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Understanding the township property market: the case of Orlando East, Diepkloof and Orlando West Soweto

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Title: Understanding the township property market: The case of Orlando East, Diepkloof and Orlando West Soweto

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Abstract

Reports of the Banking Association of South Africa (BASA) and Finmark Trust in 2004 -2005 pointed out that two housing sub-markets exist in South Africa. The first housing sub-market, consisting of properties of which the price is above R200, 000.00 is prospering. However, the second sub-housing market, comprising of RDP houses and older properties in the townships, is inefficient and ineffective. Orlando East, Diepkloof and Orlando West and are older parts of Soweto, which in principle are ranked as being part of the second housing sub-market, experience a different phenomenon from what is generally assumed about the second housing market. Orlando East, Diepkloof and Orlando West appear to have been experiencing a partial property boom. This research report aims at exploring factors stimulating this property boom. It examines the role of the political will of theAfrican National Congress (ANC) to create a suitable environment for private sector involvement in Orlando East, Orlando West and Diepkloof, of the improvement of infrastructure through the creation of new centers such as shopping malls, and of partnerships between the public and private sector.

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Chapter 1: Introduction to the study

1.1 Introduction and background

Various sources have pointed to a shift in the property market in Johannesburg's historic and iconic township Soweto in the first years of the new millennium. The Banking Association of South Africa (BASA) (2005a) indicates that from 2000 to 2005, property prices in Soweto witnessed a massive increase of 360% from an average of R228 000 in 2000 to R819 500 in 2005. As the report by Absa (Property Trends, 11 July 2005) states:

> "Over the past five years the South African residential property market experienced strong price growth of about 20% per annum in nominal terms and 13, 6% per annum in real terms. During this period the market was driven by a wide range of factors after many years of mediocre growth from the mid 1980s up to the late 1990s. Property prices have probably been catching up with other asset prices since then" (quoted in BASA, 2005a: 10)

The occurrence of a seeming "property boom" in the townships, which were a 'dead' market historically, is understood in this research report as the rise in residential property prices over a relatively short period (BASA, 2005a and Brown-Luthango, 2006). The term "dead capital" is understood in this research report as the ineffectiveness of the formal market. Dead market is one of the attributes that FinMark Trust (2004) assigns to much of the secondary housing market. It should be noted that the seeming increase in property prices in Soweto does not apply to all properties but only to the middle-income sub-market where the entry price is about R200 000. The aim of this research report is to investigate, by means of observation and available literature, as well as interviews with people engaged in the housing market in the areas, the reasons for the seeming increase in property prices in some areas of Soweto.

The literature on property markets distinguishes two housing markets that are intrinsically linked, namely the "primary housing" market and the "secondary housing" market. According to the FinMark Trust (2004: 23), the primary housing market "comprises the development of new housing stock through the purchasing and servicing of land, construction of dwelling and sale or rental of the land and dwelling". The secondary housing market, which is of direct interest in this research, is according to BASA (2005a) a market that "comprises the sale and transfer of already built housing stock by a willing seller or a willing seller buyer.

Besides, the secondary housing market serves among others the target market with people earning a monthly income of between R1 500 and R7 500. For these people the secondary market is influenced by existing stock located in the previous “black, coloured and Indian” township areas. Research conducted by FinMark Trust (2004) related to township residential property markets (TRPM) defines this segment of the secondary housing market as the second as opposed to the well functioning first market.

The study of TRPM enlightened the concept of “second housing market”. FinMark Trust (2004) outlines the importance of old black townships and states that they house one fifth of South Africa’s population. FinMark Trust (2004) enumerates four kinds of housing stock in the second sub- housing market namely, the old township stock, the private housing stock, the Reconstruction and Development Programme (RDP) housing stock and the informal housing stock.

The first secondary housing sub-market is flourishing and has experienced a price increase. It comprises properties with prices starting at R200 000. Another secondary housing sub-market has not been experiencing growth and it comprises properties with prices below R200 000. While the one sub-market is flourishing, the other, composed of RDP housing stock, old township stock and informal housing stock, is said to be slumping (BASA, 2005a). Based on its study of the TRPM, FinMark Trust (2004) points out that the second sub-housing market is characterised by high levels of informal trade of properties and sale is happening at very low prices. The conclusion that can be drawn is that poor households do not profit from the increase in property prices observed in South Africa, particularly in the period leading up to the 2008 global economic crisis.

Some areas of Soweto, such as Orlando East, Orlando West and Diepkloof which form part of black townships of Johannesburg dating back to the late 1940s, experienced a seeming increase in property prices in the last decade. It is observed that, as in the upper income market where increase in property prices are happening and where prices doubled or even trebled in a matter of five years, the price of some properties in Soweto is increasing and the housing market seems to prosper. As the Sunday Times reported in 2005, quoting the director of Standard Bank’s home-loan division, “property prices in some suburbs in Soweto had outstripped the average national price increase of about 30%” (http: eprop.co.za/news/article.aspx?idArticle=5207). According to the same newspaper article, price tags of many homes in Soweto have more than doubled in the past 18 months and prices of vacant plots have rocketed from about R30 000 to as much as R180 000.

It is common knowledge that the price of a property in South Africa depends, or at least has depended until recently, on its location, its quality and its size. The quality and location of properties are not central to the discussion in this research report. Although it is considered as a township, compared to other townships that are further to the south of the City of Johannesburg, Soweto is relatively well located in terms of distance to the CBD. Particularly, areas such as Orlando East, Orlando West and Diepkloof, which are the areas under study in this research, are better located than the rest of Soweto. The locational advantage that Soweto enjoys today is enhanced by political will and stimulated by its historical past as characterised by the struggle for freedom, which attracts tourists. A view of an entry point into Soweto (figure 3) illustrates the accessibility of Soweto from Johannesburg's central business district (CBD).

This research goes beyond the argument of good location and good quality to justify the price increase of a property. It acknowledges that something equivalent to good location may be created by stakeholders (government, private sector, NGOs and municipalities) by investing in infrastructure, in selling the image of a place and in attracting business and tourists.

Among potential reasons for the increase in property price in Soweto, this research principally explores firstly, government intervention through infrastructure development, visible in Soweto; secondly, government intervention through policies such as the Breaking New Ground (BNG) national housing programme of 2004, which has among its objectives the support of the entire property market; thirdly, Black Economic Empowerment (BEE) which aims to economically empower black people and, lastly, the commitment of the banks to make finance available to lower-income earners.

In 2003, through the Financial Sector Charter (FSC), South African banks promised to foster the secondary housing market by providing R42 billion in loans by the end of December 2008, the bulk of which would be applied to mortgages for housing units with a maximum value of R180 000 per unit (BASA, 2005a and FinMark Trust, 2006b). The commitment of the banks to invest R42 billion in adequately housing low-income households earning a monthly income of between R1 500 and R7 500 had a positive impact on properties in Soweto. A report of BASA (2005b) on home builders reveals that the commitment of the banks to foster an effective housing demand by low-income households has financially motivated some contractors to build affordable housing and they are aware that there is now a market opportunity in building such housing stock.

Many authors, including Pillay and Naudé (2006), FinMark Trust (2006a) and Tomlinson (2005), advocate that access to finance for low-income households is a burning and serious matter. However, the willingness of the banks to make the funds available for low-income households should be noted. Besides, Tomlinson (2005) argues that although the willingness of banks to adequately house low-income people cannot be questioned, the financial products available in the banks do not suit the housing needs of those with low incomes.

In fact, while banks make mortgages accessible to low-income households, payable over 25 years, most low-income households are not interested in these products and prefer using micro funds to improve their existing housing conditions. Pillay and Naudé (2006) conducted a country-wide survey related to housing finance for low-income households and argue that there is a lack of knowledge of the borrowers' (low-income households') perception of and experience in the housing market in South Africa. Following Pillay and Naudé's (2006) argument, financial institutions should provide low-income households with a range of financial products that will help them either to acquire a house or to undertake an incremental process of house construction.

Access to finance from the supply side and the demand side has been a crucial component stimulating the increase in property prices. Although this research will not widely explore the details of housing finance, it may be noted that the availability of funds from financial institutions and from government in the form of subsidies for contractors (private sector) and for low-income households is a cornerstone of the increase in property prices in Soweto.

1.2 Rationale and problem statement

This research report analyses the seeming increase in residential property prices in selected areas of Soweto, particularly Orlando East, Orlando West and Diepkloof that happened before the 2008-2009 recession. The starting point of this research is the perception that this increase in property prices, in principle, should not happen in Soweto given its status of township where the property market is, according to FinMark Trust (2004), stagnant. However, the observations that my initial research made are as follows:

a) Given its historical past, Soweto is seen today as the bastion of the struggle against apartheid. Soweto hosts some historical infrastructure such as Mandela House, the former South African

president's house in Vilakazi Street, which is reminiscent of the struggle against apartheid. This infrastructure stimulates interest in Soweto as a choice destination in Johannesburg. In other words, Soweto has become a tourist site that attracts mainly foreigners who are interested in the history of apartheid and its formal end in 1994 as well as South African citizens who do not inhabit Soweto. This touristic element of Soweto has been investigated by Keitumetse (2004) in his research report for the fulfillment of his master's degree at the University of Witwatersrand. This research report observes that there is a link between the touristic activities occurring in Soweto and the seeming increase in property prices in Soweto, particularly in Orlando East, Orlando West and Diepkloof.

b) The municipality or the City of Johannesburg is determined, through infrastructure development such as the refurbishment of roads, lighting of Soweto's streets, etc., to transform Soweto and bridge the chasm between the north of Johannesburg, seen as a wealthy part of the city, and the south, considered as the poorest part of Johannesburg. This political will is documented in the 2004/2005 budget speech of a former executive mayor of Johannesburg (Masondo, 2004). This research report establishes a strong relationship between infrastructure development and the performance of the property market in Soweto in general and particularly in the studied areas.

c) The involvement of the private sector in the positive transformation of Soweto through the erection of economic centres such as shopping malls and other development projects, among which the revamping of Orlando Stadium, the construction of taxi ranks and the recent implementation of the Rapid Bus Transit system (*Reya Vaya*), which enables commuters to move with ease from Soweto to Johannesburg or vice versa, should impact on the performance of the property market in Orlando East.

d) Finally, if the seeming increase in property prices is perceptible in some areas of Soweto, these areas should display characteristics that are not present in other old black townships where the property market and prices are stagnant.

These above observations, namely the touristic element, the political will of a former executive mayor, and the involvement of the private sector in the transformation of Soweto, are explored as to whether they may be fostering the rise in property prices in some sectors of Soweto. These statements need to be developed

and investigated. While acknowledging that there may be problems such as displacement of poorer households, the hope is that factors explaining the increase in property prices in Orlando East, Orlando West and Diepkloof may inspire stakeholders for property development in other old black townships.

1.3 Research questions

1.3.1. The main research question

Given the seeming increase in property prices in the middle income sub-market in Soweto in general, particularly in Orlando East, Orlando West and Diepkloof, what are factors that contribute to such increase?

1.3.2. Research sub-questions

- What evidence exists to suggest a residential property value increase in Orlando East, Orlando West and Diepkloof?

- To what extent does government intervention influence the increase in property prices?

1.4 Aims and objectives

This research does not intend to understand the structures of the whole secondary housing market or property market in old black townships. That kind of research has already been undertaken by FinMark Trust (2004) and partially by BASA (2005b). In addition, this research does not have the intention to enumerate exhaustive causes explaining the increase in residential property prices in all Soweto. Instead, it only focuses on some areas of Soweto, particularly Orlando East, Orlando West and Diepkloof and it aims to:

a) Explore some causal factors that may explain the increase in residential property prices in study areas of Soweto.

b) Understand in particular the influences of political will, policies and government intervention in the increase in property price in selected areas of Soweto.

1.5 Hypothesis or assumed findings

The exploration in the research was guided by the assumption that infrastructure development and policies adopted by the government, such as Breaking New Ground (BNG) and Black Economic Empowerment (BEE) have contributed to residential property value increase in Soweto in general and in the studied areas in particular. Besides, the research assumed that the adoption of the Financial Sector Charter (FSC) by the banks played a crucial role in stimulating housing demand and, in turn, in allowing an increase in residential property prices in some areas of Soweto. However, due to a dearth of data, this hypothesis seems difficult to explore. Partial reasons for the increase in property prices should be found in the massive investment and the improvement of infrastructure by the government and the private sector that enhance the economic development currently shaping Soweto.

1.6 Research Method

Among the existing methods of collecting data for answering the research questions, this research essentially relied on analysis of secondary data in the first instance. It also relied on interviews with estate agents namely John Herbst from Pam Golding Empowerment and Mohau Motaung from Mohau Motaung estate. Besides, Professor Philip Harisson, the former head of planning of the city of Johannesburg and two bank officials namely, Lindiwe Mbongwe who is a researcher at home Loan division at Nedbank and Pierre Venter, a Chief Executive officer (CEO) of BASA were interviewed as well. Finally, Li Perringer, a former National Treasurer was also among the interviewees. This research report is on a housing topic and is not a property economics research studies, in order to understand the main topic that includes the subject of this research report, in this case the property market, this research report reviews South African publications on the property market, particularly reports published by FinMark Trust and the Banking Association of South Africa (BASA). Besides, it analyses the publications on government intervention in housing in other countries and the concept of the housing market in general (housing supply and housing demand). It also reviews the relevant government policies, particularly BEE and BNG.

Through the secondary data, this research report explores the cases of seeming increase in residential property prices in Orlando East, Orlando West and Diepkloof. The collection of secondary data was through selected newspapers and property magazines, FinMark Trust's website, Affordable Land and Housing Data Centre (http://www.alhdc.org.za) and the South African Property Transfer Guide (SAPTG). Property websites which show property prices and property24.com describe residential property prices in Soweto,

particularly in the studied areas of Soweto. In addition, the secondary data presents prices of residential properties which sometimes equal the prices in the richest part of Johannesburg. But these are not necessarily representative of the entire middle-income sub-market of Soweto.

The six targeted interviews that were conducted with key informants supported the notion of a seeming increase in residential property prices in some areas of Soweto, while property magazines and news papers referred to. Finally, the factors stimulating the seeming increase in property prices in Orlando East, Orlando West and Diepkloof were also obtained from my own the participation and observation as a property developer of developments in Soweto from 2004 to 2009.

1.7 The choice of the study areas: Orlando East, Orlando West and Diepkloof

Similar to the upper income housing market prior to the international "economic meltdown" of 2008, the property market in some areas of Soweto seemed to prosper as it experienced an increase in prices. The choice of Orlando East, Orlando West and Diepkloof was due to my awareness of property value increases in these areas and their visible transformation through government and private investment. Logistically, they lent themselves to being case studies due to their familiarity for me and my ability to access the areas and to easily observe without fear. Likewise, the choice of the studied areas facilitated the exploration and the understanding of the determination of stakeholders (public sector, private sector, NGOs and communities) working in partnership in order to transform these areas into a lively living space. Finally, the choice of the studied areas allows the examination of locational advantages that are not inherent but which can be created by political will and strategic investment that secure and attract investors and result in economic growth. The studied area benefits from political will and massive investment. It is a vibrant example of the creation of locational advantage as a result of investment in amenities, infrastructure, etc.

1.8 Scope and limitations of the research

This research report does not intend to study the whole property market. It is about a sub-market of the residential property market only in selected areas of Soweto. Although the research mentions the functioning of the secondary housing market (See BASA (2005a) and FinMark Trust (2004), the research does not aim to analyse all conclusions drawn by FinMark Trust about the secondary housing market. Nor does it seek to analyse the ineffectiveness and the inefficiency of the secondary housing market. This is a

housing research and is concerned only with factors explaining the increase in prices of residential properties in Soweto, particularly in the studied areas and focuses on investment infrastructure and government interventions to justify the property value and, in turn, the property prices.

It would have been interesting to apply an extensive quantitative analysis in this research report to reveal the full situation of the residential property market in some areas of Soweto. To some extent, quantitative data does exist as compiled by estate agents and banks for their own purposes. However, real estate agents and bank agents declined my request for them to participate in the survey and focus group. Besides, it was impossible to access the structured documentation of banks related to data showing the number of residential properties sold and their prices. It would be interesting to analyse other processes such as land acquisition for housing and access to housing finance for low-income households residing in the studied areas. In fact, easy access to land is one of the factors that contribute to stimulate housing supply and, in turn, the housing market. However, the scope of this research allowed it only to focus on some factors stimulating increase in property residential prices in some areas of Soweto.

This research report was mainly undertaken before the onset of the global economic crisis at the end of 2008 and the effects of this therefore are not taken into account in this research report..

Finally, a comparative study between Soweto and other old black townships such as Alexandra or Tembisa related to the government objective of improving the housing conditions of the low-income households, or comparison with the literature on the broad secondary housing market, would be interesting. This would enable some initial conclusions on whether it is practicable to extend housing market development to other townships. However, this could not be included in the scope of this research report. This research is therefore only concerned with exploring factors explaining the seeming increase in residential property prices in the study areas of Soweto.

1.9 Outline of the research report

Overall, this research report is articulated in five chapters. Chapter 2, which follows the introduction, presents a literature review on the housing market. In addition, government intervention in housing in other parts of the world and the relationship between the development of infrastructure and the increase of property value or property prices is explored in this chapter. The presentation of two government policies, namely Black Economic Empowerment (BEE) and the Breaking New Ground (BNG) policy is discussed in

this chapter to explain the South African government's intervention in the housing sector and the commitment of the banks, referred to as the Financial Sector Charter (FSC), which aims to extend housing finance to low-income households, form part of the Chapter 3.

The first three chapters constitute the theoretical part of this research report. The case study exploring the seeming increase in residential property prices in the studied areas of Soweto, and which forms the empirical part of this research, is debated in Chapters 4 and 5. The last chapter concludes this research report and highlights some perspectives for future investigations.

Chapter 2: Housing market literature review

2.1 Introduction

Following the study of FinMark Trust (2004) on TRPM, the first chapter introduced and defined the concept of a secondary housing market as the housing market that is made up of all secondary transactions – an existing property changing hands, as opposed to the sale or allocation of newly. The main conclusion that FinMark Trust (2004) draws in its study related to the secondary property market in South Africa's black townships is that this market is ineffective and inefficient. Besides, using De Soto's (2000) terminology, FinMark Trust (2004) argues in its study that there is much dead capital in South Africa's black townships as there are not enough formal housing transactions happening there. Irrespective of the conclusion drawn by FinMark Trust (2004), this research report shows that massive infrastructure development is happening in Soweto.

Underlining the price increase of some residential properties (see the prices of residential propriety in http:www.property24.com/for-sale/Soweto/Gauteng/102/p5 and Affordable Land and Housing Data) that have prices similar to those in the north of Johannesburg in areas such as Sandton, which are considered the wealthy part of the city, this research report argues that the housing market in the studied areas of Soweto seems to be prospering.

The aim of this chapter is twofold. Firstly, this chapter describes, summarises, evaluates and clarifies the topic under study, which is the housing market. For that purpose, this chapter describes the debate on the housing market in general and the secondary housing market in particular. Secondly, the chapter supports and adds the hypothesis formulated by this research report. Firstly, the literature review shows that government intervention can play an important role in fighting disparities in access to adequate housing for all income groups. Secondly, it supports the hypothesis that improvement in infrastructure stimulates property value and, in turn, contributes to property price increases. As the research deals with housing and not property as such, the chapter proceeds by debating the concept of "housing" separately from that of "market". In discussing the concept of housing, the research argues that housing is more than a mere shelter. Talking about the importance of a house in human life, Turner's (1972) concept is very insightful. Indeed, it is not what a house 'is' that is meaningful for human life, but what a house 'does' (*ibid*). While Turner (1972) focuses on use value rather than exchange value of housing, one may argue that the importance of housing in human life implies that the housing market should work well for all income groups

and not discriminate against low-income households. The main expectation is that the government must somehow intervene through rational policies to make the market work well and profitably for all income groups.

