MANAGING URBAN LAND
a guide for municipal practitioners

Urban LandMark

Acknowledgements

This guide was developed by Isandla Institute based on work of Urban LandMark. Alison Hickey Tshangana was the principal author of the guide, Tristan Görgens contributed case studies and legal summaries and Mirjam van Donk was responsible for overall project management.
Karen Press was the final copy editor.

Our appreciation goes out to Michael Kihato, Seth Maqetuka, Sibusiso Ndebele, Marlize Odendal, Susan Parnell, Karen Press, Dan Smit, Warren Smith and Paul Whelan, who participated in advisory group meetings and gave valuable guidance on how to make the insights relevant and practical for the intended target audience.

The Urban LandMark team (Stephen Berrisford, Lucille Gavera, Rob McGaffin, Mark Napier and Lauren Royston) also gave valuable feedback on the guide in its various stages of production.

Pictures courtesy of the African Centre for Cities, Urban LandMark, Kevin James and African Development Economic Consultants (ADEC).

Urban LandMark is grateful for funding support by UKaid from the United Kingdom's Department for International Development (DFID).

NOVEMBER 2011

isandla institute

FOREWORD

Urban LandMark conceived this guide to bring together and present a rich body of work commissioned by the organisation over the past four years in an accessible and easily useable form for municipal officials. Although not exhaustive, the commissioned work addresses a variety of important urban land management issues. There are numerous ways in which municipal officials can execute their functions in line with their current statutory and other obligations. But some of these ways are better at achieving consistently pro-poor outcomes than others. That is the guiding principle behind this manual. In many cases we have seen that simply adopting a 'business-as-usual' approach does not yield the maximum benefits for the city as a whole, nor for poor citizens.

Cities are driven by and depend on urban land markets, whether formal or informal. A city's urban land market is both a barometer of its success and of its problems. In South Africa, where most urban residents do not enjoy access to safe and secure urban land, for living or working, the way in which the market in urban land operates is a crucially important determinant of how easily poor citizens can improve their circumstances.

In South African cities and towns, formal access to urban land is severely skewed towards a privileged minority. Local government as a sphere of government is duty-bound to reverse inequality and poverty. It is thus essential that municipal officials are able and willing to use every tool at their disposal to manage urban land to achieve pro-poor outcomes wherever possible. In this guide, Urban LandMark identifies specific ways in which officials can approach their day-to-day urban land management business differently.

This guide does not cover every aspect of urban land management carried out by municipal officials, nor does it prescribe the only ways in which pro-poor outcomes can be achieved. But it does provide encouragement to municipal officials to use their creativity and knowledge to identify tools and techniques that suit the particular needs of their municipality.

Urban LandMark hopes that this guide will prove to be a catalyst for ongoing efforts by local government, supported by national and provincial government, to develop and strengthen new ways of managing urban land. In time these efforts may well identify opportunities for legal and policy reform, and Urban LandMark hopes to be in a position to support the realisation of those opportunities.

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CONTENTS

INTRODUCING URBAN LAND

The way urban land markets work has a profound impact on how well poor households are able to access the jobs, amenities and services offered in the city. More expensive land is bought up for higher value uses like retail centres, office blocks and higher density residential developments. Less expensive land, which is further out from town centres, tends to be used for lower value uses like low income housing. This type of housing, delivered in large numbers through the government housing subsidy programme in South Africa, is initially built at low densities and on land which is vacant and available.

While such programmes effectively open up access to land, services and housing for many households, they also set up challenges for communities who then have to commute longer distances to get to job opportunities and other urban benefits. In the last decade, government urban and housing policies and programmes (not to mention public transport initiatives) have been redesigned with this challenge of better location and inclusive urban growth very much in mind. Obviously the challenge is even larger because of worsening poverty and inequality, and the continuing growth of cities through urbanisation. But if the way the urban land market works continues to frustrate attempts to open up better located living and business opportunities for poorer urban households, despite policies and programmes that address the needs of the poor, then what are we to do?

This guide for municipal practitioners is designed to directly address many aspects of this urban challenge. Land is at the heart of development. Access to land is a foundational aspect of poverty alleviation and enabling communities to fully participate in urban life. Secure tenure means that people can confidently invest in their own longer term urban futures. The way land uses are planned and managed shapes how cities and towns grow, and whether they become places which more equally benefit all their citizens.

