence
- Possession of a title deed
- Issues relating to value
- House extensions

7.2.1.6. Interview with professionals in the housing industry

Detailed interviews and research were conducted, which involved a qualitative in-depth interview with relevant parties within the Affordable Housing Sub-Market. These included:

- Banking institutions
- Developers
- Local /Provincial Government

Each of these interviews was tape-recorded and transcribed to maintain the accuracy of information (See Questionnaire – Appendix E)

7.3. Phase 3: Key Findings

The background information on Cosmo City is detailed. The findings from the various five analyses are described in relation to the seven sub-hypothesis questions.

7.4. Phase 4: Conclusion

The conclusion is based on the results from the key findings in relation to the hypothesis.

8. Case Study

8.1 Research Validity

This research seeks to determine whether there is a potential that integrated housing development can bridge the gap between BNG houses and affordable houses. One of the main constraints in this research is the lack of analytical information, firstly because no research has been conducted on the sales of RDP houses, it is known there is an informal market but the extent of it has not been documented. The informal market relates to the fact that there are a pre-emptive conditions associated with fully subsidised houses which place restrictions on the sale of the house. Secondly, integrated developments are new to South Africa, so there is little information regarding there successful.

However, the deeds data does give us some indication of capital growth. As stated previously this information is not exact as the initial seller price is captured as the land portion of the total package. Thus the bond amount is used as the selling price as 90% of the Affordable Housing Sub-Market acquires 100% LTV (loan to value) bonds over their properties.

The comparable valuation is subjective as are all valuations – however it does give one a general idea what a willing buyer is prepared to pay. The market value however can only be determined by a willing buyer and willing seller.

Two sets of surveys were conducted to assess the perceptions of people in the Affordable Housing Sub-Market. The first was conducted at Cosmo City, the first integrated development in South Africa, where people live in all housing typologies and includes various amenities such as schools and a convenience store.

197 random interviews were conducted with BNG housing residents in five different areas at Cosmo City. As 2,500 BNG units have been built and the beneficiaries have all moved in, this represented 7.8% of BNG residents in the development. All the analysed data is based on the full 197 interviews, except questions 21 and 23 of the questionnaire. These relate to the ranking of amenities, which was based on just 130 responses; the remaining interviews contained insufficient information.

The second sets of interviews (a total of 8) were conducted with professionals within the affordable housing field. These included developers, banking institutions, government officials and expert consultants. The interviewees were:

- Kecia Rust, Research Consultant, Finmark Trust,
- Annette Carstens, Senior Manager in the Affordable Housing division, Standard Bank
- Des Hughes, Managing Director, Basil Read Developments,
- Peter Hofmeyr, Director, JFS
- Maris Marais, Head of Affordable Housing, FNB
- Pierre Venter, Head of Affordable Housing, Banking Association
- Rudie Nortje, Project Manager, ABSA Devco
- Alida Koetzer, Head of Town Planning, Ekurhuleni,

The individuals were chosen in their capacity as specialist in the Affordable Housing Sub-Market.

8.2 Cosmo City – Case Study

8.2.1. Introduction

Cosmo City was the first fully integrated housing development in South Africa, containing all types of housing, including fully-subsidised, credit-linked, bonded and rental stock (yet to be built) units. The development also includes commercial use and various other amenities such as schools and churches. The development was produced through a PPP with the following stakeholders: Codevco (the Developers); the community; Gauteng Department of Agriculture, Conservation and Environment (GDACE), Johannesburg Water, Johannesburg Roads Agency (JRA, the Department of Minerals and Energy, Eskom; Pikitup; social services; the Education Department; Provincial Roads; health services; the South African Police Services (SAPS); South African Telecommunications (Telkom); the Society for the Protection of Animals (SPCA); beneficiaries; investors and other financial institutions.

Cosmo City is a mixed-use, mixed-income and mixed-housing typology development and is considered to be an integrated development. However, the BNG houses within Cosmo City are separated by a fence which runs the length of the development. The fence was a condition of the Record of Decision (RoD) prescribed by GDACE. Lemanski (2005) details in her research that “gated” communities reinforce segregation, which leads to the debate as to whether Cosmo City is a truly integrated development. That said, the BNG residents are benefiting from better locality, a higher level of services and accessibility amenities which are the fundamentals on an integrated development.



Source: Peter Hofmeyr, Cosmo City Presentation, Wits 2006

8.2.2. Background

The land, which covered an area of 1200 hectares, previously belonged to Absa Bank, which it has obtained through repossession. The land was then sold to the government and the Gauteng provincial government put it to tender to develop the first integrated housing development in 2000. The provincial government and the City of Johannesburg coordinated the project and appointed Codevco, a partnership between Basil Read and the Kopano ke Matla Trust (of which the Congress of Southern African Trade Unions (Cosatu) is the sole beneficiary) as the developers of the project.



Source: Peter Hofmeyr, Cosmo City Presentation, Wits 2006

Codevco began the township design process in 2001 and while it was anticipated to break ground by September 2002, the establishment process was not to be an easy exercise. Codevco submitted it for tribunal approval in 2001, to start in 2002. However, there were many objectors to the project. The Environmental Impact Assessment (EIA) process ran simultaneously and encountered many of its own challenges. GDACE would not make a decision and eventually, by the end of 2002, a negative draft ROD was issued to Codevco, which took GDACE to the constitutional court under Section 26 of the National Constitution in terms of the right to adequate housing.

GDACE revoked the original decision and in January 2003, issued Codevco with a positive and stringent ROD, being already three to four months late on breaking ground. In February 2003, Codevco received a notice of motion by the objectors of Cosmo City to halt the project. Codevco returned to court and in February 2004, eventually won the court case and could return to starting the Cosmo City development. Codevco was required to cover the cost as it was part of the Land Availability Agreement (LAA) and Service Agreement.

In February 2004, as Codevco was ready to break ground, the same objectors took Codevco to the Township Board of Appeal which resulted in the process begin stopped once again. Eventually, in October 2004, after the appeal hearings and ensuring that all the correct procedure had been followed, the Member of Executive Committee (MEC) decided to proceed with the project; the Township Broad had only made a recommendation. Ground was eventually broken in January 2005.

8.2.3. Agreements

Three essential agreement where signed in 2001. These included: a Capital Subsidy Agreement; a Land Availability Agreement; and a Services Agreement. These detailed each entity's responsibilities in developing the integrated community.

The Land Availability Agreement between the City of Johannesburg and Codevco stated that:

Clause 4.1

“... the DEVELOPER SHALL ...DEVELOP THE PROPERTY AS AN INTEGRATED DEVELOPMENT in accordance with the principles contained in the development proposal...”

Shall provide for

5 000 fully subsidized units

1 000 institutional (rental) units

Shall endeavour to provide

3 000 credit linked units

5 800 bonded units

Pay for the land

Install internal services

Specified target beneficiary communities are

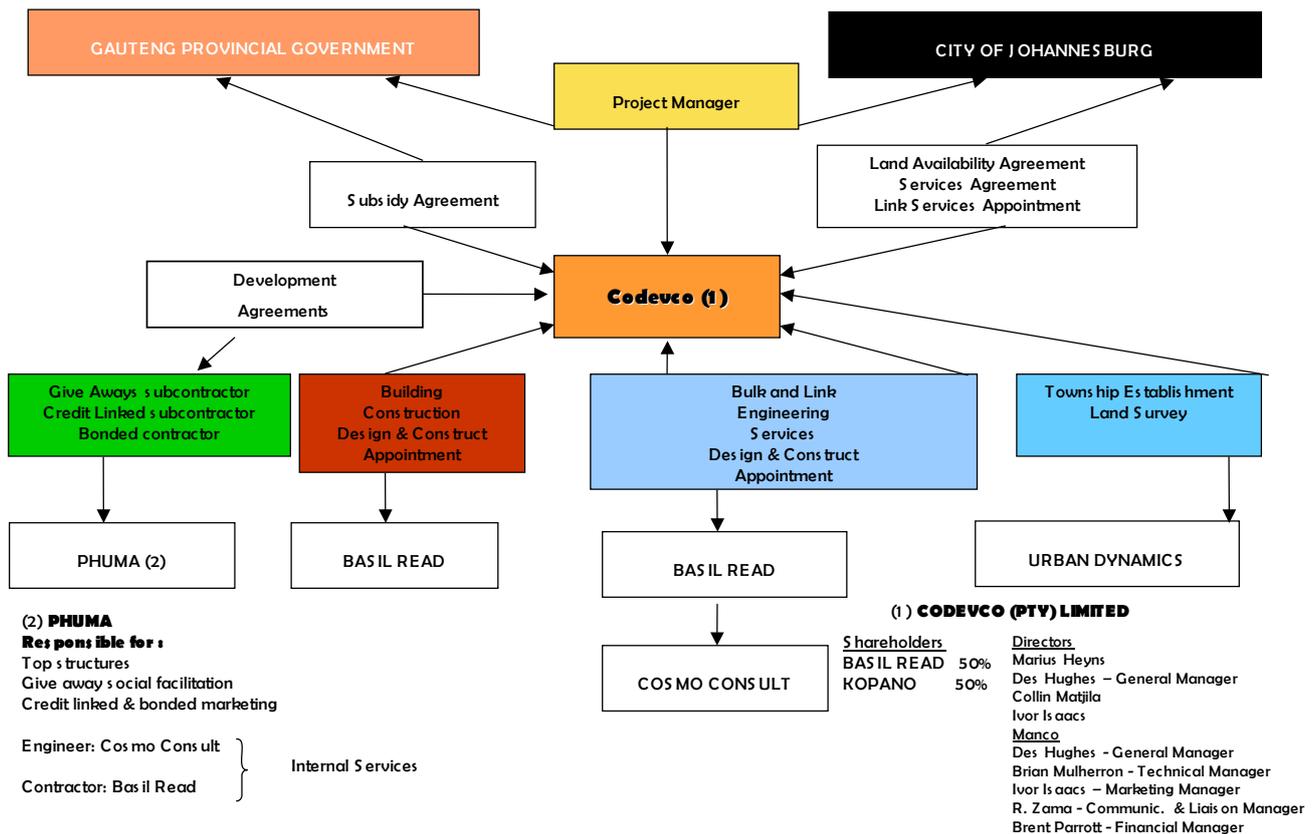
- Zevenfontein informal settlement
- Riverbend
- Existing farm families
- Skhosana family

(Source: Peter Hofmeyr, Cosmo City Presentation, Wits 2006)

The Capital Subsidy Agreement between the Department of Housing and Codevco detailed the Departments of Housing's (DoH) responsibility to provide 8,000 subsidies, 5,000 of which should be fully-subsidised houses and 3,000 of which should be credit-linked subsidies. It also included the time frame and details of the BNG housing that every unit must have two bedrooms, internal doors and a 1,8m x 1,8m bathroom.