2.2 Overview of concepts of housing and market

The housing market is a broad topic that comprises two main concepts: "housing" and "market". Housing is among the fundamental needs of human beings and it is mostly defined as more than a mere shelter (see for instance the Housing Act, DoH, 1997a). Although it constitutes people's physical protection against bad weather and other inconveniences, the role of housing should not be limited to physical protection. Market is understood as a process which includes the production and the buying activities. It has several definitions and meanings. One of the definitions which are generally accepted conceives market as "the collection of buyers and sellers that, through their actual or potential interactions, determines the price of a product or set of products" (Chen Lei, and Hong-min, 2009: 3).

2.2.1 The concept of housing

Housing plays a determinant role in people's quality of life and health (Erguden, 2001). Besides, it is a means to generate income; it is an asset and a cornerstone of financial stability (Phe, 2002). Regarding this perception, one may understand why ownership is the tenure option preferred by a huge number of households. A study conducted by FinMark Trust (2006a) about landlords and small entrepreneurs shows that houses may be used as a means of generating an income, running a business or as a part of a business.

This conception meets the controversial thesis of De Soto (2000) that supports the ownership option and argues that households should use their housing as collateral for obtaining loans from financial institutions or as a share against an investment. However, the empirical evidence shows that in South Africa possession of title deeds does not automatically facilitate access to formal credit and does not necessarily stimulate the emergence of a vibrant secondary market in land and housing (FinMark Trust, 2004). An article by Eglin (2009) published on the SANGONeT website about the alternative forms of tenure security of either a shack or a RDP house points out that freehold title is not appropriate for the poor. It argues that professional town planners, land surveyors and lawyers who establish individual plots and transfer title

deeds to households require large amounts of money that poor households cannot afford. As a conclusion, title deed is preferable to other forms of tenure security only in cases where households are interested in using their properties as collateral for a loan from financial institutions. However, in South Africa, FinMark Trust (2004) shows that many poor households are not interested in such a practice. Although the 1994 South African housing policy promotes ownership option, the reality contradicts De Soto's thesis and shows that the ownership option is not always the best tenure option for all poor households. The most important intervention is for governments to facilitate the access of adequate housing to all income groups and to combat social exclusion and discrimination against poor households.

The Istanbul Declaration on Human Settlements (Habitat II) in 1996 highlighted the universal goal of ensuring adequate shelter for all and making human settlements safer, healthier and more liveable, equitable, sustainable and productive (UNCHS (Habitat), 1996). Recent studies throughout the world establish an intrinsic relationship between life satisfaction and adequate housing, understood as a constitutional human right and defined as housing which takes into account elements such as "privacy, useful per capita space, physical accessibility, physical security, security of tenure, structural stability and durability, and adequate basic physical and social infrastructure and transportation within healthy local and citywide environments" (Sivam, 2002: 524). UN-Habitat (2006/2007) stresses the importance of housing in human activities and life satisfaction by claiming that where we live matters. Furthermore, Salmela (2007) introduces the concept of "happy home" which should not be understood outside of the framework of adequate housing. Salmela (2007) argues that a happy home is a crucial aspect contributing not only to a stable household but also to a stable society. It becomes obvious that housing constitutes an important aspect of people's happiness.

In South Africa, housing policy contained in 1994 Housing Water Paper (DoH) assigns an important role to housing development. It should achieve some national goals such as the stimulation of economic growth and job creation; the creation of sustainable human settlement; the creation of an inclusive society; a non-racial and a non-sexist society, based on democratic values, different from the apartheid society, where all income groups live together and share the same facilities.

Some studies have gone further to demonstrate the relationship existing between housing and households' satisfaction in South Africa. For instance, Case (2006) in its quality of life survey found that compared to inhabitants of informal settlements where the neighborhood does not offer social amenities, residents of

formal housing areas are more satisfied with their quality of life. In addition, in a longitudinal investigation of satisfaction with personal and environmental quality of life undertaken in an informal South African housing settlement, Doornkop, Soweto, Westaway (2006) concurs with Case's (2006) statement when it observes that in squatter settlements, residents have the lowest levels of satisfaction with their personal and environmental quality of life. This shows that the availability of adequate housing is an important factor in people's happiness. The literature explored on housing, defines what should be called "adequate housing". In this sense, it has been questioned whether low-cost housing delivered in South Africa should qualify as adequate housing (Pottie, 2004).

2.2.2 The concept of Market

Among authors who have defined the concept of market, Haila (2007: 5) provides three meanings for this term. Firstly, market can be understood as a physical place where products may be sold and purchased, a place where buyers and sellers interact and network. Secondly, market is seen as "a mechanism, a mode of regulation, and separating it from the operations of the state" (*ibid*). Finally, the third meaning of the market emerges from economic theory that sees in it "the power to coordinate decisions and form prices" (*ibid*).

Alongside the concept of market, there is "free market", which is a concept promoted by liberal theory (Gray, 1986). It is based on classical economic theory, and constitutes one of the main characteristics promoted by neo-liberal policy. However, this research report will not focus on the concept of 'free market'. The main difference between free market and market in general is that free market cannot be understood without the concept of competitiveness, which means that there is more than one producer of goods or services. There should always be more than one producer competing with the same products or services so that competition is enabled (ibid) Poor people and powerless people in general who are not competitive in the market are negatively affected by neo-liberal policies. In the free market, state interferences or interventions are unwelcome: everything should be ruled by the dynamics of the theory of supply and demand.

In South Africa, the intervention of the state in an imperfect market is welcome and needed. It should aim at supporting the entire housing market, including the secondary housing market, to make the market effective

and profitable for all income groups. This is one of the objectives assigned to the government in its 2004 housing plan which the research will discuss in the following chapter.

2.3 Engagement with housing markets in housing policy

Housing market is understood as what "brings together buyers and sellers of housing" (Oxley, 2004: 16). It is understood to be shaped by a combination of housing supply and housing demand. Housing supply is constituted by housing producers who can be public sector, private sector or individuals who are willing to bring housing units or properties onto the market for selling or renting. Housing demand is formed by housing consumers who are willing to purchase housing units or to rent through the market. Buyers and sellers who are the main players in housing transactions may be joined by estate agents and advertisers (BASA, 2005a). Related to market, Chen Lei and Hong-min, (2009) affirm that one cannot understand the housing market without exploring three mechanisms, namely the "product sector", the "consumer sector" and the "developer sector".

Economists agree that the value of a product or a price is determined by the market, more specifically by the theory of supply and demand. Residential property price is guided by the relationship between supply and demand. As Oxley (2004: 26) puts it, "in mainstream economics, demand and supply are together expected to determine the price of housing in the absence of controls on housing market". This means that when the demand is higher than the supply, as in South Africa, the property price will go up; likewise, the property price drops when the supply is higher than the demand. The role of government in the housing market should be to make sure, through rational and effective policies, that the housing market works advantageously for all income groups, more specifically for poor households. According to Oxley (2004: 26-27), governments should play a determinant role in the housing market. He argues that "if governments wish to see housing need satisfied, they may use a variety of policy instruments that influence both the demand and the supply of housing". The way governments should intervene to stimulate the housing market depends on the political system. Neo-liberal policies, for instance, require the state to undertake the most minimal intervention possible. In fact, with neo-liberal ideologies the private sector should play a powerful role and the state should play the role of a referee. The merit of the neo-liberal approach in the housing market is the continuous search for efficiency and effectiveness, introduced by the notion of competition.

Contrary to a neo-liberal approach, a socialist approach, sometimes understood as a welfare approach, makes social services its concern and significantly intervenes in the housing market by, for example, supplying subsidised housing units for its citizens, controlling or imposing the price of rent or a house. The socialist states consider housing among their main priorities. Phe (2002: 472) notes that, "in the normal socialist hierarchy of importance, housing was ranked third or fourth in priority, after food, industry and infrastructure". The main advantage of welfare states in turn is to tackle inequalities created by the market and to ensure that access to adequate housing is a right that all income groups enjoy and not an exclusive realm of some income groups who can afford it in the market.

It seems that the South African government has adopted a combination of neo-liberal and welfare approaches into its housing policy. The first is manifested in policies that should enable the housing market to work without intervening and the latter is seen in housing subsidies that government grants to housing institutions, such as Social Housing Foundation (SHF), and to low-income households who cannot purchase housing in the market and who earn a monthly income of up to R3 500, to access adequate housing. However, the delivery of low-cost housing by the government did not reach its target goals within the original timeframe. Furthermore, it has aggravated segregation created by the apartheid regime (Huchzermeyer, 2003).

2.4 The housing market and policy in South Africa

Housing policy, contained in the 1994 Housing White Paper (DoH, 1994), has among its objectives to stabilize the housing environment and to support the entire housing process. In other words, the 1994 Housing White Paper aimed at enabling the housing market by ensuring that the production or the supply of housing meets the housing needs of all income groups. From the supply side, it was expected that the housing market should offer many housing options for South Africans to access adequate and affordable housing. And, from the demand side, South Africans, particularly low-income households, should not be marginalised and should be able, like other income groups, to access adequate and affordable housing through the market. However, although the 1994 Housing White Paper focused on the supply side (see Omenya, 2002; Spiegel *et al.*, 1994), neither the supply side, nor the demand side have allowed for better access for poor households to adequate and affordable housing in the market. Pillay and Naudé (2006), who analyse the housing conditions of low-income households with regard to housing finance, note that South Africa is facing a low-income housing crisis. They base their argument on the current housing

backlog which is estimated at over three million units (they cite the Department of Housing, 2003). Rust (2006: 4), who analyses the state of housing performance in South Africa, affirms that "South Africa's current housing sector, with its stalling delivery and deteriorating affordability, is trapped within a complex and nuanced interplay of demand and supply."

The literature on the housing market shows that in South Africa the housing market does not work for poor people. This means that the intervention of government in that sector is required in South Africa. This ineffectiveness and inefficiency of the housing market is identifiable in the supply side as well as in the demand side. On the demand side the affordability exacerbated by poverty is identified as the main problem and on the supply side, the problem is the inability to meet the demand for housing, particularly for affordable housing. This raises concern over how to make the housing market work well for all income groups. Difficult access to urban land for low-income households (Payne, 1998), the difficulty for poor people to access housing finance (FinMark Trust, 2006b), witnessed in the reluctance of commercial banks to extend loans to low-income groups despite the adoption of FSC in 2003 (Pillay and Naudé, 2006), the withdrawal of the private sector from the subsidised low-income segment of market, and the issue of affordability linked to the high rate of poverty and unemployment are among the barriers that hinder the housing market in South Africa.

The universal goal of access to adequate housing for all income groups, defined by UNCHS (Habitat) (1996) and contained in the South African Constitution of 1996 (Chapter II, section 26), becomes a privilege of some selected income groups. Poor people who do not get subsidised houses from the state and who cannot purchase a house through the market do not have other alternatives than to rely on informal settlements or informal structures in backyards.

2.4.1. Understanding housing supply in South Africa

Talking about housing supply, which is one of the components of the housing market, one may define it as the production and the availability of houses that may be put in the market to meet the demand for housing. Oxley (2004: 23) distinguishes two sources of housing supply which come onto the market. There is supply from the existing housing stock and supply from the house commodifications, which includes "new construction and extra dwellings created from the conversion of old properties". South Africa experiences a severe shortage in housing supply. Therefore, South African housing supply is unable to meet the growing

and varying housing needs of the population. The inability of housing supply to match housing demand is witnessed in the current backlog estimated at over three million units.

In their study related to low-income households' perception of the banks, Pillay and Naudé (2006) point out that the housing backlog, or severe housing shortage, is the most significant constraint inhibiting the housing supply side in South Africa. The main issue facing South Africa, in relation to the housing market in general and particularly the housing supply, is how to ease the severe housing shortage estimated at over three million by the Department of Housing (2003) and to accelerate the provision of adequate and affordable housing. It is believed that the participation of the private sector in affordable housing will have a positive impact and may reduce the current housing shortage. However, the private sector is hesitant to invest in the affordable housing market. Analysts believe that the housing supply crisis strikes low-income households more than it does middle and upper income groups.

Among reasons for the housing supply crisis, housing officials cite the rapid increase in population and the rapid urbanisation process. The Department of Housing (2004) estimated the population growth at 2.1% between 1996 and 2001. Furthermore, the Department of Housing (1997), through the Urban Development Framework, asserted a decade ago that more than half of the population lives in urban areas. Rapid increase in urban population from either natural population growth or migration logically increases the demand for land, housing, water, electricity, health care, jobs, education, etc. Commenting on the rapid urbanisation that has been occurring in South Africa, Lindiwe Sisulu, the former Minister of Housing, affirmed that "rapid urbanisation is causing the demand for housing to grow faster than the government can deliver it" (Mail and Guardian, 14 October 2006) Another element causing the housing supply crisis is what Tomlinson (2006) qualifies as massive increases in the number of households residing in informal settlements, backyard shacks, and overcrowded formal township houses seeking formal accommodation.

Alongside the issue of population growth and rapid urbanisation, BASA (2005b) notes the unwillingness of the private sector to invest in the low-income housing sector as one of the major constraints to the smooth functioning of housing supply in South Africa. In fact, making a profit is the main objective of the private sector (Payne, 1999). The lack of support from the private sector for the low-income sector is explained by the fact that there is not enough profit from working in the affordable housing sector (BASA, 2005b). Therefore, the private sector prefers to deliver higher–cost units given the fact that land, servicing and building costs have increased. As a result, the shift of the private sector from the market of affordable

housing, defined as houses costing less than R200 000 (BASA, 2005a), worsens the existing housing supply crisis. Statistics show that between 2000 and 2004 the private sector delivered just fewer than 200 000 houses across South Africa of which 42% were delivered in the affordable housing market. The annual proportion of affordable housing delivered by the private sector has declined from 63% in 2000 to 30% in 2004 (Nell *et al*., 2005, cited in Rust, 2006).

Finally, Rust (2006) notes in her analysis of the housing sector in South Africa that housing finance becomes less of an issue with the adoption of the FSC. However, she points out that there is an undersupply of housing to meet demand. As a result, property prices increase. Among factors hindering the performance of housing supply in South Africa, are the increase of the price of building materials, limited construction capacity together with insufficient economic activity in the low-income housing sector and insufficient capacity at municipal level. Related to the housing supply crisis that characterises South Africa, one may ask if the residential property boom that occurred in the upper income market before the economic meltdown in 2008 is not the result of the principle of supply and demand.

The review of housing supply in South Africa shows that this sector is underperforming and is on the decline, particularly for low-income and affordable housing. In addition, there is a limited supply of rental housing. In 2001, the demand for affordable rental housing was at about 1.8 million and it was expected to grow at around 5% per annum to 2011 (Rust, 2006). The following section explores housing demand in South Africa in further detail.

2.4.2 Housing demand in South Africa

"Housing demand" is understood as the willingness and the ability to purchase a property or to rent a housing unit through the market. Two main factors characterise the demand for housing: individuals' preferences and financial resources, which are identified as an affordability issue. Preference, which is linked to the concept of "need", is a complex issue as it depends on individuals' choices. While some people prefer big houses and the ownership option as they have big families and want a "stable place", others would like small houses and will opt for mobility and, therefore, the rental option. Spiegel and Watson (1996), who studied the housing policy in the early period of the new South Africa, stress the importance of diversity in housing provision in order to meet the diverse and changing needs of

households. Housing needs may change whether the occupants are low-income, middle-income, high-income, migrant, single or married, etc.

The situation in housing demand in South Africa is not more attractive than in housing supply. In fact, demand and supply are intrinsically linked in the market. If one sector (supply or demand) is underperforming, the market will be dysfunctional or negatively affected. Housing demand in South Africa is, according to Rust (2006), being expressed both within the subsidised and the starter or affordable housing market. In both cases, subsidised housing and the affordable housing market, supply is limited and cannot meet demand (Rust, 2006; BASA, 2005b).

The notion of preference, or the concept of need, is intrinsically linked to people's financial capacity or housing's affordability. People cannot buy a house of their dream (or even of their need) if their financial status is limited and does not allow them to do so. Increase or decrease in income and change in family size influence the housing needs of people and the housing demand. The creation of sustainable jobs is one of the most effective ways of fostering households' housing demands. Although access to finance plays a determinant role in the fight against poverty and enhances housing demand by allowing low-income households to acquire adequate housing, creation of jobs should be considered as a fundamental booster of effective housing demand and should be integral to a housing solution in South Africa. Browley (2005) argues that, with jobs, low-income people will be able to generate income and will in turn be able to satisfy their housing needs.

In its study related to housing finance and entitled "How low can you go?", FinMark Trust (2006b) analyses the obstacles hindering the housing demand side and points out that alongside difficult access to finance for low-income households, the high levels of poverty and unemployment, which characterise low-income sector, are the main hindrances to the effectiveness of housing demand. Besides, some low-income earners do not trust banks and prefer not to take the banks' offers. Among reasons cited are that it takes too long to repay bank mortgages (up to 25 years) and that the interest rate is too high.

2.5 The functioning and characteristics of the secondary housing market

2.5.1 Overview of the secondary housing market

The first chapter of this research report provided the definition of the secondary housing market and established a strong linkage between the old black townships and the secondary housing market. This means that Orlando East, Orlando West and Diepkloof belong to the secondary housing market. In its study of TRPM, FinMark Trust (2004) reaches a series of conclusions related to the functioning and characteristics of the secondary housing market or the housing market in South Africa's townships. The most important conclusion is that the secondary property market in South Africa's townships is ineffective and inefficient because of the legal, institutional and procedural constraints that frame it rather than the financial factors regularly identified by policy makers. For a long time, it was believed in South Africa that difficult access to housing finance by low-income earners was the main reason for the dysfunctionality of the secondary housing sector.

FinMark Trust (2004) argues firstly that in South Africa's townships trade happens informally through a variety of mechanisms. This means that people who are willing to sell their properties and those who like to buy properties, mostly utilise extra legal ways to trade. Unregistered property cannot be used to access formal mortgage loans. As a result, properties lose their market value. Secondly, as formal trade is not happening, properties do not stimulate advanced economic activity such as formal mortgage lending. According to De Soto (2000), such properties seem to represent "dead capital". Thirdly, the informal secondary property market is found to undermine the secondary property market. Finally, participation in the informal property market exacerbates the economic vulnerability of poor who should be protected by the government.

The literature that I reviewed on the housing market shows, firstly, that the housing market and the secondary housing market are dysfunctional in South Africa. Secondly, the intervention of government in the housing sector would have been desirable so as to make the housing market work well for all income groups, more specifically for the poor. The outcomes of the survey conducted by FinMark Trust in 2004 with the objective to find element explaining the effectiveness of the secondary housing market finds that:

- 56% of entrepreneurs used their own money to start business
- Only 5% obtained bank loans
- 62% indicated poor collateral as main reason for no credit
- Sale of houses are often not supported by credit
- Valued realised is often lower than perceived valued (Fin Mark, 2004).

These poor performances that the survey found and that explain the effectiveness of the secondary housing market, suggest that the intervention of the government is more than welcome to change the housing situation in the former black townships. The following section of the literature will, firstly, explore examples of intervention of governments in other parts of the world and, secondly, how it benefited the interest of poor people to access adequate housing.