Municipalities can become much more financially stable and invest more in urban regeneration by building an effective property tax base. They can go even further by mobilising their infrastructure investment to create value for the private sector, and then recover some of that value to continue with the regeneration effort. In many ways, municipalities depend for their existence on the urban land market and on surpluses generated by the private sector and urban residents in general. But they also have a direct responsibility to ensure that the most vulnerable people living in cities are included in the gains which cities offer. Municipalities do this by using the regulatory and planning tools at their disposal, because a market left to its own devices becomes exclusive and unequal whatever the country or sector where it operates.

Different municipal departments can work together with a shared vision to achieve this. These creative ways of managing land can lead to pro-poor, inclusive urban development and at the same time positively engage and incentivise the private sector to become active partners in developmental efforts. The key to all of this is to understand how markets work (property markets, land markets, rental markets and even 'informal' markets) and based on this understanding, to use the many tools available to more actively manage urban land. Understanding and monitoring property and other markets operating in cities is core to the business of municipalities. If the skills and systems are built to do this better, it places municipal officials in a much stronger position when it comes to negotiating with the many stakeholders who build and rebuild cities and towns. That is what this guide is about. With clear examples and available tools, the guide shows what you can practically do to manage urban land to achieve pro-poor urban development.

BACKGROUND AND PURPOSE

In recent years, Urban LandMark has commissioned a body of reports and studies on how to make urban land markets work for the poor. These reports have focused on different aspects of how urban land markets are governed and managed by national, provincial and local government. This guide presents the key messages, recommendations and tools from Urban LandMark's research.

Who is the audience for the guide?

The guide focuses specifically on how municipal officials can use this research in their own working environment. It is designed to offer officials some valuable ideas ('thinking tools') on how to use the range of mechanisms available to them to directly promote pro-poor outcomes, and to indirectly shift incentives in the urban land and property markets so that the outcomes benefit poorer communities. It also describes innovative approaches to familiar problems and conflicts between the different participants in the formal and informal markets. A range of technical and process tools (such as checklists and step-by-step guides) included in the chapters will help officials to implement the approaches described. Municipal officials involved in all aspects of land use management and human settlements will find useful discussions and tools in the guide. Housing officials, as well as senior managers in the planning, finance, engineering, environmental management, traffic, legal and transport sections of municipalities, all hold key pieces of the puzzle of making urban land markets work for the poor. Together they represent the complexity of this policy and service delivery terrain. Cross-disciplinary teams within the municipality can use this guide to stimulate and encourage conversation, planning and action as they respond to the settlement needs in the city.

The overall intention of the guide is to enable municipal officials to shape interventions by local authorities in urban land markets in ways that tilt incentives so that the market outcomes are more beneficial to the poor, while still supporting growth and ensuring financial sustainability. Readers should come away with a practical grasp of the main trade-offs between different interests that need to be made in any given situation, and a concrete sense of what is at stake in the array of choices before them.

THE STRUCTURE OF THE GUIDE

Although this guide draws on high-level concepts of how urban land markets work, it is not an abstract analysis. It uses the existing legislative and institutional environment as the basis of all discussion and offers support to municipalities facing current problems of housing supply and demand in South African cities.

Defining 'pro-poor outcomes'

In this guide we often refer to **pro-poor outcomes**, by which we mean a reduction in inequality, improved market participation, sustainable human settlements, and restructured urban areas which operate more efficiently. Another important element of pro-poor outcomes is **shared economic growth**, meaning economic growth which does not simply further benefit the rich, but also substantially improves the livelihoods of the poor. Shared economic growth involves expanding the assets and opportunities, and improving the quality of life, of households at all income levels.

The guide is not a comprehensive manual on urban land governance, and does not provide detailed instructions on all aspects of local government involvement in urban land markets. Rather, it focuses on certain key messages that come from Urban LandMark's research in this area, and the chapters focus on these messages. For example, some of the issues not covered in this guide are enforcement of land use regulations and social cohesion.

This chapter and Chapter 2 provide overviews of the issues covered in the guide. Chapters 3–9 each focus on one issue in detail. Each chapter opens with a summary table ('road map') that allows readers to identify sections of the chapter that are of particular relevance to them in their daily work, as well as more general topics that can inform planning and other cross-departmental processes in the municipality. The table indicates where case studies, tools and step-by-step process outlines can be found in the chapter.