The Service Level Agreement between the City of Johannesburg and Codevco detailed the City of Johannesburg’s responsibilities regarding bulk, link and internal services and Codevco’s responsibility regarding bulk contributions.

As for electricity, the Department of Minerals and Energy (DME) paid the City for the electrification of the project with City Power, installing the electrical infrastructure and handing it over to Eskom, the national power supplier, for maintenance.



8.2.4. Township Establishment and EIA

The township application was submitted in March 2002 and simultaneously the EIA commenced. The EIA revealed that the Cosmo City Site was an environmentally sensitive area. The sensitivities included erosion, storm water, water quality, geotech, flood-lines, fauna and flora (Red Data), noise, wetlands and traffic impact. In January 2003, the ROD encompassed the following conditions:

- Compilation of Environmental Management Plan (EMP), for approval
- Environmental Conservation Officer (ECO) to manage EMP implementation
- Compilation of Construction and Operational EMP
- Point of Sale (POS) for electrical and water not less than 5% of area, and within 10 minutes walk of every house
- North orientation of houses, or ceiling / insulation

- Education programme on environmental issues

(Source: Andrew Hofmeyr, *Cosmo City Presentation, Wits 2006*)

All medical plants, of which there were an estimated 20,000, were removed from the area and relocated to the Johannesburg Herbarium at the Walter Sisulu Botanical Gardens and Suikerbosrand Nature Reserve. An area of 200 hectares was fenced off as a conservation area and access is strictly controlled.

Township establishment was approved in December 2002. In 2003, a legal dispute arose in which members of the Jukskei Crocodile Catchment Area Forum (which included various property owners in the area) applied to the Johannesburg High Court, opposing the development. The application was eventually withdrawn as the team had failed to send legal representation and their appeal to the Provincial Township Board was dismissed in October 2004.

8.2.5. Contractors

The project contractors were as follows:

- Design
 - COSMOCONSULT – contracted to three parties
 - CODEVCO – Des. Construct (Link & Internal Services)
 - CoJ – Links
 - PHUMA – Internal
- Links
 - Basil Read / Tsibanang
 - Precast walling/ ER Walling
- Internal Bonded
 - VVB Construct
- Internal Subsidised
 - Dipcivils / Rainbow construction
- Electrical Retic
 - JSE
- Bonded Houses
 - Developers – Private (±60)
- Partially subsidised and fully subsidised houses
 - Phuma

(Source: Peter Hofmeyr, *Cosmo City Presentation, Wits 2006*)

8.2.6. Types of houses

Three types of housing have so far been constructed in Cosmo City; the rental stock and institutional units are yet to be built.

The current number and types of houses are:

- 5, 000 fully-subsidised units of 32m² on plots of 250m². Only those people earning less than R 3,500 a month qualify for these houses;
- 3, 000 credit-linked units, which are partially subsidised and 60m² in size. People earning R3 501 a month will qualify for these houses;
- 3, 300 fully bonded houses that will be sold on the open market; and
- 1, 000 institutional units that will be flats for rent.

The fully-subsidised housing was provided to the beneficiaries from the Zevenfontein informal settlement, Riverbend, the existing farm families and the Skhosana family. The credit-linked houses were provided to beneficiaries who applied for the subsidy and topped-up the value of their house using a mortgage facility. This enabled people to build bigger houses. The bonded houses were sold on the free market.

- Fully-Subsidised
 - 36 sq.m, two bedrooms, living room and bathroom
 - Additional capital subsidy (as pilot project)
 - Household income from R0 –to R3,500
 - “Give-away” house
- Credit-Linked
 - 45 sq.m and greater, higher spec, bond-financed
 - Government provided a R30,000 collateral deposit per house (initially R25,000)
 - Household income from R4,000 to R7,500 (initially R3,500 – R7,500 – but needed to be increased)
 - House price from R184,000 – R250,000
- Bonded
 - 50 sq.m minimum
 - All banks were consulted
 - Minimum house spec set by PHUMA
 - Architectural guidelines were set out
 - All stands were allocated to developers

The conditions to build the top structure were as follows;

- Affirmative procurement
- Health & safety -Machinery and Occupational Safety Act (OSHACT)
- Quality assurance programme
- Local labour and labour-intensive construction
- Architectural guidelines set out
- Environmental management programme (EMP)
- Single-bond originator

- Insurances – C.A.R. / Public liability

8.2.7. Amenities

- Schools
- Clinics
- Crèches
- Churches
- Commercial
- Municipal Offices
- Taxi Ranks
- Industrial Park
- Parks

According to Hughes, "commercial and industrial sites, churches and other sites will be sold on the open market and the Department of Education will foot the bill for schools development. The development costs of housing units will be borne by Codevco." .

Cosmo City is being constructed in two phases. The first phase consists of Cosmo Extension Proper, Extension Two, and Extension Three. The second phase is expected to begin before the end of the first phase.

8.2.8.. Black Economic Empowerment (BEE)

All the contracts that were signed contained a BEE component. In the Service Agreement (applicable to link services), the contact specified that 30% needed to be allocated to BEE contractors, 15% of local labour needed to be used on the project and intensive labour methods needed to be used, where possible.

The Capital Subsidy Agreement (See Addendum) detailed that the developer should ensure that BBEE (Broad-based BEE) and employment creation requirements of the DoH are met, that the employment of Previously Disadvantaged Individuals (PDIs) was of utmost importance and that the developer had to endeavour to meet or exceed the following participation requirements:

- | | |
|----------------------------------|-----|
| • Black participation | 70% |
| • Woman participation | 30% |
| • Local service providers | 40% |
| • Disabled persons participation | 5% |

8.2.9.. Financing

The financing of the project was done by various means

- Government contribution for subsidised houses and bulk infrastructure;
- Absa Bank financed the services and top structures were financed through all the banking institutions. First National Bank (FNB) financed top structures of 702 credit-linked houses;
- Codevco obtained financing from government departments for facilities such as schools.

<u>ACTIVITY</u>	<u>VALUE (MZAR)</u>
Development Cost	33
Purchase of Land (1100 ha)	27
Subsidy for 8000 units (5 000 @R35 900 + 3 000 @R11 750)	215
Institutional Housing (1000 units)	120
Engineering Bulk, Link & higher level of Internal Services	400
Engineering Internal Services (credit linked & bonded)	75
Engineering Internal Services for Non-Residential land	6
Electrification	30
Credit Linked Housing (3000 units)	200
Bonded Housing (3300 Units)	578
Schools (12 number)	108
Crèches	0.7
Clinics	15
Community Centers	3
Parks	3.5
Sport Centers	50
Street Trees	2
Environmental Fencing	17
Commercial - construction / development	100
Institutional (Churches etc.)	2
Industrial – construction / development	210
Service Stations (3 number)	3
Municipal	1
Land Sales	55
TOTAL	2254.2

8.2.10. Benefits

All stands have identical levels of services, i.e. water, sewerage and roads; and storm water drains.

Pre-paid electricity and water

Due to Cosmo City's location, the development has succeeded in rectifying the traditional relocation of poor communities to the outskirts of South African's cities and hence provides better access to opportunities within surrounding industrial area, Kya Sands and the greater Johannesburg Metropolitan.

Cosmo City was initially an informal settlement, which was transformed into the first integrated development where all stands received the identical levels of services.

8.2.11. Challenges

12, 500 houses were planned to be completed by the end of 2007 yet only some 5, 500 units were completed. The programme has had to be halved, as there are severe constraints on bulk services, namely sewage, as the Provincial Government still has not completed the necessary upgrade for the Cosmo City Project.