2.6. Intervention of government in other countries in the world.

The government intervention in housing is considered to be successful if it helps boosting the market and making sure it work well for all income groups. In other words, the government intervention should aim to combat injustice and inequalities which are sometimes observed in the housing sector and ensure that the right of access to adequate housing is fulfilled for all income groups.

In the case of Korea, Moonseo *et al.* (2010) relates how government intervention through policies sought to stabilize the housing market and to address class disparities in allowing access to adequate housing to all income groups. These authors encourage the government intervention in housing market through legislation and argue that the housing market is likely to discriminate against low-income groups if it works according to the rules of markets only. They believe that poor people are unlikely to fulfill their housing right without government intervention.

In China, Guo and Jiang (2009) show how government intervention reduced inequality in the housing sector by stabilizing the price of a house and in guaranteeing the housing need of the medium income and low-income groups. As strategy, the government released a document called ***Price-limited Housing Policy Based on the Economically Affordable Housing Policy*** for low and middle-income groups. According to Guo and Jiang (2009), the government intervention in housing is observed not only through the boosting of housing market but also through the control of price in the market. The main objective is to ensure that low-income people are, like other income groups, able to purchase housing in the market.

Gilbert *et al.* (2009) have studied the intervention of English government in the housing market through housing finance. They argue that the British Government is different from other countries in the world regarding its relationship with the housing market. The particularity is that buyers secure mortgages to

finance their products as the stock is fixed in the short term and price is determined by estate agents. One may find two implications in the English government's intervention in the housing market. Firstly, the British government intervenes in the housing market by putting in place a good system of housing finance that facilitates all income groups to obtain mortgages for housing, and secondly the government facilitates the housing transaction between the sellers and the buyers, which are the main actors in housing market transactions. This means that the government ensures the effectiveness and the efficiency of the housing market for all income groups (Gilbert *et al.* 2009).

Trudel (2005) relates how the Canadian government intervenes through housing policy to reach what he terms "optimal balance" between housing market and public intervention. The optimal balance seeks to ensure that the majority of the population, more specifically low-income households can easily access adequate housing. The Canadian government intervention in the housing sector aims to fight against marginalisation related to access to adequate and affordable housing for low-income groups. The Canadian government shows that access to adequate housing should not be the exclusive realm of some income groups and exclude others. Its intervention seeks an inclusive approach in which all income groups can enjoy the right of access to adequate housing (Trudel, 2005).

Government intervention is not well received by all schools of thought. For instance, advocates of neo-liberalism challenge government intervention and suggest that governments should play the role of enabler and not of provider, which means that government should stay away from intervening in social services and let supply-demand to rule the market. The main argument of the defenders of neo-liberalism is that government intervention in the housing market can create imperfections in the market in affecting negatively the supply side and the demand side. For example, Gruis and Nieboer (2007), who are among the advocates of neo-liberalism, claim that rent control or house price control as in the case of China has a negative impact in the production of houses and may discourage the private sector from investing in the housing sector. This means that the private sector, which is motivated by profit-making, does not enjoy freedom to determine prices according to the rules of supply and demand, but according to the government regulations which do not necessarily follow the market value. Following the principles of neo-liberalism means that governments should seek economic efficiency and social equality in reducing their intervention in the housing sector. However, empirical evidence shows that the implementation of neo-liberal principles globally brought about more inequalities than social justice. Commenting on the neo-liberal economy,

Bauman (1998: 4), cited in Smart (2003: 44), argues that in the neo-liberal economy, "the direct benefits of economic growth have tended to be distributed in favour of the already excessively wealthy members of the community and as a result the poor get poorer, the very rich ... get richer still".

South Africa adopted neo-liberal policy explicitly through the Growth, Employment and Redistribution policy (GEAR) in 1996. This macroeconomic policy has four objectives:

> "A competitive fast growing economy which creates jobs for all work-seekers, a redistribution of income and opportunities geared towards the poor, a society in which sound health, education and other services are available to all and an environment in which homes are secure and places of work are productive" (Stavrou, 2001).

Over 12 years of the implementation of this neo-liberal policy with some adjustments, voices have been raised to condemn its outcomes. The growing inequality in South Africa can be considered as one of the biggest negative outcomes of the implementation of the country's neo-liberal policy. Related to the property market growth observed in South Africa before the world financial crisis (see BASA, 2005a; FinMark Trust, 2004), one may argue that this property growth only profits those who are "already wealthy" and poor households do not enjoy the advantages of the increase in property prices. The growing inequality observed in South Africa has been outlined by the report of the South African Cities Network (SACN) (2004), which points out that, South African cities are now more unequal than they appeared in the apartheid era. In addition, Frye (2006), who studied poverty and unemployment in South Africa, further indicates the existence of inequality in the work domain. According to her,

> "Of the total of 22.8 million black South Africans of working age, just over half (11.8 million) were economically active. 8 million of these people were working and 3.7 million people were unemployed. This must be compared to a total of 2.1 million economically active white South Africans out of a total of 3 million, 2 million were working, and 107 000 of these were unemployed" (Frye, 2006:6).

The literature on neo-liberalism globally shows that the adoption of such policy does not directly improve the living conditions of poor households. In South Africa for example, neo-liberalism policies fail to boost the secondary housing market. Instead, as argued by Baumann (2003a), the adoption of neo-liberal policy exacerbated the inequality created by the apartheid regime in South Africa by creating two economies (Baumann, 2003a) and by distorting the entire property market in the sense that only a segment of the secondary housing market, composed of up-market properties and which targets high income consumers, is effective. Another segment of the secondary housing market where poor households are located and

where trade is happening at a low rate (BASA, 2005) is ineffective and inefficient (FinMark Trust, 2004). Although neo-liberal policies disapprove of strong government interventions in the social sector of life such as housing, the literature explored showed that government does need to intervene in the housing sector to guarantee the access of adequate housing to all citizens without discriminating against others. The last part of the literature review establishes a linkage between infrastructure development and the increase in property prices.

2.7 Infrastructure improvement and property value

It is difficult to disagree on the relationship existing between infrastructure improvement and residential property value. Chapter 5 of this research report will present main causes that explain the increase in price in the studied areas of Soweto and argues that infrastructure improvement is one of them.

Among authors who establish a linkage between residential property value and infrastructure development, Mazeck (2008) advocates that property value increases as a result of infrastructural investment projects. This means that there is an intrinsic relationship between residential property values or increase in residential property prices and infrastructure improvement. Among reasons that might justify increases in residential property prices, Haider and Miller (2000) underline the impact of locational or geographical aspects of properties. They argue that proximity to transportation infrastructure and nearness to major employment centres such as school, shopping facilities and recreational amenities increase properties' value and therefore property prices. According to Haider and Miller (2000), such locational advantage in relation to infrastructure and amenities can be created through public investment.

2. 8. Conclusion of the chapter

This chapter has touched on some issues surrounding the housing market in general and the secondary housing market in particular. It has been noted in this regard that currently in South Africa the housing market does not work well for low-income earners. From the supply side, there is a severe housing backlog and an inability to meet the demand for affordable housing despite extension of housing delivery. The undersupply of housing in South Africa is aggravated by formal developers or the private sector which is not keen on investing in affordable housing. As willing low-income earners can now access loans from the financial institutions (Rust, 2006), the critical issue to be addressed on the demand side remains poverty which in turn affects adversely the affordability for poor households to acquire a house through the market.

The literature on the topic under review shows that the secondary housing market or the housing market in the existing townships such as Soweto is ineffective and inefficient (FinMark Trust, 2004). Therefore, house owners do not profit from economic opportunities that exist at the upper end of the housing market. In addition, the literature notes that the secondary housing market can perform well in the supply side and the demand side if government sets up policies that stimulate the supply side to provide housing units in the market and thereby empowers the housing demand of households. One of the important recommendations of FinMark Trust's (2004) report states that Government should focus on township' upgrading and regeneration and to ensure that townships are no longer just dormitories but a huge potential for value and a new area of opportunity. In fact, among the reasons to upgrade and to regenerate the former black townships is that as shown in its research on the secondary housing market, FinMark Trust (2004) affirms that one fifth of South Africa's households live in the former black townships and the housing market worth of the townships is estimated at R 68,3 billion.

In reviewing the functionality of the secondary housing market, this research report argues that the effectiveness and efficiency of the residential property market in the townships relies on the effectiveness of government policies and the willingness of all stakeholders, including low-income households, to invest in the sector. Secondly, the unwillingness of house owners to sell their properties in the townships, as shown in the study of FinMark Trust (2004), should be considered as one of the obstacles to the good functioning of the secondary housing market. The refusal of house owners to sell their houses reduces the number of properties in the market from the existing housing stock and makes unreasonably high the price of residential properties. Besides, it makes the housing ladder difficult to climb in the townships and prevents house owners from enjoying the economic opportunities that this market should offer. The following chapter, which is a sequel of the literature review, discusses the intervention of the South African Government in the housing sector through two policies, namely Black Economic Development (BEE) and Breaking New Ground (BNG) and one agreement of the financial institutions called the Financial Sector Charter (FSC) to expend R42 billion to house low and middle-income people.

Chap 3. South African state interventions in the housing sector.

3.1 Introduction

The literature review explored so far has shown that factors influencing the increase in property price should be found in the supply side or in the demand side. In addition, it argued that government must play an important role through rational policies to stabilize the housing market. The role of government in the development of the housing market has been stressed by Oxley (2004), who argues that governments should intervene in the supply and demand sides if the housing market is to be stabilized and made more functional for all income groups. In South Africa, the intervention of the post-apartheid government is essential to address the massive racial inequalities and poverty that developed "from a separate development with a high backlog of poor quality housing and inadequate basic services" Beal *et al*, (2000: 107). Besides, as Cousins *et al.* (2005: 1) observe, "South Africa has the second highest level of inequality in the world after Brazil, and the gap between the rich and the poor appears to be widening." Inequalities are also perceived in the residential property market in which the possibility of boom profits only to those who were "already wealthy".

Since the establishment of democracy in 1994, the ANC government has set up a broad range of policies, including housing policy, to transform South Africa into a democratic society based on principles of fairness, non-racialism and non-sexism where all income groups and races can live together and share the same facilities (ANC, 1994). These reforms introduced by the post-apartheid government embrace all the sectors related to the economy, politics and social development and aim at overcoming the legacy of apartheid. Statistics show that some policies have been successful. Indeed, there is a huge improvement in the access by poor households to clean water and electricity and the numbers of people receiving social grants have been increased (Cousins *et al.*, 2005).

Although the effectiveness of policies implemented does not constitute the subject of discussion in this chapter, it is worth noting that the transformation of South Africa, which should dramatically address inequalities and poverty and which should bring about the improvement of poor people's living conditions,

will be effective if voices of poor households are heard and integrated in the policy-making process and implementation (Pillay *et al.,* 2006).

3.2 Black Economic Empowerment (BEE)

3.2.1. Overview of the policy

The Black Economic Empowerment Act (BEE) came into effect in 2003 and is conceived as:

> "An integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities" (53/2003: 6).

The policy aims to accelerate the economic restructuring introduced by the ANC government, which would like to witness the rapid integration of black people into the mainstream of the South African economy. As Janisch (2006) notes, BEE is a plan to foster economic growth, to increase the skills levels of black people, to create jobs and to reduce poverty in a short time. It essentially seeks to address the systematic exclusion of the majority of black South Africans from fully participating in the economy. Entrenched historical and social inequalities inherited from apartheid policies are seen as the main factors inhibiting the capacity to achieve full transformation of the South African society and to attain a vibrant and growing economy.

The Black Economic Empowerment (BEE) policy seeks to overcome the inequality or damage created by the apartheid regime which essentially had the purpose of dominating and controlling black people economically (Huchzermeyer, 2002). In fact, through Acts such as the Land Act of 1913 which denied black people the right to own productive land and to fructify land, and the Bantu Building Workers Act of 1951, the apartheid regime systematically and intentionally barred the black population from participating in and benefiting meaningfully from the mainstream economy. In fighting inequalities, BEE contributes by removing obstacles to the achievement of the economic growth, development and social transformation of South Africa. Concretely, Campbell and Hackett (2006) point out that BEE recommends that white-owned companies offer training, education, shares and ownership in their businesses to black people.

Following the description of BEE, one may argue that the BEE policy obeys John Rawls' (1972) second principle of justice, entitled "Equality in Opportunities of Chances", which supports to some extent inequality in conditions so that it profits disadvantaged or marginalised people which, in the case of South Africa, are

black people who were victims of the apartheid era. The idea behind the government policy of BEE is to promote black people by encouraging them to participate actively like white people in the economic activities of the country. The key objective of BEE is to be a catalyst in the facilitation of "economic transformation in order to enable meaningful participation of black people in the economy" (BBBEE Act 53/2003: 6).

Among the positive outcomes of BEE, Kloppers (2010: 10) notes, is that house ownership is growing among black people. He affirms that "the handing over of houses to black citizens in South Africa since the advent of democracy has been the country's most successful reform." In evaluating the house ownership, he discovers in his research that the proportion of Black people in South Africa's primary residential market is evaluated at 41.7% after white people who make up 43.8%. One may argue that BEE has created a middle-income class and has contributed to increase the housing demand of black people who inhabit Soweto.

3.2.2 BEE and the increase in residential property prices in the studied areas of Soweto

This research report has advocated in this chapter that the government should play a decisive role in advancing the performance of the housing market. In addition, it has defined the good functioning of the housing market as a situation of housing supply meeting the housing needs of all income groups. In well-functioning housing markets, house owners are motivated to sell their houses, which constitute the housing stock, and home builders are stimulated to build new houses as a response to the growing housing demand and the profit that is realised in the property sector. The question that arises in this section is whether the implementation of the BEE policy contributes to the performance of the housing market in the studied areas of Soweto.

BEE is a policy seeking to unlock the economic activities of black people by promoting them as determinant role players in economic activities. Shubane (2007) argues that BEE is an essential tool to address racial inequalities and to foster the social transformation of South Africa. It is, according to Shubane (2007), the only practical solution to the complex challenges facing South Africa. Although there is still a long way to go in the social transformation of South Africa, the achievements of 10 years of democracy are remarkable. Among the achievements, Shubane (2007: 65) asserts that:

> "It has now become possible to conduct a discussion on the black middle-class and what this class has done to increase demand within South Africa's economy. Black people now earn a comparatively high percentage of the share of income earned by highly paid people in South Africa".

Following Shubane (2007), an important number of black people who couldn't own a house during apartheid era are now empowered by the policy of BEE and are able to purchase a house and to own it. In Order words, the implementation of BEE Policy, increases housing demand among black people.

However, the policy of BEE does not go unchallenged. Many criticisms have been levelled at its implementation and its outcomes. Regarding the motivation of the BEE policy, one may argue that the attempt to combat the massive racial inequality, which is seen as the main obstacle to the social transformation and the achievement of social justice, is a splendid objective that in principle must receive people's support. The targets of the BEE policy are black people in general, particularly women, youth, disabled people and people living in rural areas. In practice, the implementation of the BEE policy raises multiple questions. The policy for instance does not explicitly emphasise skilled or qualified black people who were not given the same opportunities during the apartheid era as white people to participate actively in economic activities and to benefit from them. The policy focuses on black people in general, including unskilled ones, and would like to see black people owning and managing companies. Campbell and Hackett (2006) question the motivation of the BEE policy and ask whether or not BEE is good for the economy of the country.

With regard to the active participation of black people in economic activities, many authors, including Andreasson (2006) and Iheduru (2002), have severely criticised the outcomes of the BEE policy. They argue that the outcomes of BEE differ from its intention of addressing the racial inequalities and accelerating the meaningful participation of black people in the mainstream of the economy by empowering only a portion of the black population. Besides, they credit BEE for the creation of a black bourgeoisie in South Africa. Furthermore, instead of addressing inequalities, BEE policy deepens the already existing gap between the rich and the poor and the segregation created by apartheid era. According to Andeasson (2006) and Iheduru (2002), the BEE policy is a tool used by the ANC government to recompense some black people who actively participated in dismantling the apartheid regime. They add that only black people who were members of the politically well-connected elite benefited from the R42.2 billion worth of BEE deals in 2003.

Following the criticisms that face the implementation of the BEE policy, one may argue that although the positive result in the housing sector as stated above, the overall outcome of the policy might be questioned. Its implementation only favours some black people and not all the black people. Black Economic Empowerment (BEE) is also referred to as Broad Based Black Economic Empowerment (BBBEE). Although it may look like two different policies, substantially, BEE and BBBEE are the same policy.

Alongside BEE policy, Breaking New Ground (BNG) or the Comprehensive Plan for the Creation of Sustainable Human Settlement seeks to promote the entire housing market, including the secondary housing market. The following section of this chapter will focus on the BNG policy and the relation between the implementation of BNG and the performance of the housing market in the studied areas of Soweto.

3.3 Breaking New Ground (BNG)

3.3.1 Overview of the policy and the environment into which it was adopted

The Breaking New Ground (BNG) policy was adopted in 2004 by the Department of Housing to foster the creation of sustainable human settlement and to overcome the shortcoming resulting from the first ten years of housing delivery. It is acknowledged widely that the delivery of housing in South Africa has failed to achieve the objectives contained in the 1994 housing White Paper and other policy documents such as the 1997 Housing Act and 1997 Urban Development Framework. In other words, the delivery of low-cost housing in South Africa has failed to create sustainable human settlements (Baumann, 2003b; Khan, 2003; Huchzermeyer, 2003b; Zack and Charlton, 2003; Omenya, 2002). Major concerns raised by researchers are about the poor quality and poor location of low-cost housing.

In their study related to the perception of low-cost housing by beneficiaries, Zack and Charlton (2003) assert that although pride results from owning a house, beneficiaries of low-cost housing are worried about the future of their children due to the poor environment and infrastructure into which low-cost housing has been delivered. Indeed, beneficiaries point out that as a result of the houses' poor location children lack economic opportunities and are required often to travel a long distance to reach the centre of activities such as schools, jobs, etc. Landman (2003) argues that poor location of low-cost housing exacerbates the vulnerabilities of poor households to crime, which already is at unacceptably high levels in South Africa.

Likewise, Huchzermeyer (2003b: 115), among other researchers, points out that: "the housing subsidy system can therefore be seen as a force contributing to urban segregation". According to her, the post-apartheid government did not succeed in redressing the urban segregation created by the apartheid regime. Through its poor location, subsidised housing reinforces urban segregation. One of the conclusions drawn by researchers such as Huchzermeyer (2003b) and Baumann (2003b) is that instead of empowering low-income households, the provision of low-cost housing has exacerbated poor households' vulnerabilities and reinforced urban segregation. Concerns have been raised by academics and housing researchers with calls to either amend the 1994 housing policy or to elaborate a new housing policy.

In response to shortcomings related to poor performance in the first 10 years of housing delivery regarding the creation of human settlements, the normalisation of the housing market and the improvement of low-income households' living conditions, in 2004 the National Department of Housing released a new vision or plan for the next five years which is referred to as 'Breaking New Ground' (BNG). BNG seeks to boost housing delivery and to stimulate the creation of sustainable human settlements. It introduces among other innovations a new approach to dealing with informal settlements by promoting *in situ* upgrading as one of the durable solutions to the informal settlement issue.