This introductory chapter provides an overview of the structure of land markets and the different role-players involved in these markets, each with their own interests and incentives. **Chapter 2** discusses some general features of South African land and property markets, both formal and informal. The chapter considers the relationship between formal and informal markets, and the role that the government plays in how they function.

Chapters 3 and **4** look at local government's role in increasing the supply of land and low-income housing opportunities. These chapters cover land use management and land release, and look at the decision-making tools available, as well as the systems and capacity that the municipality needs to achieve the desired outcomes.

Chapters 5-7 focus on three issues related to land access and housing opportunities: informal settlements, private small-scale rental (including

The diagram below summarises the structure and content of the guide

Chapter 1	Introduction: overview of the structure of land and property markets and the groups active in the markets, each with different interests and incentives	
Chapter 2	Overview of formal and informal land and property markets with an emphasis on the relationship between these markets, and the role the state plays in their shape and functioning	
Chapter 3	Using local government's land use management function and property rates authority to influence developers' land use decisions	*Increasing the supply of land and low-income housing opportunities*
Chapter 4	Release of local government land for integrated human settlements	
Chapter 5	Informal settlements	*Three issues related to land access and housing opportunities, each of which relates to an incremental level of tenure security*
Chapter 6	Small-scale private rental	
Chapter 7	Subsidies for low-income home owners (through pro-poor municipal rating)	
Chapter 8	Township shopping centres	*Non-residential land uses*
Chapter 9	Value capture around transport nodes	
Chapter 10	Conclusion	

backyard tenants) and subsidies for low-income home owners (through pro-poor municipal rates policies). Each of these issues relates to an incremental level of tenure security.

The last two chapters shift the focus to non-residential land use. **Chapters 8** and **9** consider retail shopping centres in low-income settlements and value capture around transport interchanges, respectively, focusing on how these non-residential land uses can contribute to economic growth and housing opportunities in these areas. The chapters identify various mechanisms and tools that municipalities can use, alone or together with other spheres of government, to make retail and transport developments work in the interests of poor urban residents.

HOW DO URBAN LAND MARKETS WORK?

This guide is about how to work with the land market to make cities more equitable and inclusive. Before looking at some of the instruments which might be used, we will briefly look at how urban land markets operate.[1] This introductory discussion considers four aspects of how urban land markets work:

- The structure of urban land and property markets
- What happens if markets operate 'naturally', without state intervention, in the broader interests of society
- The various role-players and institutions operating in the market, in both the public and private sectors
- Principles that can be used to understand local government's role in promoting pro-poor developments in urban land markets.

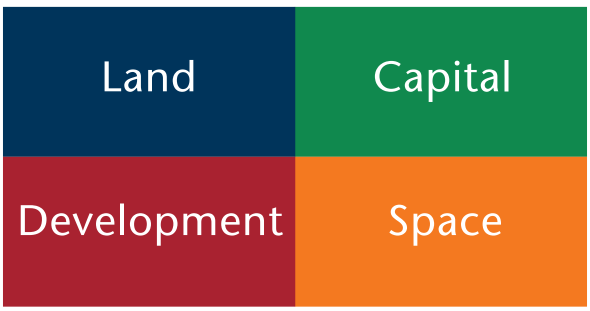
The structure of the urban land market

Urban land and property markets operate on the same logic as any market: the basic forces of supply and demand determine pricing and shape the behaviour of buyers and sellers. Economists describe four components of the land market (see Figure 1.1):

1. Land: The physical land itself. Obviously the major factor which sets land markets apart from other markets is that the supply of land is fixed – it is not possible to manufacture more land to meet increasing demand. However, the supply of land available for development can be increased through zoning and the installation of bulk infrastructure. Zoning tools (such as the creation of an urban edge) and the rate of infrastructure development can also be used to decrease the supply of available land that can be developed.

The government can also directly impact on land supply by releasing its own land parcels into the market through outright sale, long-term lease, or Land Availability Agreements (LAAs). From a human settlements perspective, the key point is that affordable, well-located, serviced land for the urban poor is in particularly short supply in South African cities.