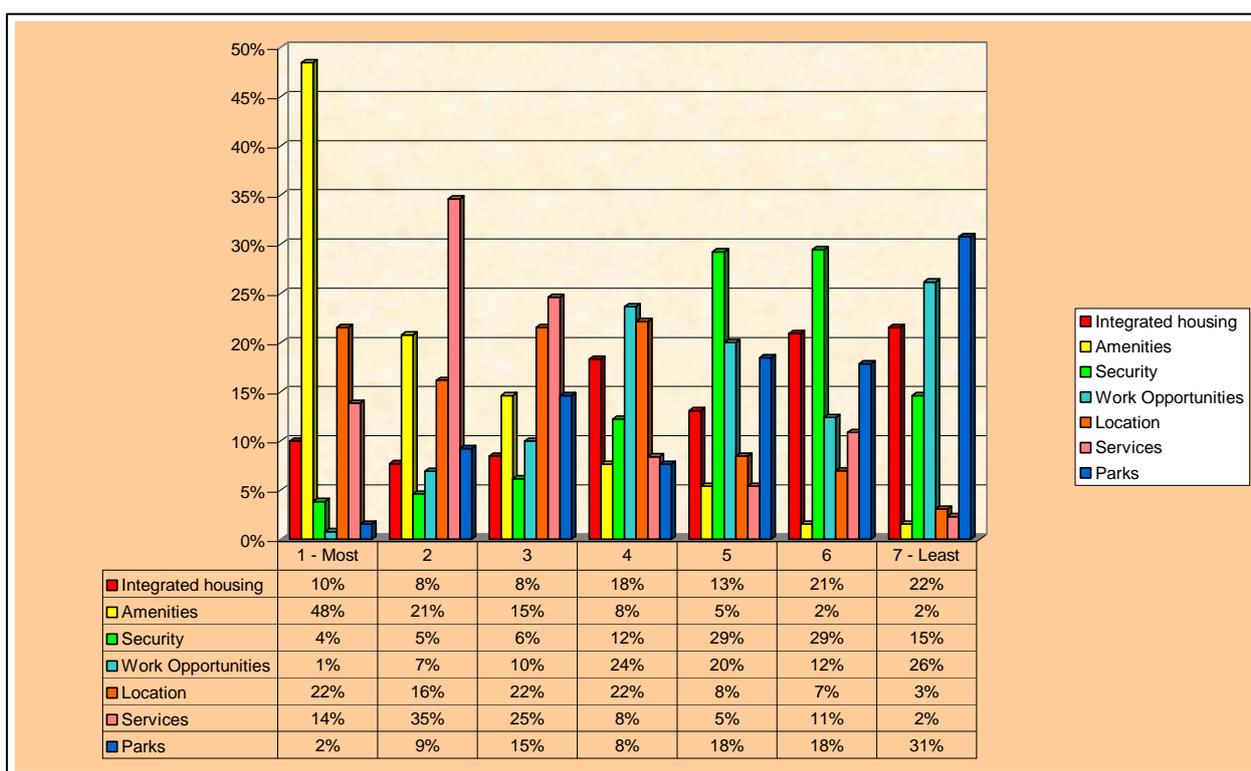
Eskom has proved a continuous challenge as its costing varies significantly and frequently. The implementation of its services has been extremely poor and erratic as there is no accountability at a project or government level. Having too many contractors on site to build the top-structure of the bonded houses has led to numerous problems. The largest so far has been the man holes, which, having been left open by the contractors, have caused gravel, sand and stones to be washed into the system through the rain, leading to massive clogging and serious overflow of sewage.

9. Key Finding - Information interpretation.

9.1 Cosmo City is considered an integrated development

The Cosmo City development is well located with access to existing infrastructure as it forms part of Johannesburg's urban fabric. Cosmo City caters for all income bands as it includes fully subsidised houses, credit-linked house as well as bonded houses, thus support households life stage changes. Cosmo City will also include a rental stock housing product - it is currently in the process of being built. The development also provides walkable social amenities such as schools, crèches, churches, taxi rank, play grounds and a convenience store. (A clinic is planned for the development too). The development is close to work opportunities within the area, while access to transportation is excellent as people simply walk out of their houses and catch a taxi in the street. From the above it is clear that Cosmo City provides mobility to its residents, its supply of housing caters for a mix of income levels as well as housing typologies and it provides essential amenities while facilitating mobility of residents through their life stages from a first time entrant into the property market through to retirement and as a result is an integrated development.

The graph below demonstrates the attribute of importance to Cosmo City residents. The graph indicates that the residents ranked amenities as the first most important attribute of the development and service levels second with location third. All three attributes indicate that Cosmo City is not merely a homogeneous development but a well was designed development which caters for walkability and mobility of its residents. The interviews with residential also determined that 76 % of its residents utilised the amenities within the development.



International literature indicates the necessity for all units within a mix-residential development to be at the same level of quality as it attracts the middle/upper income potential home owners and reduces maintenance costs. In Cosmo City the services through out the development are at the same level, no matter whether the house is fully subsidised or bonded. The Provincial Department of Housing provides the funding for fully subsidised house, that is they provide the basic services, water, electricity and sewage. However the subsidy does not include monies for tarred roads and storm water and thus funding for the upgrade of the service levels becomes a critical factor in a project’s viability as the funds for the upgrading are derived from the profits made from the bonded houses, this is known cross-subsidisation.

It has been suggested that cross-subsidisation in fact increases the gap as developers must increase the cost of the affordable bonded houses to cover the costs for the upgrading of the BNG units service levels while simultaneously ensuring the projects viability and profit margins. However, cross-subsidisation is essential in ensuring the success of integrated developments and the inclusion of mixed-incomes into developments. The level of success is determined by the proportions of housing types and income levels with the integrated development.

Given that amenities, service quality and location are major attributes associated with integrated development it can be concluded that Cosmo City is an integrated development.

9.2 BNG houses within an integrated development have value

To demonstrate the perception versus real value the research investigated the following; replacement cost of a BNG house in an integrated development, Cosmo City residents perception of their house value, professional commentary of BNG house value, deeds data, a comparable valuation and Municipal Valuation.

It was determined that the replacement cost of a fully subsidised BNG house is between R 70,000 – R 130,000 (Hofmeyr and Koetzer) which includes land, servicing the stand, top structure and top up services. 58% of the Cosmo City Residents believed the government only paid R 30,000 per BNG house. This is due to the fact that the top structure amount was R 31,929. The research indicates that over half of the residents were aware of governments contribution. The deeds data also reflects the selling price for the BNG units to be R 31,929.

It must be noted that although Cosmo City residents believed that government only contributed R 30,000 the average value the residents perceived their houses to be worth was R 44,836. That is people saw their houses to have approximately 50% or R 15,000 more value than its original cost. It is speculated but had government informed the residents of the true replacement for cost of their houses of R 70,000, residents could have valued their houses at just over R100,000.

A detailed analysis of Cosmo City's deeds data determined that over the past two years Cosmo City has experienced a 35% growth yield. Based on the replacement of R 70,000 in 2005 / 2006 one could calculate that a BNG house has escalated in value from R 70,000 to R 94,500. The investigation of the Municipal Valuations of the BNG houses where the interviewees lived revealed valuations from R 59,000 up to R 130,000 and correlates with the respective replacement cost previously mentioned. The Municipal Valuation is market value related.

The market value of a property is based on the 'willing buyer' 'willing seller' principle which relates to the price an individual is prepared to pay for a house subject to a house's attributes and the attributes worth to that particular individual. The Cosmo City's residents indicated that the most important aspect within the integrated development are the amenities, with 76% of the residents indicating that they use the amenities. This corroborates that the residents see value in Cosmo City's attributes and substantiates why 87% of the residents perceived their BNG houses to have more value than an RDP house.

The table below indicates the capital growth the BNG properties have experienced since transfer based on the Municipality Valuation. The deeds data reflects the selling price of these properties as R 31, 929, the top structure subsidy amount. The capital growth is determined by the Municipal valuation amount minus the "selling" price divided by the Municipal valuation amount. The growth experienced by the BNG houses is extremely high and

essentially unrealistic due to the inappropriately low “selling price”. Note “selling price” is in inverted commas as it is not an official selling price but the subsidy value of the top structure.

Summary of Municipal		
Valuation amount	No. of BNG house	Capital Growth (Based on R 31, 929 subsidy amount)
R 59,000.00	7	46%
R 65,000.00	1	51%
R 72,000.00	1	56%
R 74,000.00	4	57%
R 75,000.00	14	57%
R 76,000.00	4	58%
R 77,000.00	4	59%
R 78,000.00	18	59%
R 79,000.00	18	60%
R 80,000.00	38	60%
R 82,000.00	1	61%
R 83,000.00	1	62%
R 100,000.00	7	75%
R 130,000.00	24	
No owner in Deeds office	29	
No value given	21	
Average Municipal Value = R 87,035		R 87,035

The table below considers five scenarios concerning Cosmo City’s resident’s ability to move up the housing ladder to the next rung which is a credit-linked house priced at R 184,000, this was the smallest housing package in Cosmo City in 2007.

Three Scenarios	BNG House Value	Difference between the smallest credit linked package (R184,000)	Repayment over a 20 year period at an interest rate of 15.5%	Affordability - Based on repayment being 1/3 of Household income (Pre-NCA)
The average BNG value the residents perceived	R 44, 836	R 139,164	R 1,884	R 5,652
Replacement cost & Perception of value being almost double	R 70,000 + R 35,000 = R 105,000	R 79,000.00	R 1,070	R 3,209
Replacement cost & 35% growth over 2 years	(R 70,000*35%)+ R 70,000 = R 94,500	R 89,500.00	R 1,212	R 3,635
Average Municipal Valuation	R 87,035	R 96,965.00	R 1,313	R 3,938
Comparable Valuation	R 137, 040	R 46,960.00	R 636	R 1,907

The first scenario takes into account the average value the residents of Cosmo City perceived their houses to be worth @ R 44, 836. The difference between the credit – linked house and the BNG house is R 139,164. The repayment on a monthly basis is R 1,884 on a loan of R 139,164 at 15.5% interest rate over 20 years. That is a household will have to earn R 5,662 a month (based on pre-NCA criteria – 1/3 of house hold income) to afford a credit-linked house and leverage the household up the housing ladder.

The second scenario describes an issue which has previously been mentioned regarding the resident’s perception of value being approximately 50% more than what they thought government had paid for the BNG houses. This scenario is based on the fact that if residents had had full knowledge of

the replacement cost of their houses at R 70,000, their perceived value of their houses would be R 105,000 - that is the replacement cost plus 50%. The difference between the credit – linked house and the BNG house is R 79,000.00. The repayment on a monthly basis is R 1,070 on a loan of R 79,000.00 at 15.5% interest rate over 20 years. That is a household will have to earn R 3,209 a month (based on pre-NCA criteria – 1/3 of house hold income) to afford a credit-linked house and leverage the household up the housing ladder.

The third scenario considers actual values, the replacement cost of R 70,000 and the capital growth of 35% which has taken place in Cosmo City over the last two years. The difference between the credit – linked house and the BNG house is R 89,500. The repayment on a monthly basis is R 1,212 on a loan of R 89,500 at 15.5% interest rate over 20 years. That is a household will have to earn R 3,635 a month (based on pre-NCA criteria – 1/3 of house hold income) to afford a credit-linked house and leverage the household up the housing ladder.