Notwithstanding the substantial change brought about by BNG, the Department of Housing insisted that BNG is not a new housing policy. It is a new plan designed to accelerate housing delivery and change the lives of poor households, the beneficiaries of the government housing plan. The Department of Housing assigned seven objectives to BNG. They are:

- accelerating the delivery of housing as a key strategy for poverty alleviation;
- utilising the provision of housing as a major job creation strategy;
- ensuring accessibility to property by all as an asset for wealth creation and empowerment;
- leveraging growth in the economy;
- combating crime, promoting social cohesion and improving quality of life for the poor;
- supporting the functioning of the entire single residential property market to reduce duality within the sector by breaking the barriers between the first economy residential property boom and the second economy slump; and
- utilising housing as an instrument for the development of sustainable human settlements, in support of spatial restructuring (Department of Housing, 2004)

These enumerated objectives of BNG confirm that although housing in South Africa is conceived as a human right that every South African must enjoy, significantly, it is a tool to achieve some national goals among which are economic growth and the creation of jobs, the creation of an inclusive society and the attempt to tackle past inequalities with which the country is dealing.

Some major shifts introduced by BNG are well documented in Tomlinson (2006). She argues that BNG shifts away from quantity to quality, which means that the 10 first years of housing delivery in South Africa put focus on quantity and accorded scant attention to quality. The number of houses built between 1994 and 2004, estimated at 1,6 million, confirms this shift (Lizzalde and Massyn, 2008). The second shift brought by the policy is what Tomlinson (2006) calls a shift from 'breadth' to 'depth'.

Regarding the housing market that is of concern in this research report, BNG is committed to supporting the entire property market, instead of focusing only on low-income households. In fact, the focus on low-income households only impacts negatively on the creation of an integrated housing solution. For instance, middle-income households, defined in South Africa as people earning a monthly income of between R3 500 and R7 500, have not previously received attention from the housing market as they were neither eligible for housing subsidies nor for bank credits. They had to rely on the informal and private housing market. The disregard of middle-income groups in housing provision observed in the first 10 years of housing delivery in South Africa added to the housing crisis that the country was facing, particularly for low-income households. Although multiplicity and variety should be promoted in housing provision, South Africa needs an integrated plan that includes all income groups and aims to build an inclusive society.

BNG called for a shift from supply side to demand side delivery or from greenfield developments to *in situ* upgrading. As argued in the enabling housing market document published by the World Bank (2003) focusing on the supply side only inhibits people's participation and this is seen as the main cause of the poor performance of the first 10 years of housing delivery. Associated to this shift, BNG acknowledges the importance of social housing and rental housing, which exclude ownership as a tenure option but which are important players in inner city regeneration, through providing low- middle-income households with affordable and adequate housing.

Another significant shift initiated into the housing process by BNG is what Tomlinson (2006) calls a 'moving beyond the chicken and egg' debate with regard to housing finance. The government and the four big banks of South Africa, FNB, ABSA, STANDARD BANK and NEDBANK, finally reached a positive consensus related to extending housing finance to low-income households. Instead of accusing each other and making no progress, the banks and government agreed to work together to go down market, meaning that housing finance would be extended to poor households. As Tomlinson (2007) notes, the government, which perceived the hesitation of the banks to lend to low-income households as a discriminatory practice, finally accepts that working in this segment of the market is risky. Before analysing the relation between the BNG policy and the performance of the housing market in the studied areas of Soweto, that, I will do later in this chapter, it may be meaningful to discuss some challenges facing the implementation of BNG.

It is acknowledged that BNG seeks to overcome the poor performance observed in the first 10 years of housing delivery that was intended to accelerate the creation of human settlement and combat poor households' vulnerabilities. However, Charlton and Kihato (2006) raise concern about BNG achieving its stated objectives. According to them, the objectives are not well articulated. Besides, Napier (2005), from his point of view, argues that BNG confuses the role of the state and that of residents, more specifically in the pledge of urban reform. Moreover, Napier believes that BNG does not pay much attention to public spaces. Finally, Todes (2006) notes that the first 10 years of housing delivery overlooked principles of densification, desegregation and urban restructuring. Regrettably, South African cities still remain fragmented (Harrison *et al.*, 2003) and the commitment to restructure South African cities and implement BNG remains weak.

3.3.2 Breaking New Ground and the secondary housing market

The support of the entire housing market, including the secondary housing market ,is one of the objectives of BNG. In the first ten years of housing delivery, the market in general and the housing market in particular did not work well for poor people. Gibson *et al.* (2004) assign to governments and development agencies the role of stimulating the market so that it can work to the advantage of poor people. As a new plan or vision for the creation of human settlement, BNG deals with the entire housing market.

BNG manifests the desires expressed by the government to bring back the private sector into the affordable housing market. As Tomlinson (2007) argues, without enumerating them, the government put

forward a certain number of proposals to bring back the private sector into the affordable housing market. The active participation of the private sector in the affordable housing market has the advantage of fostering the housing supply and overcoming the housing backlog in South African housing sector. In addition, with empowerment of the demand side through easy access to housing finance for low and middle-income households, as a result of the Financial Sector Charter (FSC), the improved performance of the housing market should have become a reality in the secondary housing market.

Support of middle-income households and promotion of social and rental housing are the ways used by BNG to bridge the gap between one segment of the secondary housing market that prospers and another segment that is ineffective and inefficient. With the commitment of the banks to go down market or to work with low-income households, middle-income households that are not eligible for government subsidies can now rely on loans from financial institutions. The government participates in housing for middle-income households by paying the deposit required by the banks on their behalf. Theoretically, it can be seen that the commitment of the banks to extend finance to the low- and middle-income sectors plays a determinant role in stimulating the secondary housing market and the market for affordable housing.

As criticisms, firstly, the literature explored two sources of housing supply, namely existing housing stock and new housing construction. The BNG policy only deals with new constructions of houses in which the private sector is engaged and fails to deal with existing housing stock where some house owners are reluctant to sell their houses (Mohau Motaung, interview DAY January 2011). If the government sought to convince the private sector to deliver affordable housing, it did not, however, propose a plan to stimulate house owners to sell their houses. Secondly, related to the housing demand, the BNG policy puts an emphasis on motivating the banks or the financial institutions to extend their loans to low- and middle-income households. However, it fails to focus on job creation, highlighted in this research report as the sustainable solution to the housing demand. How can poor households repay their loans if they do not have a source of income? The BNG policy fails to propose a plan for job creation.

With regard to the weaknesses of the BNG policy pointed out above, the seeming increase in residential property values in the studied areas could not be the result of the implantation of BNG alone. It is the combination of all factors, including the implantation of FSC. As researchers have shown, access to finance contributes to the improvement of the housing and living conditions of low and middle-income groups

(FinMark Trust, 2006a and 2006b). The following section of this chapter will highlight principles contained in the Financial Sector Charter (FSC).

3.4 Financial Sector Charter (FSC)

3.4.1 Overview of the agreement

In 2003, the government of South Africa and financial institutions, represented by the four leading banks cited above, reached an agreement to make finance available for low- and middle-income groups. This agreement through the FSC opened the doors for low- and middle-income groups who had been ineligible for bank loans. For five years, from 2003 to 2008, the financial sector agreed to make R70 billion available for the development of finance of which R25 billion was for infrastructure finance, R5 billion for small business, R1.5 billion for rural development and R42 billion for housing finance to benefit low and middle-income groups who earn a monthly income from R1 500 to R7 500 (Fin Mark Trust, 2006c). Based on the historical past of housing finance, characterised by the reticence of the banks to lend to low-income earners, one may argue that a huge step has been made in South Africa. Analysts observe that this agreement is the fruit of protracted negotiation between the banks and the government.

For instance, Tomlinson (2007), who studied the development of housing finance from 1980 up to the release of the FSC in 2003, highlights the main processes preceding the FSC. She argues that since 1980 the South African housing sector has been looking for a way to finance low- and middle-income housing consumers. In addition, from 1994 the ANC led government has been encouraging financial institutions to extend their finance to low-income households despite the negative experience characterised by defaulting on loans. The government believed that the refusal of banks to work with low-income groups was a discriminatory practice against poor people. The commitment of the banks to providing R42 billion from October 2003 to December 2008 to house low- and middle-income groups manifests an intercession point or an agreement between the government and the banks. Government acknowledged that it is risky to work with low-income households and the banks transcended, to some extent, the fear of working with this income group.

Although the banks are theoretically available to extend finance to low- and middle-income sectors, research related to housing finance shows that access to finance remains difficult for low-income groups (FinMark Trust, 2006a 2006b; Banking Association of South Africa, 2005a 2005b). Data from FinMark Trust

(2006c) show that in 2006 only 200 000 households or 5% of the target market of the FSC had mortgage loans. Besides, Tomlinson (2006) argues that the financial product placed in the market by banks in the form of mortgages does not always suit low-income households. As the data from FinMark Trust (2006c) reveals, 320 000 or 8% of the target market of the FSC are not interested in mortgage loans. This could mean that while some households may require housing finance to acquire a new house, some others may seek housing finance to improve their existing houses. Furthermore, Pillay and Naudé (2006) observe that the housing finance sector ignores the borrowing behaviour, preferences and experiences of low-income households seeking housing finance. This lack of knowledge jeopardises the proper functioning of housing finance.

In its research related to access to finance, titled "How low can you go?", FinMark Trust (2006b) notes that, although some households are qualified to obtain bank mortgages, they do not rely on banks' offers to own their own houses. Among four million households who are the target of the FSC, 48 000 or 12% could access a mortgage but don't have one (FinMark Trust, 2006C). Although affordability remains a serious obstacle for low-income earners to access housing finance, the research by FinMark Trust (2006a) has shown that affordability is not always the reason households do not seek bank mortgages. The research argues that the administration process to obtain a bank mortgage and the mistrust by low-income households of the banks that fix a long period to repay a mortgage are among the factors impeding the smooth access to finance for low-income households.

Concerns were raised by researchers such as Tomlinson (2007) and FinMark Trust (2006b) around the issue of improving access to finance for low-income households by simplifying the administration process or by reviewing the legislation ruling access to housing finance. FinMark Trust (2004) argued that the ineffectiveness and inefficiency of the secondary housing market lies in the burdensome process of buying and selling a house and not in the difficult access to finance. Besides, BASA (2005b) shares the FinMark Trust argument when it points out in its survey on home builders that it takes at least three months for banks to register bonds. This unwieldy bureaucratic system impacts negatively on the functioning of housing production and exchange.

Although there are some challenges that low-income households still face when accessing housing finance, it may be noted that the proper functioning of the housing finance sector is imperative to stimulating the secondary housing market. In this sense, it is believed that the success of the FSC would bring back the

private sector into the affordable housing market for low and middle-income sectors and in turn will financially stimulate low- and middle-income households to own a new house.

3.4.2. FSC and the secondary housing market

The history of housing finance in South Africa reveals that financial institutions were not reluctant to work with the high-income sector. The biggest challenge for them was to work with low- and middle-income groups. It can be seen that the FSC or the agreement of the banks to mobilise funds for low- and middle-income groups came to bolster the secondary housing market and to make it work well for low- and middle-income groups. With the agreement of the banks to extend their lending activities to low- and middle-income households, it now becomes possible for many people who fall into the FSC target market to procure an affordable house, defined by BASA (2005a) as a house costing not more than R180 000. In fact, as FinMark Trust (2006c) points out, access to adequate housing is not simple for poor households. This is because the price of an affordable house can be evaluated at two to six times the annual income of many households. This means that without loans from financial institutions, poor households cannot afford by means of their saving capacity to purchase an affordable house. Therefore, the FSC empowers the housing demand of low- and middle-income earners

However, the empowerment of the housing demand side expressed in the ability of low and middle-income consumers to acquire a house should be accompanied by the stimulation of home builders to produce new houses. Besides, as the housing supply is comprised of new houses built by construction companies (private sector) and by the existing housing stock (Oxley, 2004), home owners who are willing to sell their houses should be encouraged and assisted. Proper functioning of the secondary housing market includes the improvement of the housing supply side by bringing back the private sector and by empowering the housing demand side by making access to housing finance easier for low-income groups and small landlords and entrepreneurs. BASA (2005b) notes that with the mobilisation of funds by the banks for affordable housing, many home builders are stimulated to build more affordable houses so that they can increase their profits. It is believed that the improvement of access to housing finance for both home builders and home buyers will bring drastic improvement to the proper functioning of the secondary housing market.

The question that arises is whether there is a close relationship between the FSC and the increase in residential property prices that is occurring in the studied areas of Soweto. It should be noted that the FSC

has as its target the secondary housing market and aims to improve the affordable housing sector and make it work well for the low- and middle-income groups. It is possible to argue that many beneficiaries of the FSC have bought their houses in the studied areas of Soweto. However, as FinMark Trust (2009) notes, there is no data that can allow such a conclusion and banks are reluctant to provide such documentation.

However, as in the case of BNG, there is still the problem of availability of funding (housing demand) corresponding with the availability of houses on the market (housing supply). Referring to data provided by BASA, FinMark Trust (2009: 6) points out that "just over R4 billion in developer loans was originated between 2004 and the end of 2008, amounting to about 15% of the value of mortgage finance originated over the same period and less than 20 000 houses at R200 000 per house'. As the shortfall of adequate housing is evaluated by BASA at 661 000 (Rust, 2006), it seems evident that, "new finance does not equal new housing" (FinMark Trust 2009: 6). It can also be argued that, although the FSC reached its target of expending R42 billion in housing low-income earners by the end of 2008 (FinMark Trust, 2009), it failed, however, to stimulate the supply of new houses in order to renew the existing housing stock and meet the demand of affordable housing.

Furthermore, among four million households who constitute the target of the FSC, 2.1 million, or 53%, do not qualify for a mortgage and 800 000 or 20%, are too poor to afford mortgage finance repayments (FinMark Trust, 2006c). This data reveals that affordability remains a very big challenge for the proper functioning of the secondary housing market. This means that a sustainable solution for the proper functioning of the secondary housing market does not rely only on the availability of finances; it should also be accompanied by a strategy that aims to increase housing affordability for low-income earners by, for example, encouraging saving and creating jobs. Without these sustainable solutions (saving and jobs), middle and low-income earners will experience difficulties to repay their loans and banks can proceed by repossessing their houses. This is a very painful solution for house-owners that could be undertaken by the banks when house-owners fail to repay the loans.

Referring to the experience of the industrial world from 1997 to 2006, Kim and Renaud (2009) attribute the increase in property price that these countries experienced to the extension of credit. Although the access to finance plays a crucial role in the increase of properties price, this research argues that in the studied areas of Soweto, as in other parts of the world, the government policies and the agreement between the

government and the banks, combined with the improvement of infrastructure, might together explain an increase in residential property prices happening in the studied areas of Soweto.

3.4. Conclusion

This chapter has discussed the intervention of the South African government in the housing sector through two policies and one agreement (BEE, BNG and FSC) in relation to the secondary housing market. With regard to BEE, this chapter has argued that although there are some criticisms, there is an emerging class of middle-income and many black people who are beneficiaries of the policy become owners of residential properties.

The Comprehensive Plan for the Creation of Sustainable Human Settlement, referred to as BNG, seeks an integrated housing solution that suits all income groups and to stimulate the entire housing market, including the secondary housing market or housing market in old black townships, which comprises the studied areas in Soweto. The support of social housing and rental housing is seen as one of the biggest shifts instigated by BNG. In this regard, the recognition of *in situ* upgrading as one of the durable solutions for dealing with the issue of informal settlement, which has become a perpetual challenge in South Africa (Huchzermeyer and Karam, 2006) should be noted. According to the 1994 housing policy, informal settlement issues, understood as a housing problem and a lack of adequate housing, should be addressed by the delivery of subsidised houses. Relocation of residents of informal settlements into new sites was preferred over *in situ* upgrading. However, relocation has shown its limits. Many analysts, including Khan (2003) and Baumann (2003b), have noted the disruption created by relocation. They argue that relocation deepens poor households' vulnerabilities. *In situ* upgrading received close attention as one of the solutions to addressing issues related to informal settlements with the adoption of BNG in 2004.

As criticism, the BNG policy supports the secondary housing market but focuses only on the construction of new houses by the private sector and still fails to give particular attention to the existing housing stock. This research report argues that the BNG policy would effectively support the entire housing market if it also

focuses on existing housing stock and put job creation at the heart of the solution of South Africa's housing problems.

Related to finance, the Financial Sector Charter (FSC) is the cornerstone of the success of the secondary housing market and allows low-income earners to acquire affordable housing. In fact, the housing sector, more specifically the affordable housing sector, has benefited from the FSC. The improvement of access to finance for low-income households who are willing to acquire new houses, the support of home builders engaged in affordable housing and the renewal of the existing housing stock are considered compulsory requirements for the success of the secondary housing market in which the studied areas of Soweto are ranked.

Although much progress has been realised in the housing finance sector in South Africa, it can be argued that there is still a long way to go. Many researchers, including FinMark Trust (2006a), have pointed out the importance of housing education to improve access to housing finance for low-income households and to overcome the issue of mistrust developed by financial institutions towards low-income borrowers as well as by some households towards the banks.

This research report has emphasised the undersupply of affordable housing to meet the housing needs of low- and middle-income earners as a main obstacle to the proper functioning of the secondary-housing market. The exploration of the FSC has shown that there is still a huge shortage of affordable housing, notwithstanding the R42 billion that has been spent in the affordable housing market. This means that the FSC did not overcome the affordable housing crisis facing South Africa. The data from the South African Property Transfer Guide (SAPTG) has shown that an important number of property transfers happened in 2004, which coincides with the willingness of the banks to extend their financial services to low- and middle-income earners. Despite the unavailability of data to prove it, the FSC might be considered as a stimulus of the increase of properties price in the studied areas of Soweto

Nobody can disagree about the important of finance in a well-functioning housing market and in the stimulation of increase in residential property sales and construction or the increase in properties prices (Kim and Renauld, 2009). However, the full performance of FSC could be attained with a serious plan to alleviate poverty and unemployment in South Africa. This will facilitate borrowers to repay their debts and

refrain financial institutions from repossessing their houses, thus decreasing their capital with which to introduce other financial products.

The following chapters (4 and 5) constitute the case study of this research report. The objectives of the chapters are, firstly, to present the evidence of the seeming increase in residential property prices through property magazine and newspaper articles and interviews. Lastly, chapter 5 explores reasons that explain a seeming increase in prices of residential property. Unfortunately, the secondary data from SATPG and Affordable Land and Housing Data does not directly suggest that there is a seeming increase in residential property prices in the studied areas of Soweto.

Chapter 4: Evidence of a seeming residential property boom in Orlando East, Orlando West and Diepkloof

4.1 Introduction

The previous three chapters constitute the theoretical part of this research report. They revealed that in South Africa the secondary housing market (including Soweto), which was labeled as inefficient and ineffective (FinMark Trust, 2004), has started to emerge following investment in townships and the resultant possibility of low- and middle-income groups accessing the housing market with the abolition of redlining. Besides, chapter three shows that the implementation of government policies, namely BEE and BNG, and the agreement of the banks (FSC) to extend loans to low- and middle-income households are among the South African government's interventions in the housing sector and may be ingredients that stimulate a seeming residential property boom in some areas of Soweto. Regarding BEE, the interview with Pierre Venter, the CEO of BASA, in August 2011, also confirmed the positive role that BEE played for black people. He affirms that ''BEE has played a very distinct role as it has created job and job progression opportunities which were previously denied to Black families" (Pierre Venter, interview DAY August 2001)

As FinMark Trust (2004) states that former townships are a new area of opportunity, the housing market in some areas of Soweto is emerging and performing well. This is confirmed by Hopkins (2009: 29) who notes that "the iconic Johannesburg township of Soweto is experiencing a residential property boom amid the doom and gloom of everywhere else". In addition, it is difficult to find a property to buy around Maponya Mall where properties sell for from R500 000 to over R1 million in Diepkloof (Hopkins, 2009). This is the category of properties that experienced a similar increase in price to what the whole of South Africa experienced before the world-wide economic meltdown at the end of 2008 (BASA, 2005a and FinMark Trust, 2004). Explaining what is actually occurring in Soweto's residential property market, Mohau Motaung of Mahau Property affirms, "demand never drops, and it just continues growing." He adds that "if I have a thousand properties in these areas today, I would need another thousand tomorrow" (Hopkins, 2009: 33).