Figure 1.1: Structure of urban land and property markets



2. Capital: The finances to invest in land and property development. This investment can take different forms, such as equity (shares in the development), taking out loans, or other types of funding. How much capital is available to invest in land in a particular place will depend on local and global markets, and is most heavily influenced by the interest rate.

3. Development: Development refers to the installation of services, construction and improvements to land which add to its value. The development market component is influenced by the availability of capital, the demand for space and the availability of land.

4. Space: This term refers to the property or product which results when land is developed. Space is not the same as land – the type of space depends on the nature of the development on the land (for example residential or non-residential space). The quantity of space available on a piece of land will depend on how it is developed; for example, a multi-storey office building or separate single-storey houses.

All of these components impact on one another in various ways. For example, the amount and type of property available in the market will depend on the activity of developers, who in turn are incentivised by higher property prices and enabled by lower costs of land and capital. When high interest rates increase the cost of borrowing capital, there is less funding to finance development, which in turn will reduce the amount of new space coming on to the market. At a household level, high interest rates make mortgages and other forms of finance less affordable for buyers, and thus reduce the demand for residential property.

The activities in these four components also help to determine the spatial forms of cities – which types of developments occur, and where they occur. For example, the high cost of land in a CBD will mean that developers must densify if they build there, in order to achieve a decent return on their investment. Overall, there are cause-and-effect links between these four market components that result in certain market outcomes, and these outcomes are visible in the particular spatial form that the city takes.

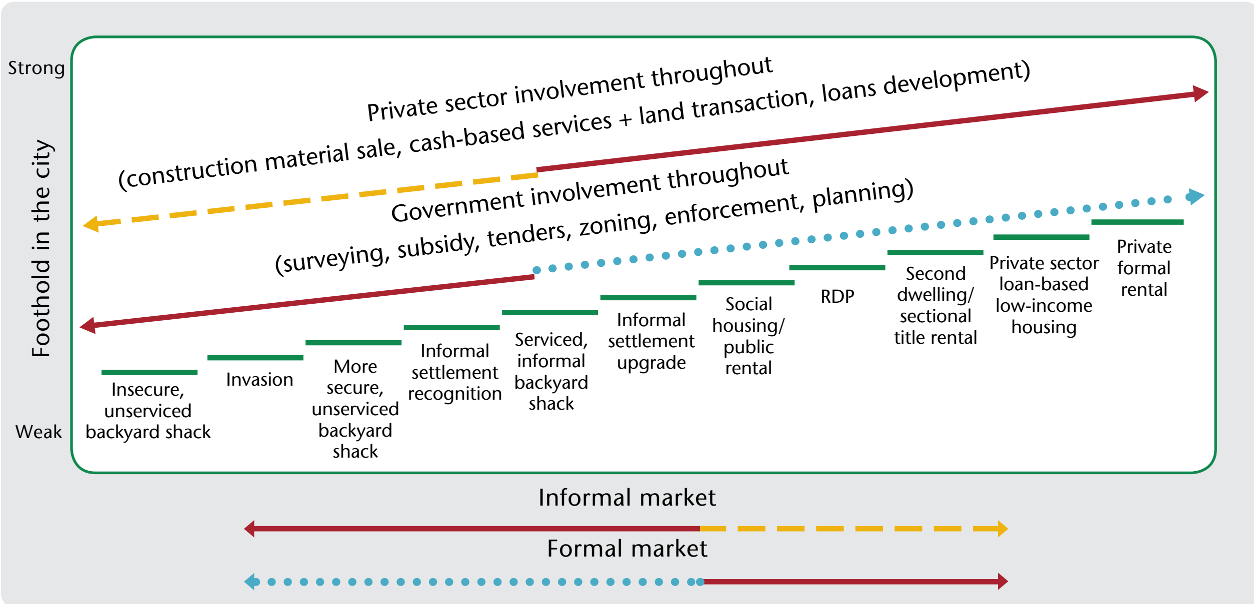
Characteristics of the urban land market in South Africa

The South African land and property market operates on a continuum from formal to informal. Formal transactions are legally recognised; the informal land market refers to a whole set of unofficial transactions where land rights are exchanged but not officially recorded or recognised as legitimate by the government. The informal market meets the demand of many South Africans for affordable, flexible accommodation, but the lack of legal recognition in this market scares off investors in the public and private sector, because of concerns around insecurity of tenure.