The fourth scenario considers the actual valuation of the average Municipal Valuation from the Municipal Valuation register. The average Municipal Valuation for the BNG houses is being R 87,035. The difference between the credit – linked house and the BNG house is R 96,965. The repayment on a monthly basis is R 1,313 on a loan of R 96,965 at 15.5% interest rate over 20 years. That is a household will have to earn R 3,938 a month (based on pre-NCA criteria – 1/3 of house hold income) to afford a credit-linked house and leverage the household up the housing ladder.

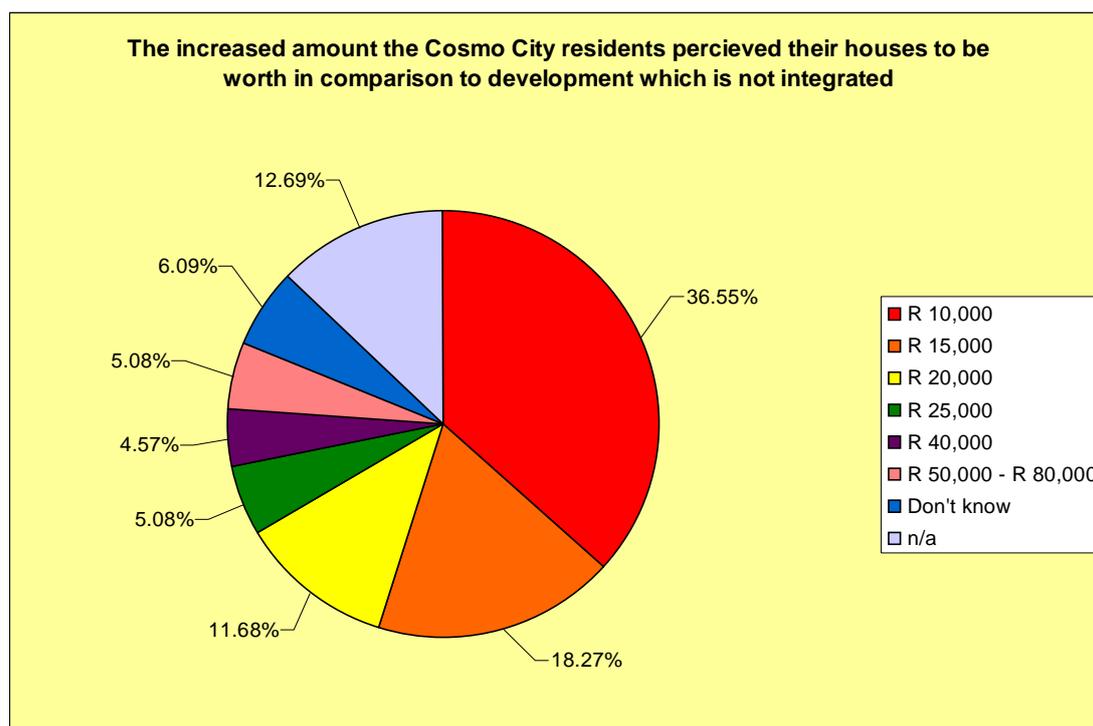
The last scenario is based on a comparable between a BNG, credit-linked and bonded house. (Almost all residential valuations are done by comparable valuation). The comparable valuation is R 137,040. The difference between the credit – linked house and the BNG house is R 46,960. The repayment on a monthly basis is R 636 on a loan of R 46,960 at 15.5% interest rate over 20 years. That is a household will have to earn R 1,907 a month (based on pre-NCA criteria – 1/3 of house hold income) to afford a credit-linked house and leverage the household up the housing ladder.

From these five scenarios it can be concluded that BNG residents are hindered in their mobility up the housing ladder as a result of being uninformed regarding the real value of their houses. If residents had a more accurate account of the value of their houses from both a replacement cost and Municipal Valuation aspect this could potential assists residents to move up the housing ladder. The comparable valuation gives an indication of the value a BNG house could fetch in a free market which is not impaired as a result of the pre-emptive condition of title which restricts the sale of a BNG house for eight years.

The comparable valuation below compares three properties within Cosmo City, a BNG house, a credit linked house and a bonded house. The comparable analysis correlates with the Municipal Valuation Register for some of the houses, as the value is R 137, 040.

Address	Subject Property - BNG House - Stand 1435		Comparable 1 - Stand No 316		Comparable 2 - Stand No 8833	
Sale Price (R's)	Municipal value	R 79,000	Sale price	R 300,000		R 380,000
Rights Transferred	Ownership		Ownership		Ownership	
Sub Total		R 79,000		R 300,000		R 380,000
Financing	0% Bond	0%	80% Bond	5.00%	100% Bond	10.00%
Sub Total		R 79,000		R 300,000		R 380,000
Conditions of Sale	Arm's Length		Arm's Length		Arm's Length	
Sub Total		R 79,000		R 300,000		R 380,000
Post Purchase Renovations		R 0		R 0	None	
Sub Total		R 79,000		R 300,000		R 380,000
Market Conditions	2 Years		2 Years	0%	2 Years	0%
Sub Total				R 300,000		R 380,000
Accessability	Good	0%	Excellent	-2%		-2%
Proximity to busy road (Noisy)	Far	0%	Close	5%	Close	5%
Land Size	257m2	0%	252m2	3%	280m2	-10%
House size	36 m2	0%	50m2	-20%	50m2	-20%
Number of Doors (to outside)	1 Exterior Door	0%	2	-3%	2	-3%
Building age	2 years	0%	18 months	-2%	2 years	0%
# Bedrooms	2 Bedrooms	0%	2	0%	2	0%
# Bathrooms	1 Bathroom	0%	1	0%	2	-5%
Separate lounge and kitchen	No	0%	Yes	-8%	Yes	-8%
Only DB Board and one plug point	Yes	0%	Plug points in all rooms	-10%	Plug points in all rooms	-10%
Geysers	No	0%	Yes	-15%	Yes	-15%
Plastered inside	No	0%	Yes	-3%	Yes	-3%
Platered outside	No	0%	No	0%	Yes	-8%
Tiles	Screeded floor	0%	Tiles in B/room and Kitchen	-4%	Tiles in B/room and Kitchen	-4%
Fachia Boards on roof	No	0%	Yes	1%	Yes	-1%
Wall	No	0%	Yes	2%	0	0%
Garden	Yes	0%	No	3%	None	3%
Net Adjustment				-48%		-71%
				-R 144,000.00		-R 269,800.00
Estimated value				R 156,000.00		R 110,200.00
Weighting				0.59		0.41
				R 91,420		R 45,620
Value of Subject House	R 137,040					

International research by Ryan and Weber, 2007 and Eppli and Tu (2000) has provided insight into the increased value people place on attributes associated with integrated development such as accessibility to work opportunities, infrastructure and amenities. The professional interviewees believed that a BNG house within an integrated development should have a value of R 45,000 more than a RDP house in a homogenous development. The BNG resident's interviewees concurred with the professionals as 36% believed their houses were worth R 10,000, 18% believing their houses were R 15,000 and 11.6% believed their houses were worth R 20,000 more than an RDP house in a homogenous development as see below in the chart.



9.3 The challenges surrounding the affordable housing supply and demand can be alleviated as a result of integrated developments

In the 2005 Nel, *et al* concluded several reports for the Banking Association which detailed dys-functionalities within the Affordable Housing Sub-Market; these included, land availability, capacity constraints, supply, demand and building costs. The report inferred that as a result of the previously stated challenges, a gap in the market has occurred whereby RDP residents are unable to leverage themselves up the housing ladder as price differential between the two housing types is significant.

Integrated housing developments such as Cosmo City attempt to address the supply constraints by developing houses which caters specifically to the

needs of the people who fall within the Affordable Housing Sub-Market. Cosmo City is designed for 12 500 housing units which includes;

- 5, 000 fully-subsidised units
- 3, 000 credit-linked units,
- 3, 300 fully bonded, and
- 1, 000 institutional units for rent.

Currently approximately 8000 of the units have been built. 8000 units is not a sufficient supply. It is however a start.

The challenges associated with the availability and accessibility to land can be alleviated to some degree through negotiation in the form of a Land Availability Agreement. Codevco the developers of Cosmo City have a Land Availability Agreement (LAA) with Johannesburg Municipality. This agreement provides the developer with the rights to develop the land. The LAA facilitates affordability as the Municipality receives its payment on transfer of the individual stands and not a lump sum amount up front, thereby reducing the holding cost of the land on the land.

Affordability is also taken into consideration at the planning stage of the project by providing a range of housing products which caters for all income levels in the Affordable Housing Sub-Market, which includes the fully subsidised give away house, the credit-linked house and the bonded house, as seen in Cosmo City. In Cosmo City the Provincial Department of Housing assisted with affordability by increasing the grant amount for the credit-linked houses.

Cross-subsidisation begins to address the building cost issue as the developer utilises profit margins to reduce the costs of the internal services for the BNG houses.

A project committee represented by all the relevant stakeholders was established early in the project as all the parties involved in Cosmo City had a vested interest to ensure the success of the development as Cosmo City was the first integrated development in South Africa, secondly it catered for the Affordable Housing Sub-Market and thirdly as a result of the scale of the project. The committee assisting in minimising capacity constraints experienced at local and provincial level (Des Hughes, Basil Reed Developments, 2007).

9.4 Integrated developments can potentially assist in normalising the Affordable Housing Sub-Market.

BNG houses within an integrated development have value, not only replacement cost value but intrinsic value associated with its attributes which includes upgraded service levels. The associated attributes will encourage people to purchase within the development thereby creating competitive

demand and in turn create further value and will consequently assist residents to leverage the household up the housing ladder. The normalising will occur as an integrated development encourages new and first time home owners into the market while supporting lifestyle changes by providing suitable accommodation further up the home ownership ladder. (Prince's Foundation, 2006)

A unique aspect of an integrated development is cross-subsidisation. Cross-subsidisation is a funding mechanism utilised by developers to cover the costs of upgrading services levels of BNG houses using profit margins. Cross-subsidisation ensures the viability of an integrated development by providing financial leverage to the development as well as providing intrinsic value as a result of the developments associated attributes. The Cosmo City residents indicated that services were the second most important aspect associated Cosmo City.