In addition, Lightstone Risk Management's first residential township property index published by FinMark Trust in September 2007 confirms the seeming residential property boom in townships. It states that "Township residential properties are the most recent growth in South Africa's property market and there are great returns to be had" (FinMark Trust, 2007: 1). One of the criticisms that FinMark (2007) Trust leveled at

the Lightstone report is that it does not define the concept of township'. Notwithstanding this shortcoming, FinMark Trust (2007) agrees that in Soweto the increase in residential property prices is real.

A survey conducted by First National Bank (FNB) in 2005 concerning the perceptions and expectations of 100 real estate professionals operating in new development markets in Gauteng townships confirms that a significant number of property sales were observed in townships such as Soweto and Daveyton in Gauteng (www.eprop.co.za). An article published in the BBC News in 2006, titled "Riding high on SA property boom", highlighted the residential property boom happening in Soweto in these terms: "Soweto, built as black residential area under apartheid, is now seeing its house prices rise, echoing the boom in the formerly white suburbs."

Following the housing market performance that is occurring in some areas of Soweto, this research report argues that the conclusion of FinMark Trust (2004) regarding the ineffectiveness and the inefficiency of the secondary housing market, including Soweto, was drawn before the massive influx of investment that has happened recently in various townships across South Africa. As South African President Jacob Zuma declared recently in Alexandra during the unveiling of its first mall: "Slowly, but surely, we are changing the face of the Townships" (Suter, 2009: 56). The residential property boom that occurs in studied areas of Soweto seemingly is not a myth but a reality that can be observed.

The case study in this research report has the objective of answering the main and sub-research questions formulated in the introduction of this research report. This will be articulated in two chapters: Chapter 4 presents the evidence of seeming increase in residential property price in Orlando East, Orlando West and Diepkloof. Chapter 5 presents qualitative data or interviews and analyses possible factors that stimulate the possible performance of the property in studied areas of Soweto. The history of Soweto cannot be understood separately from that of Johannesburg and explains in some extent the seeming increase in residential property value in Soweto, particularly in the studied areas. The city of Johannesburg celebrated its 100 years of its existence in 1886. The history of what is today called Soweto started in 1904 with the first eviction of black people from the City of Johannesburg. As Parnell and Pirie (1991) note, from its beginning, Johannesburg was not free from racial segregation. Housing conditions in what is now known as Soweto will also be briefly presented. Finally, the chapter 4 also presents the secondary data from the South African Property Transfer Guide (SAPTG), the Affordable Land and Housing Data Centre and the property website www.property24.com.

Chapter 4 is articulated in 3 parts. The first part presents the geographical situation of Soweto which includes the studied areas of this research study. The second part deals with the background of Soweto. This background explains in some extent the seeming increase in residential property boom observed in Soweto in general and particularly in studied areas. The last part of the chapter presents the secondary data obtained from the South African Property Transfer Guide, Affordable Land and Housing Data centre and the property website www.property24.com. Data from SATPG includes the year of the property transaction, the number of residential property transactions within a year, the total value of transactions, the highest and the lowest transaction value and the average value of the residential property. The Affordable Land and Housing Data Centre, however, presents housing transitions in the studied areas of Soweto from 2004 to 2009. The particularity of this secondary data is that it describes the number of properties sold per year in price categories comprising properties costing between less than R50 000 and properties costing more than R750 000. Finally, data from the property website www.property24.com is very limited and poor. The only advantage of this data is that it shows the high price of properties which may equal that of some wealthy areas of the city.

4.1. Geographical situation of Soweto

Soweto is located in the south of Johannesburg (see figure 8), in the province of Gauteng. It is one of the biggest and oldest townships of South Africa. Soweto is, according to Holland (1994) the result of the failure by the pre-apartheid and apartheid regimes to successfully deal with the phenomenon of urbanisation. The name of Soweto derives from the name, South Western Townships. It was officially established in 1963 during the apartheid era. During that time or before the establishment of Soweto, practices of relocation of black people to townships and invasions of land by the inhabitants were experienced. Soweto is "a mass fusion of thirty-three townships, which were called 'location' in apartheid terminology" (Holland, 1994, 1).

According to the 2001 South African National Census, the population of Soweto was estimated at 896 995. That population constituted one third of the population of Johannesburg. Soweto is not a homogeneous population as it comprises poor-middle-income and high-income households. Orlando East, Orlando West and Diepkloof which are the areas selected for this case study, are elite or high-income areas within

Soweto. Figure 1 is a map of Soweto. It shows different areas of Soweto including Orlando East, Orlando West, and Diepkloof, areas chosen for case study in this research report.

Fig 1: A map of Soweto

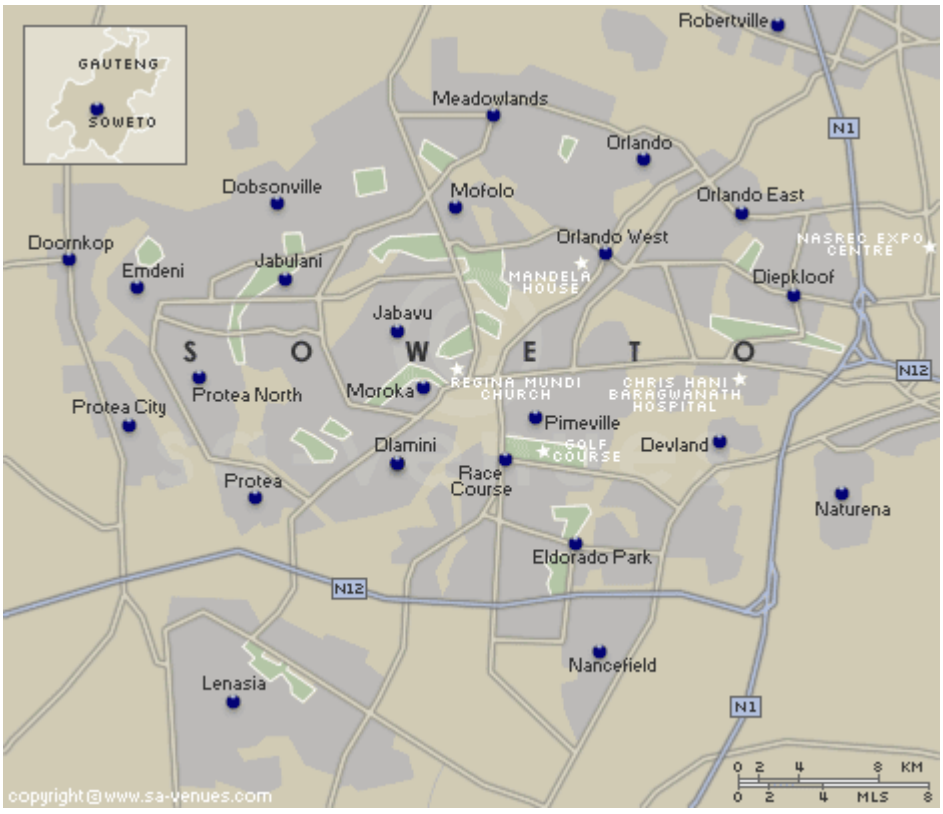


Figure 1: Soweto's map
(Source: http://www.sa-venues.com/maps/gauteng/Soweto.php)

4.2. Background on Soweto

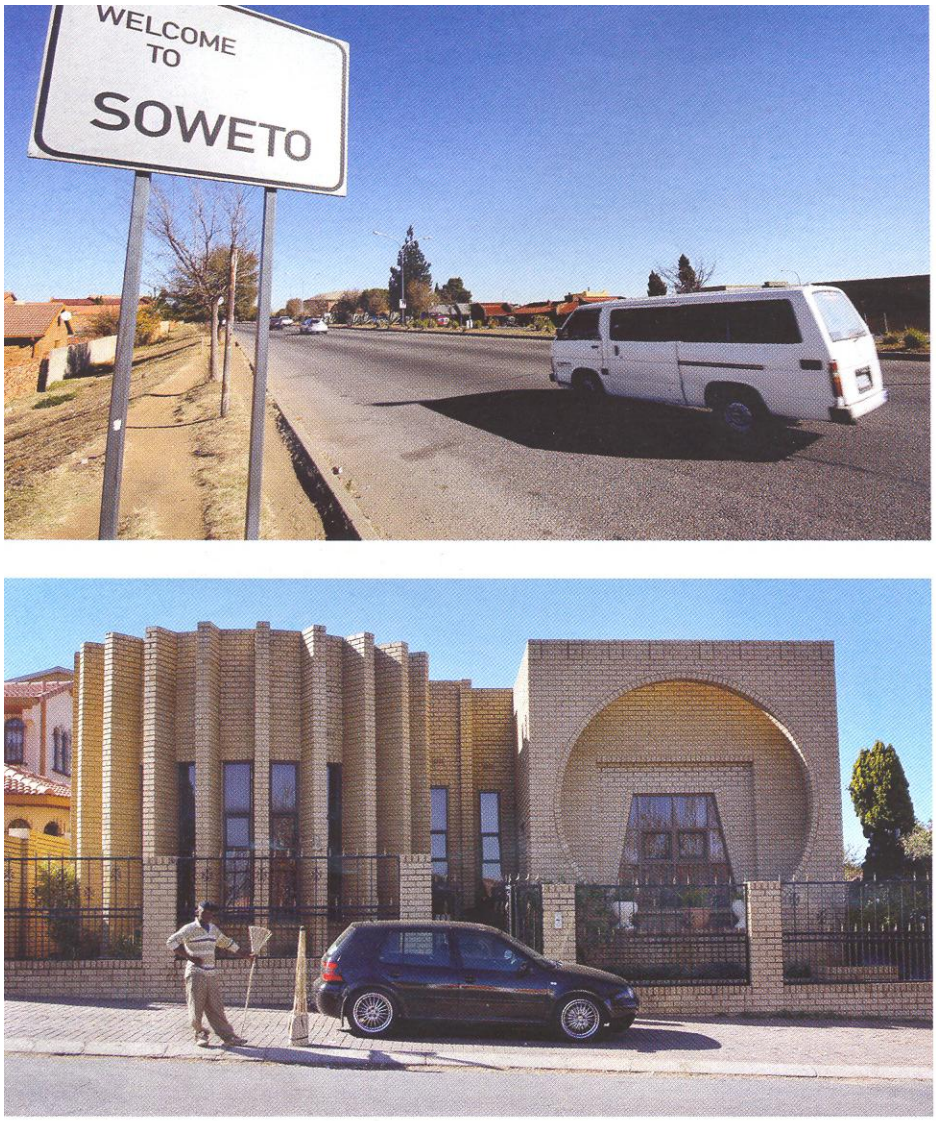
The history of Soweto, where several icons of South Africa are originated, such as the former president of the republic, Nelson Mandela, Archbishop Emeritus Desmond Tutu and many others, provides an idea of what stimulates the seeming residential property market in Soweto in recent days. Exclusively inhabited by black people during the past, Soweto is the place where a large number of black people suffered under the apartheid regime. It is also the place where most actions against the apartheid regime were undertaken. The most significant action against the apartheid regime is the 1976 protest that will be discussed later in this chapter.

Several tourist attractions which are reminiscences of the apartheid regime and which enhance tourism activities in Johannesburg can be found in Soweto. These tourist attractions are mostly historical places namely, Mandela's house, Freedom Square, Hector Pieterson Museum, and others. Soweto reminds South Africans and foreigners of the history of apartheid and the struggle which led South Africa to freedom and democracy.

The history of Soweto related here retraces some important events before and after the establishment of Soweto by the apartheid regime. That history reflects the brutality of the apartheid regime through its policies including that of preventing black people from residing in cities. As a result of this segregation policy, black people were relocated to townships, places designated exclusively for black people. This relocation worsened the housing conditions of black people in South Africa's cities.

Soweto is a significant place in the history and culture of South Africa and was created by the apartheid planning, political and socio-economic laws. The spatial planning of Johannesburg was demarcated for "racially defined groups within a legislative framework" (Sihlogonyane and Karam, 2003:160). Figure 2 shows an entry point into Soweto and an example of a residential property — seemingly an attempt to overcome the dullness through unusual architecture.

Figure 2: An entry into Soweto and example a residential property in Soweto,



Source:The Property Magazine Gauteng July 2009

Similar to Johannesburg, Soweto owes its roots to the discovery of gold in 1886. Johannesburg was referred to as 'the city of gold' by migrant labourers. The Sotho-Tswana speakers referred to it as "Gauteng" and the Nguni speakers as "Egoli". Both mean place of gold (Gorodnov, 1988). Within four years of gold being discovered on Langlaagte farm, Johannesburg had grown to be the second largest city in Southern Africa, 'housing fortune–seeking gold diggers from around the world' (Creighton, 2003:1) and black labourers from all over southern Africa. Robert and Thloloe (2004:1) state that according to the 1895

census, “There were already more than 80 000 people in Johannesburg and more than half of them were Black migrant labourers”.

The formation of what is known today as Soweto is the result of eviction of Africans from the City of Johannesburg. Gorodnov (1988: 6) points out that “Soweto is a satellite-town set up for the labour force serving Johannesburg.” Holland (1994:17) adds that the objective of creating Soweto was “to ensure that the blacks who were needed as workers in Johannesburg’s white-owned factories and business did not live in or near white residential areas”. It can be noted that racial segregation was the fundamental motivation of the creation of the current Soweto.

Analysts agree that the starting point of the creation of the current Soweto was in 1904 when the City and government authorities removed black people from Johannesburg (Brickfields, in present day Newtown) and relocated them to the Klipspruit municipal sewerage site which was at the time located outside the Johannesburg municipal boundary (Gorodnov, 1988; Carr, 1990; Parnell and Pirie, 1991 and Holland, 1994). This first forced removal in the history of Johannesburg took place “after an outbreak of bubonic plague in the areas in which African and coloured people lived” (Carr, 1990: 11). This was, according to Parnell and Pirie (1991), a reason to justify the destruction of the inner city. The objective of eviction was to clear slums and at the same time to establish a segregated housing policy.

Another important factor in the history of Soweto is the establishment of Orlando (East and West) township, areas chosen for the case study in this research report, in 1930. This was in response to the increase of housing demand of black families who chose Johannesburg as their living and working space. The city council was motivated by “the increase in gold price and the influx of white farmers into the city”, (Creighton, 2003:1) to purchase land and to establish a new African township in the heart of the current Soweto. In addition, the creation of an African township at that time was necessitated by the need to accommodate black people who constituted labour for white farmers who were moving into the City of Johannesburg. The tenure made available in Orlando was rental, and houses were built with two or three bedrooms. Services were very poor and the area was not electrified (Creighton, 2003). Diepkloof, another area chosen for the case study in this research report, was established in 1959 to accommodate black people who were removed from Alexandra Township.

Alexandra was established in 1912 by a white farmer called Papenfus with the intention of creating a white residential township. However, given the long distance separating Alexandra and the centre of

Johannesburg at that time, this project failed. Alexandra was then proclaimed “Native Township” where Indian, black people and coloured could own land under a freehold title. Unfortunately, the apartheid government reversed this privilege given to black people before the formal adoption of apartheid policy in 1948 to own land in urban area. This justified the removal of black people from Alexandra and their relocation into Diepkloof (Creighton, 2003).

Another important date in the history of Soweto is 1944 which saw the first land invasion in the area of present-day Soweto where some 20 000 squatters occupied land near Orlando. This land invasion may be considered as the failure of the pre-apartheid effort to control the squatting movements and to meet the growing housing need of the black people. Besides, this first land invasion manifests the consequence of the worsening housing conditions of black people. This unlawful occupation of land was led by James Mpanza with his movement called ‘Sofasonke’. Stadler (1979) points out that Mpanza succeeded in this first land invasion by asking Orlando’s tenants to expel their sub-tenants. As Carr (1990) observes, at that time every house had at least one sub-tenant family. After being evicted, sub-tenant families did not have another housing solution than to invade vacant land and erect their shacks on municipal land in Orlando East (Carr, 1990). The first informal settlement was established and ‘was immediately followed by a second when, on 25 March 1946, the Pimville group, led by Abel Ntoi, was set up’ (Carr, 1990:43). The city council reacted to the land invasion led by Mpanza by putting in place emergency camps in Orlando in 1944, Moroka and Central Western Jabavu in 1946 (Creighton, 2003 and Stadler, 1979).

Today, James Mpanza is considered as one of the icons of the struggle against the apartheid regime and is remembered as the ‘Father of Soweto’ (Creighton, 2003). His big achievement was nationally recognised in December 11, 2009 when he was posthumously bestowed the order of Luthuli in Gold by President Jacob Zuma “for his exceptional contribution to the struggle for socio-economic rights and fighting for justice and restoration of the dignity of black people in urban settlements” (http://www.thepresidency.gov.za/director/pr/2009/pr12021559).

The formal policy of apartheid was adopted in 1948 when the National Party won the white elections. Inspired by the apartheid ideology, the National Party began to execute forced removal of Africans from areas located in the west of Johannesburg such as Sophiatown, Martindale and Newclare and to create, in 1956, new townships to the south west such as Tladi, Zongi, Dhlamini, etc, (Creighton, 2003) and later the creation of Soweto in 1963.

Before closing this section related to the background of Soweto, it is worth noting the adoption of the Freedom Charter that can be considered as the constitution of the African National Congress (ANC), the ruling party, in 1955. Freedom Square in Kliptown, the place where the Freedom Charter was written and Mandela's house in Orlando West, built in 1945, today the Mandela family museum, have become among the historical places in Soweto that are world-class visitor attractions. Nelson Mandela, the former president of a democratic South Africa, lived in Soweto with his first wife, Evelyn Mase, from 1946 to 1957 and with his second wife, Winnie Madikizela Mandela, from 1958 until his arrest in 1962. After 27 years in jail, he was released in 1990 and lived only 11 days in Soweto and moved out to a secret location before he settled into his present Houghton residence. The word Soweto has become the symbol of resistance against oppression and exploitation of black people by the minority white population (Gorodnov, 1988). Soweto became a stronghold for freedom from 1976 with the protest of school children, the so- called Soweto uprising.

The year 1976 presents the sign of consciousness of a community. This date does not only have great significance in the history of Soweto but it also changed the course of South African history (Gorodnov, 1988). The event started in the morning on 16 June, 1976, when thousands of school children made a representation in Soweto against the imposition by the apartheid government of Afrikaans as one of the languages of education (Carr, 1990; Gorodnov, 1988 and Holland, 1994). In reaction to this peaceful protest, police opened fire and one child was killed and several injured (Holland, 1994). Enraged by the brutal police reaction, students entered in the protest. As Holland (1994:6) notes, by 'midday on 16 June, 1976, the sky over Soweto was filled with dark clouds of smoke and dust'. Overall, fifteen people died, including Hector Pieterson, in the township that day and a considerable number of properties was damaged (Carr, 1990; Gorodnov, 1988 and Holland, 1994).