The government is present and involved in poor and informal areas in numerous ways. For example, the municipality will provide basic services, including standpipes and refuse collection, in informal settlements, or police officers or municipal officials may witness informal property transactions. Subsequently the transactions in informal markets often evolve and reflect changes in municipal policy and practices. For example, when a municipality comes into an informal settlement to register shacks, it creates an expectation by residents that there will be future development on the same site or nearby. Because they are living in an area designated for development, people gain a means of accessing land or housing benefits.

As shown in Figure 1.2, the government's involvement spans the entire spectrum of urban land markets, from highly informal dwellings in backyards to private formal ownership and rental. The distinction between the formal and informal markets is not always clear-cut; overlaps exist between the two markets as developments and interests in the formal market impact on the informal market, and vice versa. Chapter 2 discusses these dynamics in more detail.

Figure 1.2: The urban land market continuum



The most important point to note is that these elements of urban land and property markets are related and interdependent: the informal and formal markets are closely tied, and the four elements are inevitably inter-linked. When considering interventions, therefore, it is impossible, and unwise, to consider one element or area of the market in isolation of the others.

ROLE-PLAYERS IN URBAN LAND MARKETS

Various role-players are active in urban land markets. Each role-player has its own interests and responds to its own set of incentives, but also has an impact on the other role-players, and on the four market components of land, capital, development and space.

Private sector actors in urban land markets include:

- **Developers** who assemble land, raise capital, package projects and ultimately sell the finished commercial or residential space to the end-user or to a landlord.
- **The banking sector and investors** (individuals or property companies, building societies, pension funds, etc.) that provide financing for developments.
- **Housing micro-finance institutions** which provide credit to property owners for improvements as well as purchase of property.
- **Property professionals**, such as town planners, quantity surveyors, architects and construction companies, who are involved in the development of property. Property management companies and asset management companies are responsible for asset maintenance.
- **Private landlords** who may operate in the formal or informal sector.
- **End-users**, who are households, individuals or businesses. End-users may be owners or renters of space, or may hold an alternative form of tenure. It is important to acknowledge the active role of end-users in formulating policy, and the role that their preferences play in designing housing products.

The government's role in urban land markets is multi-faceted. Broadly speaking, the government acts as:

- **Policy- and law-maker**, responsible for the legal framework which underpins the formal land market. Government policy guides public sector investment in housing, land, transport and other economic infrastructure, and sends signals to the private sector about the direction, nature and extent of that investment.

- **Provider of bulk and other infrastructure**. Local government decisions in terms of bulk infrastructure provision can either unlock or prevent urban growth, and therefore influence urban spatial development.
- **Administrator**, maintaining records of land tenure rights. Land registers specify boundaries and ownership, which the market uses to trade these rights.
- **Land use manager**, responsible for spatial planning, zoning and land use regulations.
- **Major land holder**. By releasing land into the market for certain purposes, government can affect the supply and therefore the price of certain sub-sectors of the market, and, depending on the purpose for which the land is used, can promote certain policy aims (transportation, low-cost housing, etc.).
- **Developer and financier** of land and housing stock. Through national housing programmes, the government appoints a service provider (or itself acts as a developer) to generate housing stock which is transferred to beneficiaries in terms of national housing policy.
- **Landlord**, providing subsidised rental units for low-income households.

WHY SHOULD THE GOVERNMENT INTERVENE IN LAND MARKETS?

The market on its own does not meet the needs of all those living in the city. There are deeply rooted income, access and spatial disparities in South Africa's urban land ownership patterns.[2] Government should intervene to address such disparities because of the limitations of the market.

Worldwide, countries implement legislation to permit such interventions in land and property markets to protect and promote social policy objectives, using tools such as land appropriation, eviction laws and tenure types.

Government interventions in land and property markets are necessary for three main reasons:

1. For an active land market to exist, people need to be able to buy and sell land. This means rights to own and develop land must be clearly recorded, so that they can be traded. Government's role as land administrator, giving approvals for development and keeping comprehensive cadastral and title deed registries thus enables the formal market to function.
2. Over time, market forces will ensure that a piece of land is used for the purpose that will bring the highest financial benefit ('highest and best use', in economic terms) to investors, based on its location, zoning and other characteristics. However, this economic logic does not take into account social policy objectives (and environmental imperatives) for using the land in certain ways rather than others. Lower-income households will find it difficult to compete financially against commercial users, and against high-income households vying for the same land and space. Government has the mandate to intervene to protect the poor in terms of its Constitutional obligations, which include fulfilling people's right to access adequate housing (Section 26) and to basic services (Sections 27 and 152).