Integrated developments such as Cosmo City have assisted in providing housing stock in the Affordable Housing Sub-Market. Cosmo City has already supplied 8000 housing units in the Affordable Housing Sub-Market. Although this is a small fraction of the housing demand (2.7 mil fully subsidised houses are needed and approximately 700,000 credit-linked and bonded houses needed) its is a start. New proposed integrated developments include; Doornkop which will produce 22, 000 units, Dr Albert Luthuli – 11,000 units and Olivenhoutbosch – 8, 00 units, these are but a few of the integrated projects planned. Once the supply issue has been dealt with the demand issues should stabilise which in turn should assist with affordability. The latter is speculative, what is not speculative is that there are a number of integrated projects which have already begun in supplying the Affordable Housing Sub-Market.

9.5 Formalising BNG property transactions help to maintain the value of BNG housing.

The pre-emptive clause in the Title Deed of a fully subsidised house states that government has first option to buy back the house before eight years at its original replacement cost. A draft amendment to the Housing Act is currently with government to reduce this pre-emptive clause to 5 years. This clause hinders a free secondary market from occurring and encourages the informal sales of property at a value which is not market related and mostly well below the replacement cost of the unit. This suppresses the value of the houses and prevents mobility within the Affordable Housing Sub-Market. If the market was formalised government would have more control over the selling of these properties and it could assist in creating a functional Affordable Housing Sub-Market by opening up housing opportunities to first time entrants.

10. Conclusion

This report has aimed to prove that integrated housing developments as a type residential development have the potential to assist in bridging the 'gap' between 'Breaking New Ground' (BNG) housing and affordable housing using Cosmo City as a case study.

The international literature review details the various different types of mixed housing developments and their contributions to alleviating concentrations of poverty via inclusionary mechanisms as well as the prevention of urban sprawl through densification and diversification. The key driving characteristics of these developments are mobility and accessibility, both of which are also essential in the South African context, as they are the enabling factors to work opportunities.

An important issue to remember is that the number of persons who require affordable housing and fully subsidised housing in developing countries exceeds those in developed countries. The challenges as a result of these excessive volumes create distortions within the housing market which can only be rectified by effective and efficient contributions from both the public and private sector, supported by policy and regulations which facilitate the development of integrated housing as part of the greater spatial framework within the urban fabric of a city or metropolitan area.

South Africa adopted the integrated approach to development as a direct consequence of its flawed original housing policy that reinforced marginalisation and segregation. The new "Breaking New Ground" policy outlines the necessity to build sustainable human settlements. As the literature review suggests, sustainability is obtained via integration as it supports social and economic growth via increased mobility and accessibility to amenities and work opportunities.

However, the South Africa's Affordable Housing Sub-Market is thwart with dysfunctions and contains a significant price "gap" between a BNG and an affordable house. This price "gap" considerably inhibits mobility within the housing market and is attributed to three main causes, namely; affordability, demand and supply, all of which intensify the inelasticity in the Affordable Housing Sub-Market resulting in substantial market distortion.

The concept that integrated developments will assist in bridging the "gap" between a BNG house and an affordable house is derived from the fact that BNG houses within an integrated development have increased levels of mobility as a result of locality, better service levels and accessibility to amenities within the development (mixed land uses) and surrounding urban infrastructure and therefore should command a higher value.

The investigation highlighted that Cosmo City as an integrated development experienced a 35% capital growth over the last three years. Municipal valuations of the BNG units ranged from R59,00 to R130,000 indicating that

there is a that market value to a BNG house and thus intrinsic value. Market value is based on a willing buyer and willing seller basis, thus eluding to the fact that BNG houses have the potential to be purchased based on a purchasers subjectivity and the price a purchaser will be willing to pay for a property and its associated attributes.

Cosmo City as an integrated development has associated attributes which include; good location, accessibility to amenities and work opportunities; and increased service levels for BNG houses. These attributes increase the intrinsic value of a property and thus the property value assisting household to move up the housing ladder

Interviews with BNG residents within Cosmo City and affordable housing experts all agreed that a BNG house should fetch a higher value as a consequence of a BNG house being part of an integrated development as it is well located, providing mobility to work opportunities and accessibility to amenities.

One of the conclusions drawn by this research is that if government had replacement cost value of a fully subsidised house and included land, stand, top structure and where appropriate top up service costs into its costings, the public would have a better perception of the value of their property and of their assets. This would assist in bridging the “gap” as a greater collateral deposit could be made thus reducing the loan amount required and therefore making a house more affordable.

The conclusion is that my hypothesis cannot be substantiated as yet as a BNG house cannot be sold or purchased due to the pre-emptive clause which restricts the sales of BNG houses for a period that is no sales of BNG houses have as yet taken place. However, the research does determine that BNG house has both perceived and real value.

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12. Annexure A: Cosmo City Deeds Data Analysis

13. Annexure B: Cosmo City Municipal Valuations Analysis

14. Annexure C: Cosmo City Comparable Valuation

15. Annexure D: Cosmo City BNG Residential Survey and Analysis

15.1 Cosmo City – BNG Residents Survey

No. _____

Research Proposal - Survey
Wits University

1. Name _____

2. Physical Address _____

3. Garden Yes No

4. No. of people living in the house

5. No. of males living in the house No. of Males living in the house

6. Household income

7. Do you have your title deed? Yes No

8. Do you bank with a bank?
Absa SBSA FNB Nedbank

9. From where were you relocated?
? _____

10. Do you consider this house your home? Yes No

11. How much do you think it cost the government to build your house including the land and services?

R 30,000	R 40,000	R 50,000	R 60,000	R 70,000	R 80,000	R 90,000	R 100,000	R 110,000
----------	----------	----------	----------	----------	----------	----------	-----------	-----------

12. If you wanted to /or could, how much would you sell your house for today? (How much do you think

your house is worth) _____

13. Have you added onto your house? Eg another bedroom

Yes

No

14. Have you considered adding onto your house? Eg another bedroom

Yes

No

15. What would you add onto your house? _____

16. Do you think adding onto your house will increase its value

Yes

No

17. If answered yes - what does that mean for you?

More space

Better living conditions

Increase in household income

You can sell your house at a higher price

Better access to banking finance

18. How would you finance your add on?

Microloan

Cash

Bond

19. Have you tried to get a loan from the bank?

Yes

No

20. Were you successful?

Yes

No

21. Do you understand the idea of collateral?

Yes

No

22. Do you think living in a community such as Cosmo City makes your house more valuable

Yes

No

23. Why? (rank 1 - 7)

Integrated Housing

Amenities - schools, churches and crèches

Walled Community

Work opportunities

Location

Services (Rubbish removal)

Park areas

24. If you think your house is worth more in a community such as Cosmo City, how much more?

R 10,000	R 15,000	R 20,000	R 25,000	R 40,000	R 50,000	R 60,000	R 70,000	R 80,000
----------	----------	----------	----------	----------	----------	----------	----------	----------

25. Do you use the amenities in the community?

Yes

No

26. Would you buy a bigger house in Cosmo City if you could or would you move out?

Stay

Go

27. Why

28. Do you think that communities such as Cosmo City are better to live in compared to an

Alex Ext 7 for example?

Yes

No

29. Why? (rank 1 - 5)

Integrated Housing

Amenities - schools, churches and crèches

Walled Community

Work opportunities

Location

Services (Rubbish removal)

Park areas

Other _____

15.2 BNG Residents data analysis

1. *Half of the households have gardens*

Garden	% of people with Gardens
no	51%
yes	49%

The relevance of this question relates to house-pride and the expense people were prepared to incur to grow and maintain a garden. In many of the gardens, vegetables were grown thus supporting a more sustainable lifestyle.

2. *The average household has 3.67 persons per house*

No. of people living in the house	% of No. of persons in house
1	3%
2	19%
3	32%
4	20%
5	13%
6	7%
7	3%
8	2%
9	1%

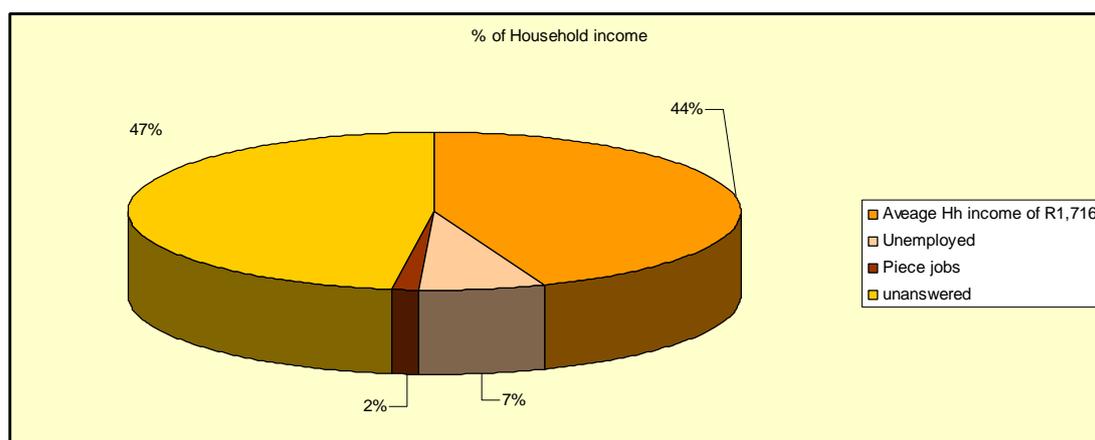
The majority of households have three to four members. 19% have two members, 26% have five or more members. One household has nine members living in a 36m² two-bedroom house.

3. *More males than females live in the houses*

	Number	%
Males	368	51%
Females	355	49%

4. The average household income is R 1,716

Household income	% Household income
Average HH income of R1,716	44%
Unemployed	7%
Piece jobs	2%
Unanswered	48%



44% of Cosmo City residents have an average household income of R 1, 716. 48% did not provide an answer so we can assume that the households have some form of income or they would have said they had no income or that they were receiving a government grant, as 7% of the residents stated.