Hector Pieterson was 12 year old when he died during the so-called Soweto uprising in June 1976. Today he is considered nationwide as an iconic image of the 1976 Soweto uprising. In 2002, in Orlando West near the place where he was shot dead, the Hector Pieterson museum was opened to honour and immortalise the victims of the 1976 protest. The museum is one of the major tourist attractions in Soweto today. Figure 4 is a view of the Hector Pieterson's Museum.

Figure 3: A view of Hector Pieterson's Museum



Source: http://www.google.co.za/search?hl=en&q=Hector+Pieterson+museum+image&btnG=Search&meta=&aq=f&aqi=&aql=&oq=&gs_rfai=

The background of Soweto, which discusses the creation of Soweto, is linked with the main events and iconic figures who led and shaped the history of struggle against the apartheid regime. The places that embody these main events in the history of Soweto identified with the struggle for freedom stimulate tourism activities and in turn the seeming increase in residential property prices. The following section focuses principally on the reasons why the seeming increase in residential property prices in Soweto was stimulated, particularly in studied areas

4.3 Presentation and discussion of the secondary data

4.3.1. The South African Transfer Property Guide (SATPG)

The data provided by SAPTG is silent on the seeming increase in residential property prices in the studied areas of Soweto. Although the news papers and property magazine affirm that the residential property market is flourishing in the studied areas of Soweto, the data does not reveal such a conclusion. Such conclusion could easily be drawn if the data could allow us to compare what was happening in the studied areas of Soweto before the so-called climbing of residential property prices. The data provided by SAPTG only reveals that 209 transactions occurred in Orlando East from 2003 to 2009. It does not reveal the number of transaction that happen in other studied areas in the period. The data provided by SATPG shows that there are interesting elements that can be discussed. For instance, the lowest value might indicate that there is a formal market in fairly low value properties and it may suggest that there are housing opportunities to be explored by the low-income people. This should stimulate finance institutions to go down market in these areas. Besides, the studied areas of Soweto are located close to shopping centres and touristic sites. The good location of the studied areas may be one of the elements that explain the seeming increase in residential property prices in the studied areas. The table below indicates the price of properties that have been sold, their size, the price per square meter, the sale date and the transfer date.

A. Property's transactions in Orlando East and possible explanation

Year	Number of transactions	Total value (R)	Highest value (R)	Lowest value (R)	Average value (R)
2003	49	8 207 886	420 000	2 393	167 507
2004	31	13 176 500	7 115 000	30 000	425 048
2005	37	11 192 604	850 000	5 604	302 502
2008	65	13 220 081	4 300 000	1 217	203 385
2009	27	4 340 397	1 173 000	1 211	160 755

Table1: Source: SATPG

The data presents five different years namely, 2003, 2004, 2005, 2008 and 2009 for Orlando East. Among these different years, 2009 witnessed a low number of housing transactions (27) while 2008, shows a high number of transaction (65). Among reasons that can be provided for this is that the three first quarters of 2009 were severely hit by the economic crisis that also negatively affected the automobile, residential property and textile sectors. This economic crisis discouraged purchasers as it required people to limit their expenditure. However, during 2008, before the last quarter of the year when the financial crisis started, the property sectors in Orlando East, Soweto, registered an important number of transactions. This may be explained by the fact that during this year, massive infrastructure development works were undertaken in Soweto. Although it is not indicated in this data, 2003 is the year of the adoption of FSC and 2008 is the final year in which the R42 billion for affordable housing was expended. The data shows that the total value of the housing transfer was almost as high in 2004 as in 2008. The FSC became effective in 2004.

Another interesting element that should be looked at is the total value of the property transactions. The highest total value of R13 220 081 was in 2008 following 65 property transactions. In 2004 the total value of property transaction was estimated at R13 176 500 after only 31 residential property transactions in that year. The column of highest value indicates that in 2004 the most expensive residential property was sold for R7 115 000 while in 2008 the highest property price was estimated at R4 300 000. This discrepancy could be as a result of size (m^2), quality and finishes but the data reveals that the price of property depends

not only on size but also on demand. The secondary data from the SAPTG that outlines the seeming increase in price in Diepkloof will support this statement. For example, SAPTG notes that in 2005 a property of (403 m^2) was sold at R250 000 on the tenth of May and resold at R305 000 on the eleventh of May. In the short time of one day, a profit of R55 000 was observed. This increase looks paradox and almost impossible but it may suggest that the demand for that residential property was high. It is a common knowledge that when the residential property market is effective, house owners can be encouraged to sell their properties and it may be possible to make great profit. Besides, it facilitates both mobility within the settlement as well as possibilities for up- and down-grading.

Further comment can be made about the lowest value of residential properties. The data reveals that the lowest residential property price is evaluated at R1 211 in 2009. Although the data do not allow us to speculate and do not provide us with the size of that residential property, it might be suggested that there are formal transactions even with low value properties. Another explanation that can be given here is that these properties with the lowest values, such as R2 393, R5 604, R1 217, R1 211 and R30 000, either are small or were transferred by the municipality to their former residents without their market value being taken into consideration.

Another area in Soweto that is also experiencing a seeming increase in residential property prices is Orlando West. However, the table below which indicates some transactions that happened in 2007 and 2008 does not present enough elements to be discussed and does not suggest a seeming increase in residential property prices in Orlando West. It only advises us that the minimum price per square meter of a house is R585/m^2, the average is R958/m^2 and the maximum price is R1 693/m^2. The minimum house price indicated is R220 000, the average is R393 703 and the highest amount is R800 000. The total value of transactions is evaluated at R3 543 330. The minimum residential property size is 189 m^2, the average is 457 m^2 and the total is 4 113 m^2.

B. Seeming increase in property prices in Orlando West

Address	Erf/portion	Price in R	Size in m^2	R/m^2	Sale date	Transfer date
Dube 8976	8976	220 000	376	585	2007/08/08	2008/10/15
November 11284	11284/0	250 000	201	1 243	2008/09/10	2008/11/17

Dube 8249	8249	433 330	459	944	2008/04/11	2008/10/17
Dube 7714	7714	320 000	372	860	2008/11/23	2009/01/22
Dube 7005	7005	250 000	376	664	2008/10/17	2009/02/24
Segkapane	13300/0	320 000	189	1693	2008/10/17	2009/02/24
Dube 12495	12495	550 000	646	851	2008/09/13	2009/02/26
Dube 6956	6956	800 000	1 120	714	2008/11/24	2009/03/30
Dube 9218	9218	400 000	374	1 069	2008/10/05	2009/04/06

Table 2: Source, SAPTG

The residential property prices in Orlando West indicate that it is at a price range upwards of R220 000 that the increase in prices is experienced. In Orlando West, the prices of properties sold begin at R220 000. This value of property is beyond the definition of affordable housing as defined by BASA (DATE) as the price of affordable property should not exceed R200 000. Nevertheless, the deeds office exempts all properties below R500 000 from transfer fees. In sum, the seeming residential property boom is the exclusive realm of the higher income groups who can afford to acquire a property costing above R200 000. Poor households were excluded from the residential property boom that occurred in Soweto before the global recession at the end of 2008.

C. Selected properties sold in Diepkloof from 2005 to 2008 and possible explanation

Erf/Portion	Price in R	Size in m^2	R/m^2	Sale date	Transfer date
732/0	500 000	435	1 149	2005/09/02	2005/12/12
707/0	250 000	403	620	2005/05/10	2005/12/19
707/0	305 000	403	756	2005/05/11	2005/12/19
1557/0	705 000	308	2 288	2006/06/07	2006/09/08
688/0	720 000	403	1 786	2006/10/03	2006/12/04
826/0	750 000	390	1 923	2007/02/19	2007/06/28
672/0	499 000	568	878	2007/06/13	2007/08/24
802/0	800 000	390	2 051	2007/05/09	2007/08/29

762/0	820 000	401	2 044	2007/05/28	2007/10/22
690/0	940 000	568	1 654	2007/11/14	2007/12/14
1567/0	350 000	512	683	2007/06/13	2008/02/27
681/0	600 000	403	1 488	2007/08/27	2008/03/28
1556/0	760 000	308	2 467	2008/11/10	2009/03/31

Table 3. Source: SAPTG

Table 3 presents some residential property transactions that occurred in Diepkloof from 2005 to 2008. The first observation in this list is that property prices vary between R250 000, sold in October 2005, and R940 000, sold in November 2007. The second observation is about the size of properties in square meter which is from 308, properties sold in 2006 and 2009, to 568, properties sold in 2007. The third observation emanating from the table 3 is that price, equivalent to m^2 which varies from 620, property sold in 2005 to 2467, property sold in 2009, is not identical for all properties, albeit they are selected from the same area. Fourthly, properties are ranked in table 3 according to their transfer date. Fifthly, it seems that a property of 403 m^2 was sold in 2005 at R250 000 and in the interval of one day it was sold again at R305 000. This increase looks spectacular and inexplicable. It should, in principle, raise questions. However, the data suggests that it is the same property (707/0). In that case the only possible explanation to be provided is that demand for properties was very high in Diepkloof in 2005. Finally, the analysis of the stand size of properties simultaneously with that of price in square meter reinforces the conclusion that high demand of residential properties drives residential property prices in Diepkloof.

4.3.2 Affordable Land and Housing Data website

The secondary data presented here seem more interesting and complete than that of SAPTG. It presents the different property prices that cost between less than R50 000 and more than R750 000 and the number of housing transactions that happened in each defined category from 2004 to 2009. As the data provided by SATPG, there are formal housing market of residential proprieties costing less than R50 000. This data shows that there are interesting elements that can be discussed, including firstly the category of prices costing between less than R50 000 and more than R750 000. Secondly, the table permits to determine the year where a lot of property transactions happened in all price categories. Thirdly, the data indicates the

price categories of residential properties that have seen a lot of transactions. Finally, the data makes it possible to know the number of transactions that happen in all price categories between 2004 and 2009. It is difficult to interpret the meaning of the price category called in these tables “not applicable”. Probably, it may mean the category of price costing between R99 000 and R100 000.

A. Orlando East

Prices	2004	2005	2006	2007	2008	2009	Total
< R50,000	5	9	8	7	4	1	34
R50,000 - R99,000	11	3	6	6	3	3	32
NOT APPLICABLE	4	5	9	17	11	9	55
R100,000 - R199,000	7	8	7	8	7	5	42
R200,000 - R299,000	1	2	3	4	4	5	19
R300,000 - R399,000	-	-	1	3	4	4	12
R400,000 - R499,000	-	-	1	-	-	1	2
R500,000 - R749,000	-	-	1	1	-	-	2
R750,000 +	-	-	-	-	-	1	1
Total	28	27	36	46	33	29	199

Source: www.alhdc.org.za

In Orlando East, 199 housing transactions were registered in all price categories described above from 2003 to 2009. 2007 with 46 residential property transactions was the best year compared to other years and 2005 with only 27 was the poorest performance in terms of transactions compared to other years. Between 2004 and 2009, 34 property transactions were done in price category of less than R50 000. 2005, with 9 transactions, is the year that saw more transactions than other years and 2009 with only 1 transaction is the year that experienced poor performance in housing transactions. In the category of price

comprising residential properties costing between R50 000 and R99 000, the transactions of 32 properties happened between 2004 and 2009. The best performance was realised in 2004 with 11 transactions while only three transactions were noticed in 2009. Non-applicable category, with its 55 property transactions between 2004 and 2009 is the price category that has realised a high number compared to other price categories. In 2007, 17 property transactions happened and only 4 transactions in 2004.

The table that describes property transactions in Orlando East shows that in the price category of properties costing between R100 000 and R199 000, 42 property transactions happened between 2004 and 2009. 2005 and 2007, with 8 transactions, realised the best performance and in 2009 with 5 transactions was the bad performance for this price category. Nineteen property transactions happened in the category of properties costing between R200 000 and R299 000. The best performance was observed in 2009 with five transactions and the poorest performance was realised in 2004 with one transaction only. Properties costing between R300 000 and R399 000 registered 12 properties transactions between 2004 and 2009. In this category, 2008 and 2009 registered four transactions each while no transaction has been observed in 2004 and 2005. Only two property transactions happened between 2004 and 2009 in the category of property costing between R400 000 and 499 000. The data indicates data only one transaction happened in 2006 and 2009 each while 2004 and 2005 did not register a single transaction. Almost the same phenomenon has happened in the category of properties costing between R500 000 and R749 000. In this category, only 2006 and 2007 registered one transaction each while nothing happened in 2004, 2005 and 2009. The last category described in this data are properties costing more than R750 000. In this category, only 2009 saw one transaction taking place.

In addition, this table of Orlando East reveals that the best performance happened in 2007 with 17 housing transactions in the category of non-applicable. As general comment, one may observe that properties costing more than R400 000 are less preferable than properties costing less than R400 000. If the category called non-applicable means properties costing around R100 000, this suggests that this category should be supported by the financial institutions and more properties costing this amount should be put on the market.

B. Orlando West

Price	2004	2005	2006	2007	2008	2009	Total
< R50,000	6	8	4	4	3	1	26
R50,000 - R99,000	6	11	8	4	1	2	32
NOT APPLICABLE	3	8	6	6	11	11	45
R100,000 - R199,000	10	6	10	3	11	2	42
R200,000 - R299,000	1	2	2	7	10	8	30
R300,000 - R399,000	-	-	5	5	2	3	15
R400,000 - R499,000	-	-	2	-	3	2	7
R500,000 - R749,000	-	-	1	3	1	-	5
R750,000 +	-	-	-	1	2	-	3
Total	26	35	38	33	44	29	205

Source: www.alhdc.org.za

In Orlando West, a total of 205 residential properties were sold from 2004 to 2009 in all price categories described above. Alike Orlando East, residential properties defined as “not applicable”, with its 45 transactions seems to be more preferable price category than other price categories. The table shows that residential properties costing more than R750 000 realized a poor performance with only 3 transactions between 2004 and 2009 compared to other price categories. 11 is the highest number of residential properties transactions that happened in Orlando west in 2005, 2008 and 2009. This happened in three price categories. First, 11 transactions is seen in the price category costing between R50 000 and R99 000 in 2005. Second, it is also observed in the price category of not applicable in 2008 and 2009 and finally, in the residential properties costing between R100 000 and R199 000 in 2008. Compared to other years, 2008 with 44 residential properties transactions in all price categories seems to be the best performance and 2004 with its 26 transactions is the poorest performance.

As in Orlando East, the price category called “not applicable” which probably is the category of residential properties costing between R99 000 and R 100 000, seems to be successful. One of the positive ways to respond to this residential property market is on the one hand to put more properties in this price range amount onto the market and on the other is to design a financial product to meet the need of the residential property buyers of this price category. The last table provided by Affordable Land and Housing Data discusses the residential property transactions in Diepkloof Zone 4.

C. Transaction data in Diepkloof Zone 4

	2004	2005	2006	2007	2008	2009	Total
< R50,000	4	1	4	1	1	1	12
R50,000 - R99,000	14	8	4	2	4	1	33
NOT APPLICABLE	3	2	4	7	4	3	23
R100,000 - R199,000	25	22	11	5	5	6	74
R200,000 - R299,000	-	4	10	12	6	11	43
R300,000 - R399,000	-	-	2	10	15	6	33

R400,000 - R499,000	-	-	1	4	8	2	15
R500,000 - R749,000	-	-	-	1	-	2	3
R750,000 +	-	-	1	-	-	-	1
Total	46	37	37	42	43	32	237

Source: www.alhdc.org.za

Compared to other studied areas, Diepkloof presents the best performance in terms of number of residential property transactions. Indeed, 237 residential properties in all price categories were sold between 2004 and 2009. The best performance was realised in 2004 with 46 residential property transactions and 2009 saw the poorest performance with 32 residential property transactions. Unlike Orlando East and Orlando West which saw the category of "not applicable" being successful in regard to the number of transactions compared to other price categories, in Diepkloof the price category comprising residential properties costing between R100 000 and R 199 000 seems to be preferable. In fact, in this price category, 74 transactions have been noted between 2004 and 2009. In addition, with 25 transactions, 2004 is the year where a lot of residential property transitions happened, always in the category of price between R100 000 and R199 000.

As general comment, the category of residential properties costing more than 400 000 has not seen many transactions compared to other price categories. This is either because people are not interested in these categories or there are not enough properties in the market costing this amount. The first explanation seems to be more plausible than the second. In fact, the last secondary data shows residential properties costing more than R400 000.

4.3.3. Presentation of residential property prices in the studied areas

Secondary data from http:www.property24. com was recently collected from the website and has as objective to show the current prices of properties in the selected areas of Soweto. This data does not add substantially to the data provided by Affordable Land and Housing data. It only underscores some residential properties in some areas of Soweto that have high value and some prices such as R1 170 000 that may equal prices in historically wealthy suburbs of the city. However, the website fails to provide property prices before the economic recession in 2008. It is therefore unclear whether the residential

property in Soweto is recovering or whether residential property prices might have been higher here even before the recession. The website also does not provide us with the transactions that happened in the studied areas of Soweto to allow one to confirm that a residential property boom price income is actually happening. Unlike the data provided by Affordable Land and Housing, this secondary data fails to suggest that some select residential properties in the studied areas of Soweto have a high value and sell at high prices. Besides, the data does not tell us why there is only one residential property in Orlando East and Orlando while in Diepkloof there are more than one property that are presented. According to the housing master student who is working at Standard Bank interviewed, "Diepkloof was perceived to be the best suburb in Soweto due to the fact that it is mainly inhabited by entrepreneurs, doctors and professionals and as a result it has always demanded a higher price." (Housing Master Student, interview in April 2011). The aim of this data is to reveal that in the studied areas of Soweto there also are some valuable residential properties which might cost as much as residential properties in the wealthy suburbs of the city.

A. Property price in Diepkloof

Prices in Rands	Listing number
550 000	318047480
685 000	300331278
695 000	100022116
720 000	300336907
950 000	2698248
996 000	2705260
1 170 000	323080261

Source: http://www.property24.com/for-sale/soweto/gauteng/102

B. Property price in Orlando East

Prices in Rands	Listing number
650 000	323089089

Source: http://www.property24.com/for-sale/soweto/gauteng/102

C. Property price in West

Prices in Rands	Listing number
1 500 000	2689992

Source: http://www.property24.com/for-sale/soweto/gauteng/102

Property prices presented here range between R550 000 and R1170 000. Two conclusions can be drawn from this secondary data. Firstly, Diepkloof presents more residential properties in market than other studied areas. This confirms what Mohau Motaung states in his interview: "Diepkloof is viewed as the

Sandton of Soweto" (Mohau Motaung, interview in April 2011). It has large plots and beautiful residential properties. Figure 1 illustrates a residential property in Diepkloof and its price.

The second conclusion that one may advance is that the areas under study are not undervalued. The prices of residential property can support this argument. This confirms the argument developed in this research report that Soweto in general and the areas studied in particular are experiencing an extensive infrastructure development which stimulated tourism activities in the areas, which in turn may have increased residential property values in the areas. This confirmed what Professor Phillip Harrison, a former Executive Director of Development Planning and Urban Management at the City of Johannesburg from 2006 to 2009 said during his interview: "From 2000 to 2005, all the gravel roads in Soweto were tarred. The development of roads was a very successful program in Soweto" (Professor Phillip Harrison, interview in May, 2011).