> If all urban residents could acquire land to live and work on, with adequate infrastructure, at a price they could afford, government would not have to intervene to address disparities caused by land market limitations.

3. As well as needing to intervene on behalf of the poor, the government must also protect land uses which have lower (financial) value in the market, but which generate public goods, such as public open space or transport interchanges. Private land owners also benefit from these public goods, for example, the location of social or economic or

transport infrastructure near to their property.

Local government interventions in the land market

One of the key themes which runs through this guide is the critical role local government can and does play in urban land markets, in particular through deliberate intervention in the market. But the guide also looks at the repercussions of local government not taking action when it could do so.

South Africa's Constitutional and legal framework assigns a developmental role to local government, which places municipalities at the centre of basic service delivery, the management of the built environment, and the development of human settlements.

The list below sets out the various roles of local government in relation to urban land markets and the development of human settlements. Many of the items in the list are examined in more detail in later chapters of this guide. It is important to note that some of these functions are Constitutionally assigned, while others have come to be local government functions by practice.

Roles of local government with respect to urban land markets and the development of human settlements

- Spatial planning (Integrated Development Plans, including Human Settlement Plans)
- Provision of bulk services
- Basic service provision
- Land identification and acquisition
- Land reform
- Land expropriation
- Zoning
- Housing development
- Rental housing (ownership and maintenance)
- Inclusionary housing
- Property rates (policy and collection)
- Development charges
- Integrated transport planning
- Parks and public open spaces

Functions that are essential to these responsibilities are shared with provincial and national government. But municipalities are responsible for a critical mass of important functions related to land use management.

Local government is close to the ground, and thus accumulates a wealth of location- and community-specific information. It therefore has a critical advocacy role to play in stimulating and steering coordinated input from provincial and national spheres of government towards meeting the housing and related needs of the poor.

When and how should government intervene?

Given the importance of how markets work and how they affect the chances of poorer communities to gain access to decent land, it is important for government to intervene in urban land and property markets. The variety of roles and functions which local government plays carry with them many different methods and tools for intervening in those markets.

But municipalities must be cautious when they intervene, and they must have a clear understanding of how any government action will affect the incentives and behaviour of other role-players in the market, and thus affect market outcomes. For example, the development component of the market is dependent on the government and on whether land market administration and regulatory frameworks work well or badly – which could reduce or increase developers' transaction costs. Inefficiency and red tape can also increase transaction costs for current or prospective home owners, both rich and poor, thus reducing affordability and demand for space.

Local government can directly influence and/or limit private land use decisions through town planning ordinances, zoning, environmental legislation, tax incentives and property rates. The location and nature of physical and social infrastructure investment by government will have direct and indirect effects on space in the market.

For example, the establishment of a school in a neighbourhood will directly and positively influence residential property prices. Indirectly, the implementation by local government of a comprehensive spatial and infrastructure investment plan can boost economic activity in the area, which in turn will lead to greater demand for commercial and residential space.

Therefore, the fundamental challenge to local government is to intervene in the market to promote pro-poor outcomes whilst also giving attention to incentives which positively guide private investment.

The government must strike a balance between inclusion and the interests of poor people on the one hand, and the promotion of private sector investment on the other hand – all within the framework of government policy.

Where possible, local governments should aim to remove obstacles that undermine private sector participation in the market, and work to address problems and inefficiencies.

For example, government can work to ensure that all role-players have equal and full access to the information needed to make market decisions, or they can incentivise private investors to incorporate public goods into their projects, instead of entering the market in competition with the private sector.

Government should be careful not to take on the role of a supplier, unless it is able to produce what is needed (such as low-income housing) more efficiently than the private sector.

Chapter 2 provides an overview of the formal and informal property markets in South Africa and argues that government needs to take initiatives that pay particular attention to the lower end of the commercial and residential markets.