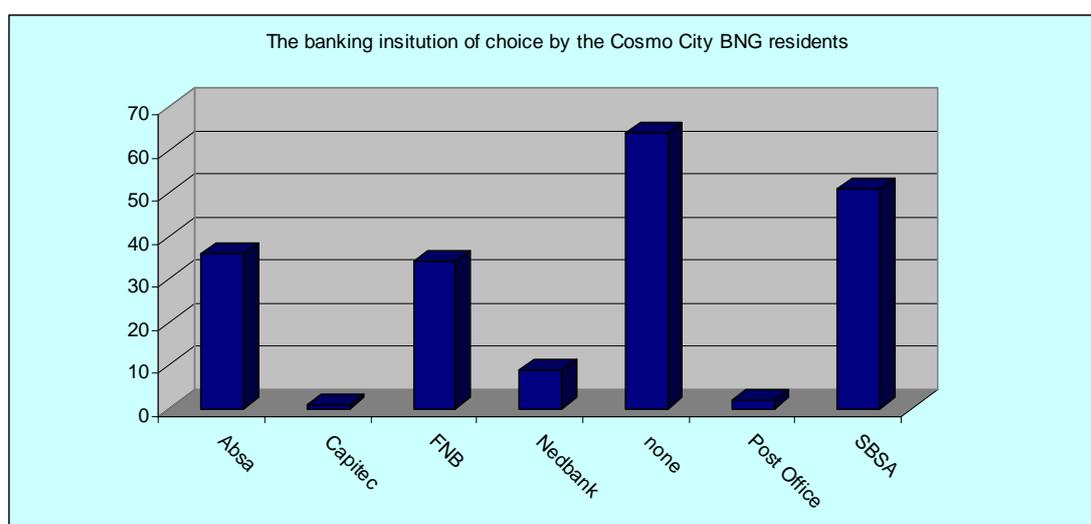
5. Almost half have no title deeds to their property

Title deed	% Title deed
Don't Know	1%
no	49%
yes	50%

Almost half of the residents interviewed claimed they did not yet have their title deeds. The process seems to take at least six month and is fairly complicated. The title deed stipulates that the owner cannot sell his or her property for eight years after obtaining it. This is a restrictive condition which the Government has included as part of the subsidy package to prevent people from selling on their property immediately obtaining it, in most cases, for a fraction of the replacement cost.

6. Most residents have some form of banking facility

Bank	% of residents
Absa	18%
Capitec	1%
FNB	17%
Nedbank	5%
none	32%
Post Office	1%
SBSA	26%



70% of the residents claimed they had some form of banking facility, while 32% claimed they did not have bank accounts. This is an indication that banking is becoming more accessible to the lower-end of the market and people are becoming more accustomed to using banking facilities.

7. Most of the residents (97%) were relocated from Zevenfontein and 3% from Riverbend

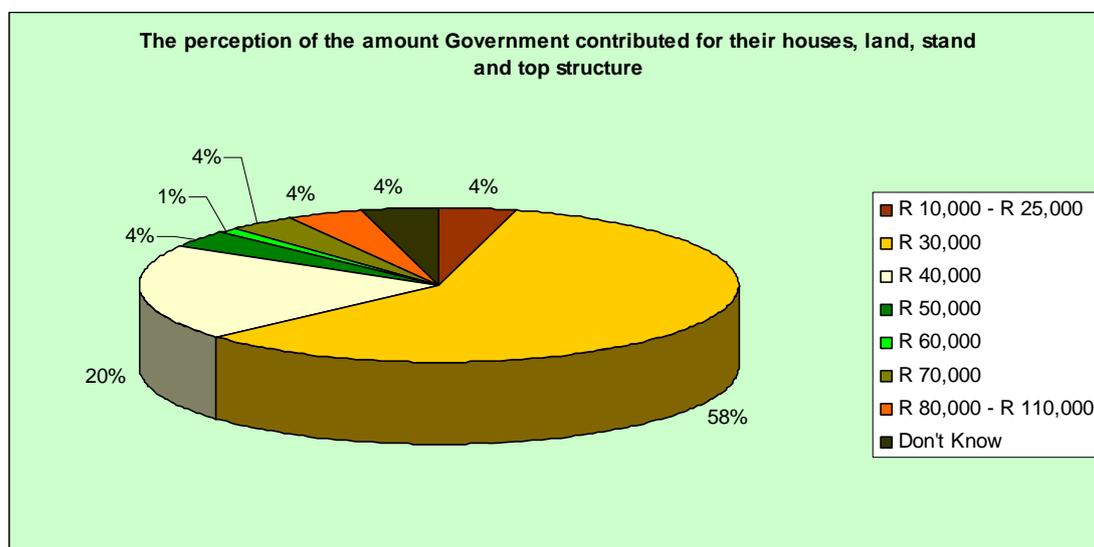
8. Most of the residents consider Cosmo City their home.

Home	% of people which consider Cosmo City their home
no	3%
yes	97%

Most people interviewed consider Cosmo City to be their home. The few that didn't referred to their rural homesteads as home.

9. Most BNG residents believe that the average amount government has spent on for land, services and top structure per home is R38,101

Cost to Gov	%
R 10,000	1%
R 11,000	1%
R 15,000	1%
R 20,000	1%
R 25,000	1%
R 30,000	58%
R 40,000	20%
R 50,000	4%
R 60,000	1%
R 70,000	4%
R 80,000	2%
R 85,000	1%
R 100,000	2%
R 110,000	2%
Don't Know	4%



The perception among 58% the BNG residents of Cosmo City was that government contributed R 30,000 for the land, stand and top structure (as per the question). The subsidy amount for the top structure alone was R 31,929. When doing a deed search it stipulates the selling price of the property as R 31,929.

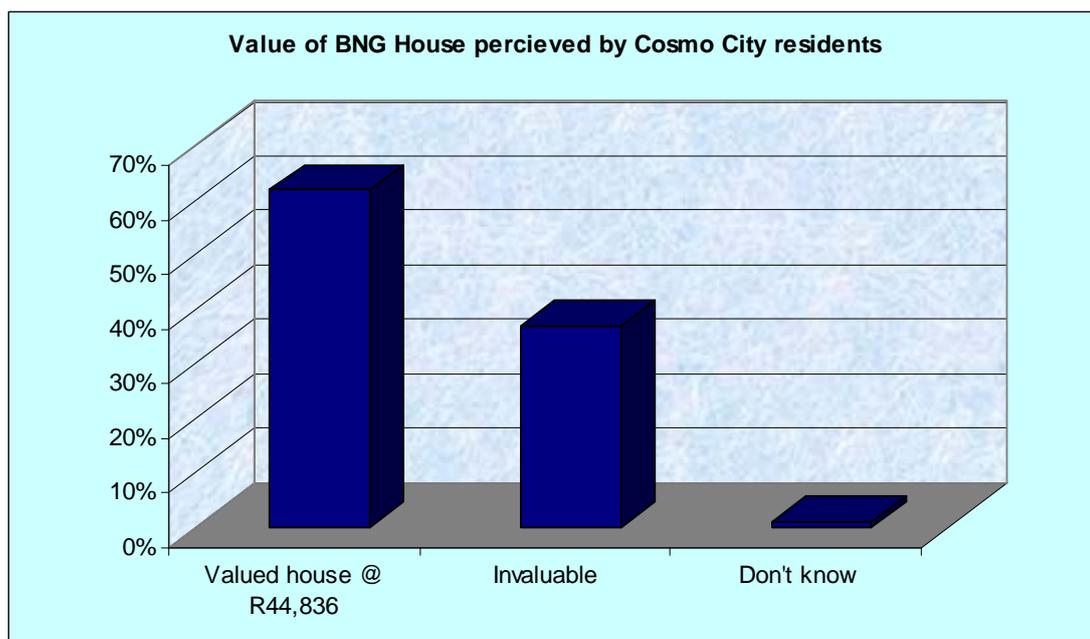
10. How the residents perceived the value of their house if they had to sell it today.

Value of House	%
R 5,000	2%
R 10,000	3%
R 15,000	3%
R 20,000	2%
R 25,000	2%
R 30,000	8%
R 35,000	2%
R 40,000	14%
R 45,000	2%
R 50,000	13%
R 55,000	1%
R 60,000	3%
R 70,000	3%
R 80,000	3%
R 90,000	1%
R 100,000	1%
R 110,000	1%
R 130,000	1%
R 250,000	1%
Don't Know	1%
invaluable	37%

Average House Value	%
Value of house @ R44,836	62%
Don't know	1%
Invaluable	37%

62% of the residents said that their house was worth approx R45,000. (Average house value as seen above) Just under 40% said their house was invaluable i.e they would never sell it and would leave it to their children.

Note: Houses only have value when sales take place involving a willing buyer and a willing seller. The market value of a house is usually determined by comparable sales.



11. Most people have not made extensions to their homes

Have Extension	% of people who have extended
no	98%
yes	2%

Most people had not extended their houses. The 2% that had had built garages and walls and added some paving.

12. Most people wish to add extensions to their homes

Want to extend	% people who want to extend
no	27%
yes	73%

73% of the residents said that they wished to extend their home at some stage in the future.

13. Most people thought an extension would add value to their home

Increase Value	% of people who thought extending would add value to their property
Don't Know	2%
n/a	27%
no	3%
yes	68%

68% of residents said that extending or adding sections to their house would add value to their property. 27% of the responses were not applicable as the people had indicated in the previous question that they did not wish to extend their homes.

14. Most people would add a bedroom to their home

Type of extension	
Bathroom	7%
1 Bedroom	19%
2 Bedrooms	38%
3 Bedrooms	2%
Garage	10%
Kitchen	6%
Dining room	5%
Lounge	5%
Laundry	1%
Wall	4%

60% of the residents said they would add on extra bedrooms.

15. Most wished to have more space

Why would one extend	
More Space	43%
Better Living Conditions	23%
Inc in Household Income	0%
Inc Value of House	12%
Better access to Finance	1%

Most said they would extend their homes to have more space and have better living conditions.