Fig 4: A residential property in Diepkloof costing R1 170 000



Source: http://www.property24.com/for-sale/soweto/gauteng/102/p5

4.4. Conclusion

The occurrence of the seeming residential property boom in Soweto, particularly in Orlando East, Orlando West and Diepkloof provided by the SAPTG and Land Affordable and Housing Data are not very convincing. This chapter has tried to explore the geographical situation of Soweto and its background. In addition, data from SAPGT, Land Affordable Data were also approached. Furthermore, a property website which showed that the price of a residential property in Orlando West and Diepkloof can cost almost R2 000 0000 was presented as well in the chapter. Data from SAPGT reveals that the price of a residential property in Soweto can exceed R7 million as in the upper income housing market. Unfortunately, there is less evidence of a tendency to formally sell properties and a study of price increase at the lower end of the

market, the target of the FSC, for which monthly income is fixed between R1 500 and R7 500, would still be very relevant.

The secondary data presented in this chapter are not convincing and cannot suggest that one is to advance that there is an increase in residential property prices in Soweto in general and particularly in the studied areas. Secondly, the secondary data from Land Affordable and Housing Data suggest that residential properties costing more than R400 000 are not being sold at the same rate with other price categories. The data provided by Affordable Land and Housing Data suggest that in three studied areas (Orlando East, Orlando West and Diepkloof) residential properties costing between R99 000 and R200 000 are more preferred than other price categories. This looks contradictory with what came out of interviews. There are two possible explanations: either the secondary data from Land affordable and Housing do not translate the real situation happening in Soweto or newspapers, property magazines and interviewees ignore what is really happening in supporting that there is increase in property prices in Soweto. Following this controversy between the secondary data from SAPTG and Land Affordable and Housing Data that do not suggest that there is an increase in property prices and the property magazine and interviews which affirm a perception of the existence of increase in residential property prices, the point of view adopted in this research is that there is a seeming residential property increase in Soweto.

Although this chapter points to secondary evidence of an increase in income of Soweto's residents and the principle of demand and supply as reasons stimulating the seeming residential property boom in Soweto, it did not outline reasons that justify the seeming occurrence of the increase in residential property prices which is witnessed in some areas of Soweto, including Orlando East, Orlando West and Diepkloof. The following chapter, which is the continuation of the case study, highlights some interviews and the major factors that may underlie the occurrence of the seeming increase in residential property prices in the studied areas. The following chapter will answer the main and sub-research questions of this research report. The search for reasons explaining the seeming rise of the residential property boom in Soweto particularly in Orlando East, Orlando West and Diepkloof constitutes the main topic of this research report.

Chapter 5: Factors explaining the seeming residential property boom in Soweto including Orlando East, Orlando west and Diepkloof

5.1. Introduction

This chapter is the sequel of the previous chapter and has for purpose to seek reasons underlying the seeming residential property boom happening in Soweto. The chapter encompasses two main parts. The first part of the chapter present 6 interviews with 2 estate agents, 2 banks officials, one former National Treasurer and one former head of Planning Department of the city of Johannesburg .

The second part seeks directly to answer the main and sub-research questions formulated at the beginning of this research report. Concretely, it will explore three main factors that contribute to the rise of the seeming residential property boom in Soweto, more specifically in the studied areas. These three factors are: the political will of the ANC through the realisation of massive development projects initiated by the City of Johannesburg; the improvement of the infrastructure which stimulates tourism activities, materialised in the construction of new economic centers and the construction and the improvement of stadiums, namely Orlando Stadium and Soccer City (see Figure 7); and the partnership between the public and the private sectors.

The main argument that leads this chapter is that the seeming occurrence of the residential property boom in Soweto can be attributed to the rapid improvement of infrastructure that has been observed in Soweto.

5.2. Presentation of interviews in relation to residential property prices increase

The first part of this chapter consists of presenting six open-ended interviews that were conducted in 2007 and in 2011. Two estate agencies, two bank officials, one former National Treasurer and Professor Phillip Harrison who was the head of planning at the City of Johannesburg from 2006 to 2009, were interviewed in relation to the seeming increase in residential property prices in Soweto. Interviews with estate agencies were conducted with Pam Golding Empowerment represented by John Herbst, and Mohau Motaung real

estate agency and property valuer represented by Mohau Motaung. The two interviews with estate agents were interesting as they engaged with these estate agencies' attraction to the area. The interview responses provided further evidence of a seeming residential property boom experienced in the sale the companies facilitate. The interview with Pam Golding Empowerment took place in November 2007 and that with Mohau Motaung in January 2011.

Interviews with Li Perringer, a former official at the National Treasurery, Lindiwe Mbongwe, a Nedbank Home Loans official were conducted in April 2011. Interview with the Professor Philip Harrison, the former head of the department of Planning of Johannesburg took place in May 2011. The last interview with Pierre Venter, a Chief Executive and Officer of Banking Association of South Africa was recently conducted in August 2011. Three interviews with Li Perringer, Lindiwe Mbongwe and Pierre Venter provide knowledge of financial sector behavior towards Soweto and ascertain Treasury's thinking about infrastructure investment in Soweto and whether the state was hoping to stimulate the secondary property market in this area. Interview with Professor Philip gave an understanding of Soweto from the city's viewpoint, particularly regarding the planning aspect. In my discussion here, I focus on the responses related to the emergence of the residential property value and the possible increase in residential property prices in the studied areas of Soweto. All the persons interviewed recognise the market value that Soweto represents.

Although in this research report I am talking about a possible or seeming increase in residential property in the studied areas of Soweto (due to a lack of convincing data), various commentators writing in estate agents' magazines, confidently mention the rise of a residential property boom in Soweto. Martine (2007: 2) observes that "Soweto's house prices are going up at a dizzying speed, by 39% in the past year, more than double the national average." In addition, Schoeman (2006: 1), in a media article, also confirms the rise of the residential property boom in Soweto, asking whether Soweto is becoming "the land of milk and honey, a popular place to reside with an upcoming prosperity and flourishing residential property market?"

In a similar vein, Pam Golding Empowerment, Mohau Motaung, Li Perringer and Lindiwe Mbongwe also referred to a residential property boom in the studied areas of Soweto. Li Perringer (interview, DATE: April 2011) affirmed that residential property prices have increased in Soweto. Indeed, she witnessed for herself the increase of residential property prices in affirming that, "I was looking for myself at a residential property for R40 000 before I knew that it was being sold for R300 000" (Li Perringer, interview DATE: April 2011). When asked in which areas of Soweto Pam Golding had made the most sales, the response was Orlando

East, Orlando West, Diepkloof, the Proteas and Pimville (John Herbst, interview, DATE: November 2007). Mohau Motaung has been working in the area for the last ten years and he states that he has been witnessing enormous value formation in Soweto, more specifically in Orlando East, Orlando West and Diepkloof. This possible rise in residential property prices is the reason that is motivating some estate agencies, including Pam Golding Empowerment and Mohau Motaung, to operate in Soweto (Mohau Motaung, interview DATE January 2011). When asked what had prompted these agencies, Pam Golding Empowerment and Mohau Motaung, to participate in the residential property market in Soweto, the response was that from the rise of residential property prices in Soweto, the agencies justified their engagement in the residential property market through the demand (John Herbst, interview DATE November 2007 and Mohau Motaung, interview DATE: January 2011). This demand was generated firstly because Soweto is perceived as a global brand. It was argued that the studied areas have a huge commercial and hospitality potential. It is also culturally and socially significant in that it is slowly escalating to be a destination area for many homeowners and continues to attract weekend migration of former Sowetans for whom family, social and cultural connections exist in the area (John Hebert, interview DATE November 2007 and Pierre Venter, interview DATE August 2011).

For Mohau Motaung the possible increase in residential property price is the result of high demand. Firstly, residents of Soweto are not keen to sell their residential properties because of social capital in the areas and fear moving to other areas. They sell their properties only under severe circumstances such as in financial distress, divorce and death. This, according to Mohau Motaung, is one of the causes why residential property prices are not escalating more in Soweto (Mohau Motaung, interview DATE: January 2011). The interview with a former treasurer also confirmed this assertion when she advocated that “homes in Soweto have more of a social asset value than the rest of Johannesburg”. She added that “Soweto represents a new way of thinking that we should be embracing to develop new instruments to unlock a vibrant market further” (Former Treasurer, interview DATE April 2010). Pierre Venter, a CEO of the Banking association of South Africa BASA goes further in its interview in describing Soweto as “a functional property market”. Besides, he confirmed the positive role that BEE and FSC played in the seeming increase of property prices in Soweto. With relation to Banks, he affirms that:

> “With the turnaround in Soweto, Soweto provides a great business opportunity for lenders to tap into an under banked market which was and will evolve into the middle class, which is the backbone of retail banks. Outside of this, the Financial Sector Charter acted as a propellant to force lenders to explore new opportunities within the low to lower middle income market segments,

> which opportunities have primarily been within townships, including Soweto" (Pierre Venter, interview DATE: August 2011)

Secondly, Soweto has expanding population that has property needs, both in Soweto and outside of this market; therefore people manifest a great interest to establish themselves there. Underscoring the attachment that some black people have for Soweto, Pierre Venter affirms that many of his Black colleagues used to joke that during the week they lived in the "kitchens" (the White suburbs) and over the weekend there was traffic congestion due to them and other families travelling into and out of Soweto to enjoy the company of their family and friends (Pierre Venter, interview DATE: August, 2011). According to Mohau Motaung, this attachment, particularly for Orlando East and Orlando West is due to a great political and social histories: They are linked to the history of struggle and with their many touristic sites such as Mandela's house, Orlando power station, etc. (Mohau Motaung, interview DATE January 2011). As noted by Haider and Miller (2000) the importance of geographical and locational importance in the increase in residential property prices should be acknowledge in the case of Soweto.

Commenting on locational aspect, Mohau Motaung affirms that Soweto in general, particularly Orlando East and Orlando West, are centered strategically within the Soweto urban Zone (Mohau Motaung, interview DATE January 2011). Besides, Professor Phillip Harrison added that "there have been several nodal development projects instigated by Johannesburg such as Bara Precinct and Baragwanath hospital, Vilakazi street which has become a tourist node" (Professor Phillip Harrison, interview DATE May 2011). All the tourist sites of Soweto are easily accessible by the main arterial node Potchefstroom road and amenities such as Chris Hani Baragwanath Hospital and Maponya Mall. With the implementation of the Bus Rapid Transit (BRT) system (Rea Vaya) that links Soweto with the rest of the city of Johannesburg, Soweto enjoys the benefit of locational advantages. With these locational advantages, Soweto becomes a place of attraction where many people would like to live. The former National Treasurer pointed out that these transformations opened up internal market and internal circulation in Soweto" (Former National Treasurer interview DATE: April 2011).

Another aspect stimulating the increase in residential property prices in Soweto is that it has an annual cash spend of R6 billion. According to Mohau Motaung, Soweto as a whole has a high level of disposal income (Mohau Motaung, interview DATE: January 2011). This is probably because Soweto is among the places in South Africa where one can observe the active formation of a middle-income class among black

people. This element is confirmed by the CEO of BASA when he affirms that many black families become middle class status. He adds that "Given population growth, increased levels of reasonably well paid families (new middle class), coupled with a backlog in housing stock within primarily the affordable market segment, resale property market prices increased to a level close to that of the primary market"(Pierre Venter, interview DATE: August 2011). Besides, as Schoeman (2006) mentions, the number of residents of Soweto who earn a monthly income of between R7 000 and R12 000 has increased from 4.6% in 2000 to 11.5% in 2006. This increase in income "implies a noticeably larger demand in Soweto for properties selling for between R190 000 and R330 000, indicating that in 2006, 60 000 more Soweto residents can afford such houses now than in 2000" (Schoeman, 2006: 2).

Thirdly, Soweto enjoys huge commercial and political support for real estate development and intermediary engagement mobilising and unlocking the development of the secondary housing market. In addition, when asked whether since the agencies were involved in Soweto there had been an increase in residential property prices, the response of Pam Golding Empowerment was positive (John Herbst, interview DATE: November 2007). In areas such as Diepkloof, considered as the Sandton of Soweto, Mohau Motaung affirm that some residential properties can cost as much as R 2 000 000 (Mohau Motaung, interview DATE: January 2011).

Finally, Pam Golding Empowerment and Mohau Motaung both believe that the possible residential property boom is the result of market forces of supply and demand, where all residential property values have grown significantly over the past year and also the willingness of the banks to secure mortgages (Lindiwe Mbongwe, interview DATE: April 2011). Related to the involvement of the banks, Mohau Motaung affirms that compared to other banks that provide housing finance, Standard Bank is the most aggressive on mortgage in Soweto. The bond given is usually 90% (Mohau Motaung, interview DATE: January 2011). The responses given by Pam Golding Empowerment and Mohau Motaung transcended the agencies' reasons for involvement in the residential property market in Soweto and suggested a wider explanation for the possible residential property boom that has been occurring in Soweto as whole, particularly Orlando East, Orlando West and Diepkloof. A bank official qualified Soweto as a huge untapped market (Lindiwe Mbongwe, interview DATE: April 2011) and for Professor Phillip Harrison, Soweto is heavily linked with politics and former Mayor Amos Masondo's legacy. As Professor Harrison affirms, "Soweto has been given the most attention as a suburb, more than all the residential suburbs in Gauteng. This is because Soweto is the political power base of the ANC" (Professor Phillip Harrison, interview DATE May 2011).

Alongside the principle of demand and supply, the rise of the possible residential property price in these areas are due to an increase in housing demand caused by the locational advantage that has been created in relation to new centers of economic activities. Importantly, Pam Golding Empowerment thought that the housing market in Soweto is not only flourishing, it is also sustainable, which means that the occurrence of the seeming residential property boom is thought to be profitable also for future Soweto residents (John Hebert, interview DATE November 2007).

5.3. Factors explaining the seeming increase in residential property prices in some areas of Soweto

The last part of this chapter attempts to explore some of the elements that contribute to the seeming increase in residential property prices in some areas of Soweto. They are, firstly, the political will expressed by the former Mayor of Johannesburg in his budget speech of 2004/2005; secondly the improvement of infrastructure through the creation of new economic centers, which attract tourists and stimulate economic activities in the areas, and thirdly the successful partnership between the public and private sectors. The core argument presented in this section is that these three factors, including the history of Soweto described above, contribute to the seeming residential property boom in Soweto.

5.3.1 The political will of the ANC government

As Professor Phillip Harrison announced during the interview, Soweto is the political power base of the ANC, the ruling party. Besides, Soweto's positive transformation is former Mayor Amos Masondo's legacy (Professor Phillip Harrison, interview DATE May 2011). Indeed, Amos Masondo, a former City of Johannesburg's Mayor, announced in his 2004/2005 budget speech that "this year we table a spending plan of R16.3 billion" (Masondo, 2004-2005:9), "the highest capital budget in the past ten years and most of this activity will take place in the inner city and Soweto" (*ibid*). According to Masondo, a bulk of the capital budget will be invested in infrastructural backlog in previously neglected areas, most noticeably Soweto. Besides, Masondo argues that there is a need to address the backlog of about R8 billion accumulated from several years of neglect (*ibid*).

The determination of the City to invest in inner city and Soweto responds to the 2030 plan or vision of the City of Johannesburg. The 2030 plan consists of transforming Johannesburg into a World-Class African City in creating an environment conducive to economic growth which in turn should improve people's living conditions.

Political will is expressed in the determination of the City of Johannesburg (CoJ) to improve infrastructure, attract investment and stimulate tourism activities. As, Hopkins (2009) observes, people who have left Soweto are returning and those who have decided to stay in the suburbs are buying a second house in Soweto so that they can always come home. In short, good political will is expected to enhance development. The outcomes of the political will of the City of Johannesburg have a positive repercussion on the residential property sector in Soweto. Johannesburg Property Company (JPC) which was created in 2000 is the City of Johannesburg's tool to enhance property development.

JPC is part of the CoJ 2002 re-engineering process and the Johannesburg 2010 framework. According to the website of JPC:

> "The Johannesburg 2010 framework established the basis for developing a long-term vision and strategy for the CoJ, which culminated in the acceptance of the Johannesburg 2030 strategy, Johannesburg's blueprint for development over the next three decades." (http://www.jhbproperty.co.za/#)

With the capital investment to date by the Johannesburg Property Company (JPC) and the City of Johannesburg, the private sector has had no choice but to take notice. Private development projects have mushroomed as a result of this. Three investments stand out as the most important: the Maponya Mall in Kliptown, inaugurated in September 2007 by the former President Nelson Mandela, the Orlando Ekhaya project, scheduled to begin in 2006, and a chain of restaurants and hotels.

Orlando Ekhaya, is a private sector development project, estimated at R1 billion. The CoJ contributed with R50 million on upgrading the infrastructure around the site. It has been a catalyst for improvement for Orlando East and its periphery. Included in Orlando Ekhaya project are the redevelopment of the landmark power station into retail and entertainment centre, the construction of one thousand middle- and upper-income houses by Katavi Housing, the construction of a rail link by the South African Rail Commuter Corporation and the upgrading of Vista University (http://www.joburg.org.za/content/view/425/253/) – now the Soweto campus of the University of Johannesburg. Figure 9 shows Orlando Ekhaya residential

development. It illustrates the development project as initiated and encouraged by the City of Johannesburg which facilitates the involvement of the private sector in development projects.

Other developments initiated by the City of Johannesburg include the upgrading of roads, with more than 300 km of road surface set for resurfacing and tarring. According to the former Mayor of Johannesburg, this project aimed at eliminating backlogs in the road network infrastructure. Orlando East is among the areas that are considered as a priority. The project has been implemented by the Johannesburg Roads Agency and is evaluated at R200 million (www.soweto.gov.za). It is believed that road improvement in Soweto's areas will obviously create jobs for local communities and will definitely have a positive influence on the residential property boom. In the event of roads being in a good state, higher income people may be stimulated to live in Soweto as the infrastructure allow them to easily commute to and be linked with other regions in the city. As Professor Phillip Harrison noted, "from 2000 to 2005 all the gravel roads in Soweto were tarred. The development of roads was a very successful program in Soweto" (Professor Phillip Harrison, interview DATE May 2011).

Along with road improvements in Soweto, the City of Johannesburg has committed to spend R24 million for the improvement and installation of public lighting in Soweto (www.soweto.gov.za). This project will help reduce crime, which in turn will encourage wealthier people to live in Soweto. Crime is among the factors that discourage people from living in the area. Indirectly, public lighting contributes to increased residential property value in some areas of Soweto.

With the political will of the ANC translated into development projects, Soweto has become not only a place to visit but also a place to live, work, shop and have fun. An article published in the Sunday Times newspaper on 15 February 2005 (quoted in Eprop's website), emphasises the existing relationship between political will and the seeming residential property boom occurring in Soweto. It states that "A R850 million investments by the Johannesburg council to upgrade the road network, street lights, water system and transport nodes is helping to kick start the boom."