16. Most would finance an extension using cash

How finance	How would they finance their extensions
bond	5%
cash	39%
microloan	29%
n/a	28%

Only 5% of residents considered using a mortgage bond to finance their extension. The remainder said they would use cash or micro-loans.

17. Most people have not tried obtaining a loan from a banking institutions

Have you tried to get a loan from the bank?	Have you tried to get a loan from the bank?
no	85%
yes	15%

18. Most people did not succeed obtaining a bank loan

Were you successful?	% of people who were successful
n/a	85%
no	7%
yes	8%

Only 8% of those who applied for a bank loan had obtained one.

19 Residents were asked if they thought their properties were worth more because they were in a housing development such as Cosmo City – compared to a RDP developments such as Diepsloot or Alex 7 housing development .

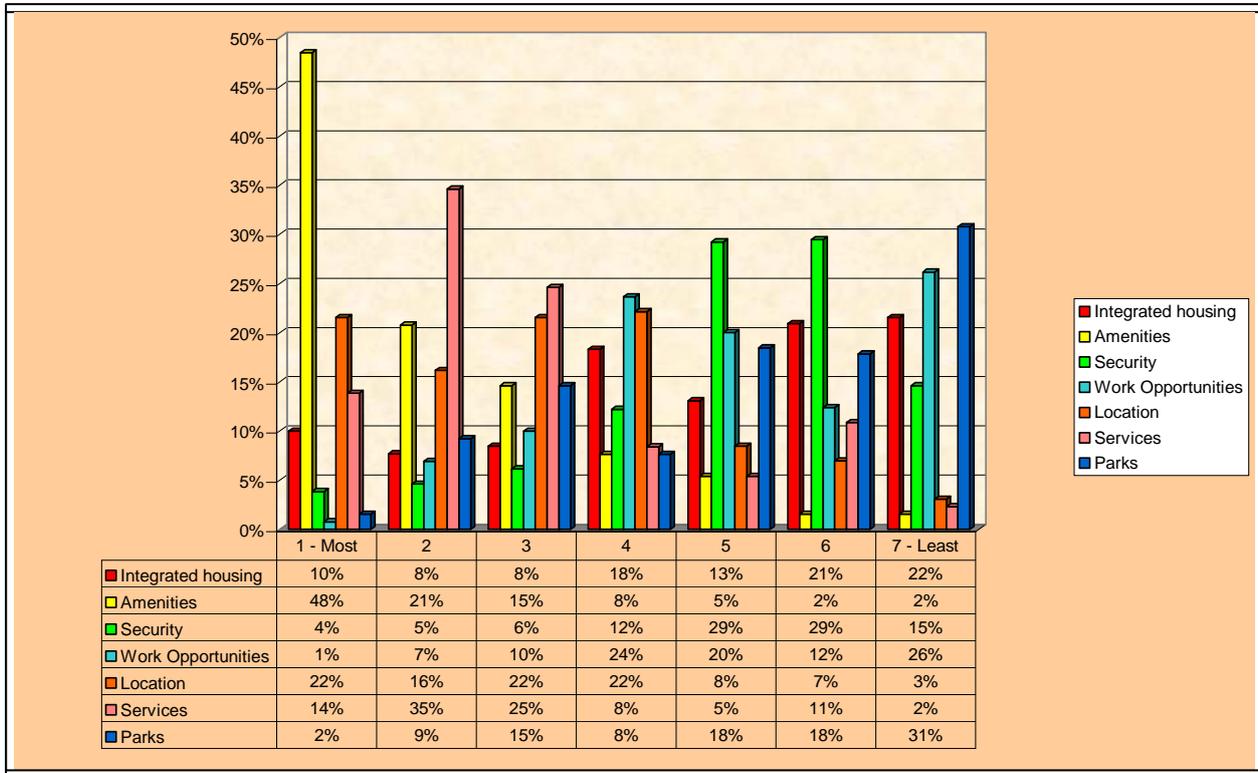
Cosmo City makes your house more valuable	% that thought being in Cosmo City made their house more valuable
Don't know	3%
no	10%
yes	87%

87% of the BNG residents who were interviewed said they thought that their properties were worth more because they were in a development such as Cosmo City.

They were then asked why and to rank their answers 1 to 7, 1 being the highest and seven being the lowest. The options included;

- Integrated housing – mixed use, tenure & typology
- Amenities – schools and shops (clinics yet to be built)
- Security – walled environment
- Work Opportunities – access to employment
- Location - mobility
- Services – Water, electricity & refuse removal
- Parks – open spaces

19. The residents were asked to rank what was most important to them in the development (1 most – 7 least)

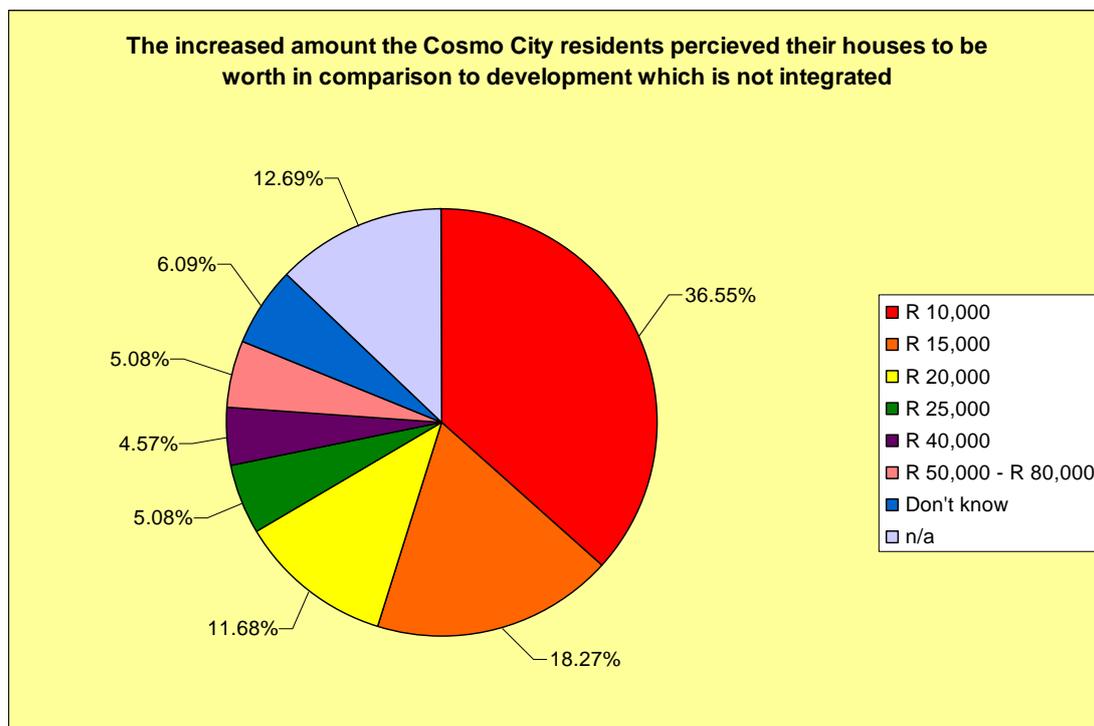


	1 - Most	2	3	4	5	6	7 - Least
Integrated housing	10%	8%	8%	18%	13%	21%	22%
Amenities	48%	21%	15%	8%	5%	2%	2%
Security	4%	5%	6%	12%	29%	29%	15%
Work Opportunities	1%	7%	10%	24%	20%	12%	26%
Location	22%	16%	22%	22%	8%	7%	3%
Services	14%	35%	25%	8%	5%	11%	2%
Parks	2%	9%	15%	8%	18%	18%	31%

Residents ranked amenities as highest and services as the second most important, location as the third highest and work opportunities as fourth most important reason as to why they believed their properties were more in a development such as Cosmo City. The fact that they development was integrated to the residents was the least important.

20. Additional perceived value of a property as a result of being in a development such as Cosmo City

how much more	%
R 10,000	37%
R 15,000	18%
R 20,000	12%
R 25,000	5%
R 40,000	5%
R 50,000	2%
R 60,000	1%
R 70,000	2%
R 80,000	1%
Don't know	6%
n/a	13%



36.5% of the residents believed their properties to be worth R 10,000 more compared to a housing unit in a RDP housing development. 18.27% believed Their homes were worth R 15,000 more and 11.6% believed them to be worth R 20,000 more. The average was R 18,500.

21. Use of amenities in the development.

Do you use the amenities in the community?	% of people using the amenities
no	24%
yes	76%

Most said they used the amenities in the development.

22. Staying on in Cosmo City when a bigger house becomes affordable

you move out	
go	9%
stay	91%

Most respondents said they would remain in Cosmo City even when they could afford a larger home.

16. Annexure E: Cosmo City – Professional Survey and Analysis

No. _____

<p><u>Research Proposal - Survey</u> <u>Wits University</u></p>

1. Name _____

2. Physical Address _____

3. Garden Yes No

4. No. of people living in the house

5. No. of males living in the house No. of Males living in the house

6. Household income

7. Do you have your title deed? Yes No

8. Do you bank with a bank?
Absa SBSA FNB Nedbank

9. From where were you relocated?
? _____

10. Do you consider this house your home? Yes No

11. How much do you think it cost the government to build your house including the land and services?

R 30,000	R 40,000	R 50,000	R 60,000	R 70,000	R 80,000	R 90,000	R 100,000	R 110,000
----------	----------	----------	----------	----------	----------	----------	-----------	-----------

12. If you wanted to /or could, how much would you sell your house for today? (How much do you think

your house is worth) _____

13. Have you added onto your house? Eg another bedroom

Yes

No

14. Have you considered adding onto your house? Eg another bedroom

Yes

No

15. What would you add onto your house? _____

16. Do you think adding onto your house will increase its value

Yes

No

17. If answered yes - what does that mean for you?

More space	<input type="checkbox"/>
Better living conditions	<input type="checkbox"/>
Increase in household income	<input type="checkbox"/>
You can sell your house at a higher price	<input type="checkbox"/>
Better access to banking finance	<input type="checkbox"/>

18. How would you finance your add on?

Microloan Cash Bond

19. Have you tried to get a loan from the bank?

Yes

No

20. Were you successful?

Yes

No

21. Do you understand the idea of collateral?

Yes

No

22. Do you think living in a community such as Cosmo City makes your house more valuable

Yes No

23. Why? (rank 1 - 7)

Integrated Housing	<input type="checkbox"/>
Amenities - schools, churches and crèches	<input type="checkbox"/>
Walled Community	<input type="checkbox"/>
Work opportunities	<input type="checkbox"/>
Location	<input type="checkbox"/>
Services (Rubbish removal)	<input type="checkbox"/>
Park areas	<input type="checkbox"/>

24. If you think your house is worth more in a community such as Cosmo City, how much more?

R 10,000	R 15,000	R 20,000	R 25,000	R 40,000	R 50,000	R 60,000	R 70,000	R 80,000
----------	----------	----------	----------	----------	----------	----------	----------	----------

25. Do you use the amenities in the community?

Yes No

26. Would you buy a bigger house in Cosmo City if you could or would you move out?

Stay Go

27. Why _____

28. Do you think that communities such as Cosmo City are better to live in compared to an

Alex Ext 7 for example? Yes No

29. Why? (rank 1 - 5)

Integrated Housing

Amenities - schools, churches and crèches

Walled Community

Work opportunities

Location

Services (Rubbish removal)

Park areas

Other _____

1) Do you agree with this statement?

“Integrated housing developments delivered via Public Private Partnerships will assist in normalising the Affordable Housing Sub-Market by bridging the gap between BNG and affordable housing.”

All of the professionals interviewed initially agreed with this statement. There was agreement that integration led to better locality and thus greater mobility which provided better access to work opportunities and amenities. Integration lessened the effect of gentrification and provided better social integration and networking potentials, which could lead to improved work opportunities. Integration assisted in encouraging people to aspire to bigger houses thus encouraging household to extend.

Value is also created by the level services and their maintenance within a development. Government is only responsible for basic services such as sewerage, electricity and water. An environment without roads and storm water drainage is expensive to maintain and does not provide conducive living conditions or an environment in which people see value. People are thus less inclined to invest time or money in their properties. This leads to poorly maintained houses and areas which people are then less inclined to move into. People are then also more inclined to sell their properties well below replacement cost, which exacerbates the dysfunctionality within the Affordable Housing Sub-Market.

2) What aspects of an integrated development assist with value creation of properties within an integrated development?

The common thread between all the professionals’ answers was locality, mobility and accessibility, all of which are essential elements for the provision of potential work opportunities. Work opportunities and its accessibility ensures a more sustainable community.

3) What do you think adds the greatest value (1 highest – 7 lowest)?

Integrated Housing	
Amenities - schools, churches and crèches	
Walled Community	
Work opportunities	
Location	
Services (Rubbish removal)	
Park areas	

Most the professionals ranked work opportunities as the most important factor in adding value to a property, the second being location and the third, amenities. They agreed that without access to work opportunities, a community cannot be sustainable. Work opportunities provide an income for the family which enables a household to pay rates and taxes as well as save or utilise whatever disposable income it has to invest into properties. This increases the property’s asset value which can then be used as leverage when the family can afford a larger home. This also helps to normalise the affordable housing secondary market.

4) How much do you think it costs Government to purchase the land, stand and top structure for an RDP unit?

R 30,000	R 40,000	R 50,000	R 60,000	R 70,000	R 80,000	R 90,000	R 100,000	R 110,000
-------------	-------------	-------------	-------------	-------------	-------------	-------------	--------------	--------------

The average amount was perceived to be R 92,500, with the highest amount being R 130,000 and the lowest being R 66,000. All the professionals agreed that government does not take into consideration the land and services in the subsidy amount.

5) 57.4% of people in Cosmo City stated that the government spent R 30,000 on building their entire property, including land and stand services. Thus are we not de-valuing property right from the start as most people know what their subsidised top structure is? It is registered as R 31,929 at the deeds office. A developer stated that the actual total recovery cost of a property would be approximately R 66,000. How do we change perceptions?

According to professionals, this is a major issue but is difficult to rectify. Subsidies have never considered land and stand. If the government starts to include it, people may believe that their homes, which had it as a “hidden” subsidy, are an inferior product. However, this issue does need to be rectified as it is skewing the perceived worth of a “give away” house and would make a difference when a household can afford to move up the housing ladder.

6) Do you think an RDP house is worth more in a development like Cosmo city?

Yes No

All professionals concurred that BNG housing is worth more than a RDP unit in an RDP development.

Additional worth

R 10,000	R 15,000	R 20,000	R 25,000	R 40,000	R 50,000	R 60,000	R 70,000	R 80,000
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The average additional worth was believed to be R 45,000. All agreed that a BNG house in an integrated development is of greater value than an RDP house.

7) Do you think integration is sufficient to assist in bridging the gap between BNG housing and affordable housing?

BNG housing in integrated developments are currently being cross-subsidised by both the credit-linked houses and the affordable houses. This cross-subsidisation is necessary if the entire development is to have the same level of services e.g. tarred roads and storm-water drainage. Developers are implementing these services, though it should be the municipalities' responsibility as it is part of their new mandate under the BNG policy. Yet municipalities simply do not have the budget or the capacity to implement these services. This cross-subsidisation is actually said to widen the gap between a BNG house and a credit-linked and affordable house as these house prices are inflated to cover the extra cost necessary to provide the same level of services for the BNG houses.

Another major issue is simply demand and supply which has and will continue to drive up the value of these houses. So although a BNG unit should fetch a higher value than an affordable housing, it is not sufficient to bridge the gap.

8) Do you think adding (extending) onto an RDP house is sufficient to bridge the gap?

Extending assists to bridge the gap between the two types of homes, but the current process to extend is complex, time consuming and expensive. There needs to be a process for affordable households whereby they can extend their homes yet still maintain the quality aspect of the NHBRC i.e. banks will only lend if NHBRC approve the quality of the home. It needs to be a less expensive, complex and arduous process to ensure people can grow their asset in a more effective way.

- 9) 37.06% of the Cosmo City residents (which was the highest) said that they would never sell their house. This clearly affects property values and the normalisation of the Affordable Housing Sub-Market by limiting the secondary market. How can we facilitate and encourage mobility and realisation of assets?**

All the professionals agreed that education is a key factor to enable people to understanding the asset value of their property. Most people said that it is a generational issue. Younger people coming through the market with bigger ambitions, who have been less affected by apartheid and its non-ownership laws and have a greater understanding of the housing market, are less sentimental towards a house.

- 10) Do you think that our current housing policy caters sufficiently towards assisting the normalisation of the market and bridging the gap between RDP and BNG housing?**

Professionals felt that when considering the housing market, the city needs to regard it as a whole. Low-income households can only gain access to amenities if they are part of the urban fabric. This can only be achieved if the Affordable Housing Sub-Market suffers high land prices which households can afford. Currently, the housing policy does not sufficiently assist's this process as the supply and locality is inadequate. Integrated developments will help this process, but this will take time.

- 11) Please provide reasons for your answer to question 10.**

There is a debate surrounding quality verses quantity and whether housing is a process rather an event. Households were initially provided a core home and then on a process basis, incrementally improved the home. Government is currently delivering an end product, which at R 110,000 to R 120,000 per unit, is extremely expensive product. Questions arise as to how many people this can be delivered to. The budget over the last three years has almost doubled but the delivery of houses has remained stable, if not decreased. An added market distortion is that while many people can affordable a loan and should be obtaining housing, many do not simply due to a lack of houses. This is expected to get worse.

One of the greatest challenges we face is the fact that no individual or project- linked subsidies are available. People cannot apply for them because there is no governmental infrastructure to support them. People are thus reliant on developers and government to provide the "packaged" housing product.

Government plays a facilitative rather than an active role to assist individuals to purchase their own land and build their own houses, which has achieved in Vosloorus.

According to some of the professionals, township schemes, policy and regulations are a huge constraint to obtaining housing. Local authorities are considered to be over-regulated e.g. the number of households in an area is determined by the size of the school. If there is insufficient space as per the regulation, the development cannot be approved.

12) Is PPP the only way to deliver housing?

All the professionals concurred that housing delivery in South Africa would not take place without the private sector.

13) Please provide your reasons for your answer to question 12.

The government, according to most of the professionals, simply does not have the capacity to deliver on housing. Right from the start, its role was to facilitate the private sector to deliver on housing. The government is also restricted by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Municipal Finance Management Act, 2003 [Act No. 56 of 2003] (MFMA) in getting involved in any form of housing besides RDP housing. The government's bureaucracy, red-tape and political agendas seriously hamper process, procedure and the implementation of projects

14) What are the advantages of PPP's in a development?

All of the housing projects which have been completed thus far have not, strictly speaking, been PPP's projects, but rather joint ventures, whereby each of the parties brings their own set of skills to the table. A true PPP requires a measure of risk-sharing and thus far, the government has carried no risk. The risk has remained solely with the developer. One exception is the N2 Gateway, Cape Town but this is a government initiative and not a PPP where the risk lies with government. The advantages from government's side are that they are able to facilitate the township approval process while the private sector are the developer's and project managers, which are essential in the actual delivery of housing.

15) Do you believe that these PPP's are working?

Most professionals felt that these joint initiatives are currently working.

16) How can the PPP's work more efficiently?

The professionals felt that the current bulk infrastructure is a major problem which needs to be addressed prior to development. Parastatals

such as Eskom are a huge issue as they have no accountability in the development process which results in erratic and unprofessional implementation.

17) If you had a clean slate, what would you implement as a housing policy / implementation process to normalise the market and bridge the gaps?

The professionals mostly discussed policy issues such as the necessity to make individual subsidies available and encourage sub-division and densification. Education was deemed as essential so that people could understand the value of their houses and their potential as collateral. The development process was considered as overly regulated. Regulations would need to be flexible as hindrances to the process would need to be removed.