Fig 5: Orlando Ekhaya Residential Development



Source: http://www.katavi.co.za/currentprojects.html

5.3.2. The development of infrastructure

Soweto has seen a significant improvement in infrastructure, which is suitable for the involvement of the private sector and conducive to economic activities. Residential property developments and new centers of economic activity were recently developed in Soweto. Protea Garden and the shopping malls, which include Jabulani, Baramall in Diepkloof and Maponya in Kliptown, are part of the new centers of economic activity. In addition, infrastructure for a golf course, the upgrading of Chris Hani Baragwanath Hospital in Diepkloof, Orlando Stadium and the refurbishment of Soccer City, which was used for the 2010FIFA Soccer World Cup, have had a positive impact the image of Soweto. Figure 6, 7 and 8 are illustrations of infrastructure development in Soweto. The CEO of BASA also confirmed during its interview the improvement of infrastructure in Soweto in saying that:

> "Gauteng Province ploughed billions into providing physical infrastructure (storm water, street lights, redoing/extending/tarring roads, funding the "Bara link" etc), as well as social infrastructure (schools, community facilities, tourist attractions etc). Similarly the private sector recognized the

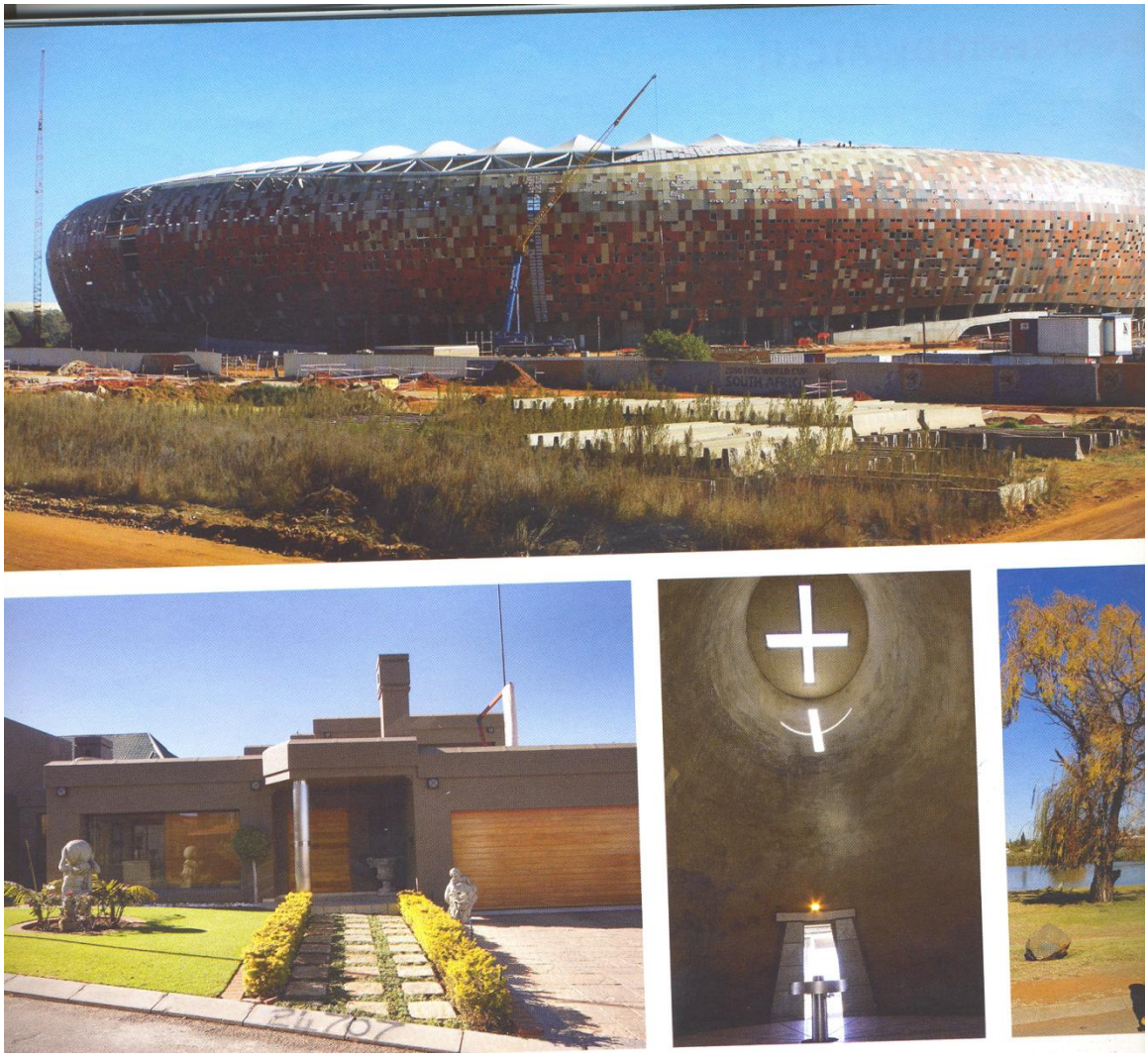
business opportunities that Soweto offered and shopping centers, factories etc were created within/in close proximity to Soweto" (Pierre Venter, interview DATE: August 2011)

Figure 6: An example of residential property development for rental in Soweto



Source: The Property Magazine Gauteng July 2009

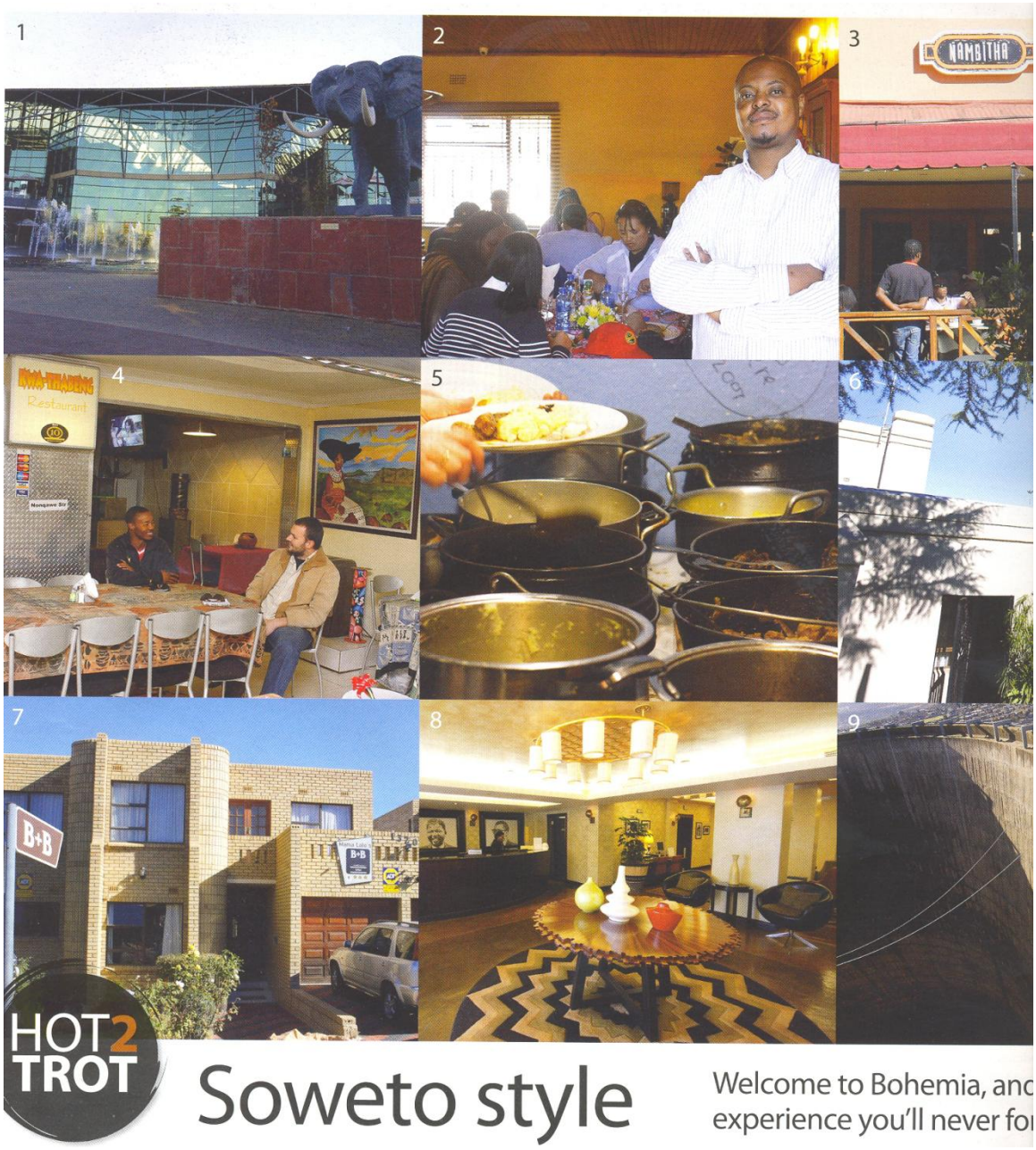
Figure 7: Soccer City and an example of infrastructure development in Soweto



Source: the property magazine Gauteng July 2009

A tree planting project, new economic centers and other infrastructure create a vibrant economy and entertainment in Soweto, which, in turn, stimulate people to choose Soweto as their living space. Figure 8 emphasises the entertainment element in Soweto.

Figure 8: Restaurant and place of entertainment in Soweto



Source: The Property Magazine Gauteng July 2009

This is contrary to what was happening in the township before the current transformation which Soweto is experiencing. Research published in the Business Owner website in 2004 has shown that between 1997

and 2005 Soweto residents were spending 80% of their disposable income outside of Soweto. Currently, with the new infrastructure, one may argue that Soweto residents are able to spend most of their disposable income inside the township. This has a positive impact on the seeming rise of residential property values which is observed in some areas of Soweto. It should be noted that the improvement of infrastructure in Soweto is not a result of a political will only. It also is a positive reaction from the private sector which invests in economic sectors, including the housing sector.

Likewise, the improvement of infrastructure does not foster economic activities only. It also attracts internal and external tourists. Soweto has become a place which attracts tourists. Many former activists of the anti-apartheid struggle, such as former president Nelson Mandela, Archbishop Emeritus Desmond Tutu and other personalities who fought against apartheid regime, some of them whom are currently participating in the ANC government, grew up in Soweto. Hopkins (2009) raises another element that can attract tourists. He notes that Soweto is the only place in the world where you can find the houses of two laureates of the Nobel Peace Prize namely, Nelson Mandela and Desmond Tutu.

Political will and the improvement of infrastructure are necessary but not sufficient to achieve a vibrant economy and the good performance of the housing market in Soweto, particularly in the studied areas. The involvement of the private sector and the participation of communities, which are the main beneficiary of development projects, are required. Many analysts, such as Payne (1999), see partnership, essentially between the public and the private sector, as an effective way to achieve sustainable development.

The following and the last section of this chapter emphasises the partnership between the public and the private sector in Soweto. This collaborative effort contributes to the seeming increase in the residential property boom in Soweto in general and particularly in the studied areas.

5.3.3. The enabling partnership between the public and the private sectors

Public-private partnership is encouraged by the City of Johannesburg to create job opportunities for people living in Soweto and also to direct development of the city to the south instead of always to the wealthy areas located to the north of the city (www.soweto.gov.za). There are certain economic projects that have been undertaken by both the government and the private sector. According to Masondo: 'These programmes also underscore the City's desire to redress the skewed development of Johannesburg, which has seen resources almost exclusively being pumped into the northern suburbs' (City Press 2006:1).

It is evident that an effective and efficient partnership between the public and private sector has been achieved in Soweto. The Baralink development project, which includes the upgrading of the Baragwanath taxi rank, the provision of mixed-income housing, the development of open spaces, and the nearby Orlando Power Station, is an example of public-private partnership. In fact, this multi-billion rand project is driven by the private sector and the City provides the necessary infrastructure such as land and impetus to attract investment (http://www.joburg.org.za/content/view/425/253/). In addition, the public-private partnership is visible in projects such as Jabulani Mall, which offers 'a range of upmarket shopping in 106 stores, including Edgars, Woolworths, Game, Clicks, Milky Lane, Spur and Wimpy' (City of Johannesburg, 2007: 21).

The City of Johannesburg, through the City of Johannesburg Company (JPC) invited interested persons to submit proposals to enter into an agreement for the development of 348 227 m^2 of land (City of Johannesburg, 2007). In the other development projects named above, City of Johannesburg played the role of enabler and facilitator. It made land available for development projects and called for people to develop it according to its vision.

The creation of new jobs that do not compromise existing ones is a sustainable way to stimulate housing demand and to improve the people's living conditions. One may see the creation of new jobs in the massive development projects that have occurred in Soweto. However, there is no evidence to prove that the development of infrastructure that occurred in some areas of Soweto protected old jobs.

People enjoy being close to their work places and economic activities. In the case of Soweto, the improvement of infrastructure transforms Soweto into a place where there are facilities and services that allow its wealthier residents to pursue their needs and interests without traveling very long distances. Facilities and services that are provided in the northern suburbs of Johannesburg can also be found in the south.

Some newspapers which relate the seeming increase in residential property price in some areas of Soweto affirm that there are a close relationship between the improvement of infrastructure and the rise of the residential property boom in some areas of Soweto. The article published in the Sunday Times on 15 February, 2005, notes in relation to the development of infrastructure that "people who live in Soweto now

have a sense of pride when they drive around the township". Regarding the seeming residential property boom, the article adds that a "businessman who splashed out R35 000 on a one bedroomed house in Orlando East which he demolished to build his dream house. The renovated house has three bedrooms and is valued at R300 000.

5.4. Conclusion

This chapter has tried to answer the main and sub-research questions of the research report. Concretely, it has discussed the background on Soweto which relates major events that happened during the apartheid regime and the struggle for a democratic and free South Africa. Historical places linked to the history of Soweto and the apartheid regime, have become great tourist destinations.

In addition, this chapter, which is essentially the result of the current transformation of Soweto obtained through observation, has explored three factors that are contributing to the seeming rise of the residential property boom in some areas of Soweto, namely the political will of the ANC, the improvement of infrastructure and public-private partnerships. In exploring these three factors, it has been argued that, although necessary, political will alone is not able to create the necessary infrastructure to stimulate a seeming residential property boom in some areas of Soweto. Partnership, which is supported by many analysts, including Payne (1999), is among the necessary solutions for achieving the seeming residential propriety boom observed in some areas of Soweto.

Undoubtedly, Soweto has been developing rapidly. The question that arises from this rapid development is whether this development contributes to improving living conditions in general and the housing conditions of poor households in particular. Although it has been massive investment, large parts of Soweto are still not very different from other townships in Johannesburg. Common township problems such as poverty manifested by the existence of shacks, high unemployment and low education rate, are identified in Soweto as well. If development in general, particularly the seeming increase in residential property prices that has been occurring in some areas of Soweto, profits only one income category instead of all income groups, we assist in the deepening and the reinforcement of inequality in the secondary housing market.

Chapter 6: Conclusion and perspectives for future research

This research report has tried to highlight and enlighten the situation of the increase in residential property prices that has been occurring in Orlando East, Orlando West and Diepkloof. This stimulation in the property prices is about the creation of market mobility, offering people greater choices as to where they would like to live. The possible residential property boom in the middle class sub-market has given wealthier people the opportunity to live in some areas of Soweto. It has also allowed others to reap the benefits of value increase in their properties and to move elsewhere. Demographics have shifted and no doubt poor households have been displaced.

The literature review in this report discussed the emergence of the secondary housing market in former black townships such as Soweto. In particular, Chapter 3 reviewed South African policies such as BEE and BNG and an agreement between banks and the state (FSC), which in some way might have helped the secondary housing market. However, these are not the main explanations for the seeming residential property boom that is occurring in Soweto, more specifically the studied areas.

This research report gives three other, possibly more compelling but not exhaustive, reasons for the seeming residential property boom in Orlando East, Orlando West and Diepkloof. Firstly, the political will of the ANC which sees in Soweto its political power base. A former Mayor of Johannesburg, Amos Masondo, expressed the political will of the ruling party in seeking to transform the City of Johannesburg into a World-Class City. As one of the areas chosen by the former executive Mayor of Johannesburg, Soweto received a great deal of attention from the City of Johannesburg which invested a considerable amount of money to create a suitable environment through tree planting, road tarring, street lighting, etc, to foster the involvement of the private sector in economic activities, including the housing sector. A former Director of Development Planning and Urban Management of the City of Johannesburg expressed this in saying that "lots of attention was paid into greening of Soweto" (Professor Phillip Harrison, interview in May 2011)

The second reason that is closely related to the first is the improvement of infrastructure for economic activities such as the creation of new centers, including shopping malls and the development of tourist sites, which transformed the image of Soweto. Like the first reason, the second reason which empowers Soweto economically obeys the objective of the City's plan to become in 2030 a city that would fulfill the standard of a World Class City, a category that includes New York and London.

Finally, the partnership between the public and the private sectors in these developments, which enabled massive investments in Soweto, stimulated the residential property market in Soweto. It should be noted that the acute price increase does not affect the entire Soweto. It concerns only the higher-income areas such as the studied areas which are surrounded by the new centers of economic activities, and in these areas it concerns the emerging middle-class sub-market and not all properties. In this area a desirable location for residential boom was created by putting infrastructure and economic development in place and creating an environment that would stimulate investment.

This research has shown that the increase in residential property prices has been mainly occurring in middle and high-income areas of Soweto, the creation of two "segments" in the secondary housing market may be observed. The first segment was flourishing in the 2004-2008 period and the second segment has been slumping. The advantage of the existence of the segment of the secondary housing market that has been prospering in former black townships, particularly Soweto, is that the southern part of Johannesburg, generally known as a poor part of the City of Johannesburg where shacks and poverty are visible, has attracted considerable investment and wealthier or upwardly mobile people. The limitation is that only some categories of the population profit from the development and large numbers of poor people remain vulnerable as they are not offered opportunities to improve their well-being.

It can be assumed that if the considerable investment in the high-income areas of Soweto is extended to the entire Soweto, this may assist the total transformation of Soweto into an environment which offers all income groups, including poorer households, opportunities to create wealth. This kind of environment may be created, as has been argued in Chapter 3, by the elaboration and implementation of policies, which translate the real will of the people and in which people participate.

When referring to the experience of Orlando East, Orlando West and Diepkloof, one may stress that it is possible to stimulate effective and efficient property markets in all old black townships. This may happen by transforming the environment in which the secondary housing market operates and by creating an attractive environment for business and other economic activities. Although it is not discussed in this research report, it may be argued that no one area ought to be singled out for public investment and partnerships of this sort, but this should be aimed across all former black townships. For the private sector, housing is seen as a sector of business which should generate income. The private sector will logically

engage in the housing sector if there is a possibility of realising profits and will be reluctant to do so if the sector is ineffective and inefficient.

This research report did not explore all aspects related to the increase in property value that has been occurring in Soweto. Access to land for economic activities or for housing development has not been explored as a possible element stimulating the residential market in the area. A study related to access to land in Soweto in relation to the involvement of the private sector in economic activity including the housing sector would be very relevant.

The second element that may constitute a topic for research is the access to housing finance for residents of Soweto. This research report has highlighted the main principles contained in the Financial Sector Charter (FSC), which is an agreement of the banks to serve lower- and middle-income housing consumers. However, it did not analyse whether the seeming residential property boom happening in studied areas is a positive outcome of the improvement in the access to housing finance.

Thirdly, with reference to Bromley (2005), this research has argued that the creation of jobs should be put at the heart of the housing solution. Besides, it has been observed that Soweto has been experiencing rapid economic development. A study related to the linkages between the creation of jobs, through the construction of economic centers and the housing conditions of residents of Soweto should be relevant.

Fourthly, it has been noted in this research report that Breaking New Ground (BNG) and the Financial Sector Charter (FSC) have among their objectives the improvement of the entire housing market. A study, which aims to explore the housing market in other townships would be relevant, particularly to inform the implementation of this aspect of BNG.

Fifthly, the economic development that occurred in Soweto has attracted some wealthier households to live in some areas of Soweto. There now exists a mixed income in Soweto. Monitoring of this and ensuring that it does not just create new segregation in the suburb would be a topic for further research.

Finally, a study with the objective of comparing the Soweto housing market with other townships may be relevant. It could allow the establishment of common strategies to stimulate the housing market in all former black townships.

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