The focus should be on market-based interventions that bridge the gap between the formal property market and the informal market.

> Interventions by local government can be highly effective in enabling market activity and incentivising other role-players to fulfil social outcomes, if they are carefully and smartly designed.

Throughout this guide, tools and processes are described that can help municipal officials to think through how a proposed intervention will impact on the market. These processes also describe how such an intervention can be best designed to create incentives for private developers to produce more affordable housing and better economic opportunities for poor households.

These interventions may vary from one municipality to another, depending on local conditions, but they should all be designed in terms of some basic principles, which are set out on pages 17-19.

Principles for pro-poor local government intervention in urban land markets

The following principles should guide local government interventions to make urban land and property markets work better for the poor.

1. **Give due regard to pro-poor objectives.** Local government in South Africa has a recognised developmental role which makes this sphere of government critically important in fighting poverty and protecting the needs of the most vulnerable people in society. This developmental role gives local government a clear mandate to intervene in urban land and property markets to promote pro-poor outcomes.

2. **Recognise that inaction also has an impact.** In addition to universal trends towards urbanisation, South Africa grapples with the legacy of an apartheid system which left the spatial landscape extremely segregated. The free operation of the market will result in certain spatial and economic outcomes which will continue to exclude the poor, and further widen the gap between rich and poor. Lack of intervention by the government in markets is therefore a position that works against the interests of the poor. Local government must recognise that by not intervening in land and property markets, it contributes to reinforcing spatial divisions and income disparity in South African society.

3. **Balance pro-poor objectives with growth and revenue aims.** Local government is utterly dependent on the land market, because it relies on property rates as a major source of income. Municipalities must therefore weigh revenue increases and sustainability against their obligation to promote and ensure pro-poor outcomes. Local government interventions in urban land and property markets must therefore balance pro-poor aims with their need for growth and for reliable and adequate revenue sources. This is one of the greatest challenges municipalities face.

4. **Know the market.** Worldwide, urban land and property markets are inherently complex, with many trade-offs and conflicts affecting the behaviour of different role-players in the market. Government interventions which are not based on an understanding of the market's logic and on real data about the market can be unsuccessful or even damaging – either because they underestimate the private sector's pre-existing willingness and ability to undertake activity, or because they may displace potential market activity which would support the fulfilment of the state's objectives.

   Municipalities must therefore take the time and resources to fully understand the local dynamics and realities of the market, before embarking on any intervention. This includes understanding who are the key developers, land owners, NGOs and other private sector players in the market, and developing partnerships with them where this is appropriate. It also means obtaining and maintaining adequate information and analytical tools to use for measuring the impact of municipal interventions on growth and poverty in the area.

5. **Adopt an enabling role.** A critical role for local government is to enable the market to function

in a way that accommodates and promotes the needs of the poor and brings about more equitable and inclusive cities and towns. In its role as administrator, regulator and policy- and law-maker, local government can manage the market to achieve both pro-poor and traditional growth and wealth-producing outcomes.

6. **Manage direct interventions to minimise market distortions.** In situations where the government intervenes directly in the market, it is important that it fully understands the impact of its actions on other market role-players and on the market itself. Direct government interventions should not crowd out private sector investment or 'distort' the market.

   Ideally, government interventions should aim to remove obstacles to private sector activity. When considering direct intervention, government must ensure that it does not enter the market as a supplier of housing unless it can produce such housing more efficiently than the private sector, i.e. produce a quality product at lower cost.

7. **Recognise the diversity of role-players.** Many different role-players impact on urban land markets; they include community groups, NGOs and end-users. Government must recognise and engage with all of them, learn about their different interests and acknowledge these interests in the interventions it designs.

8. **Partnerships are essential.** It is clear that local government cannot manage urban land in isolation from the provincial and national spheres of government. Nor can government more broadly address the issue of urban development without bringing in the private sector and local communities. The state's ability to respond effectively, and in a sustainable way, to the scale of the urban housing backlog also depends on how it works with other role-players in the market to transfer resources and create subsidy frameworks.

9. **Accept incrementalism.** With limited funds available through national housing programmes, the consensus is shifting towards incremental housing (including the upgrade of informal settlements), instead of a one-house/one-plot/one-household ownership model. Local government needs to shift its focus towards programmes which begin by providing households with some form of tenure on a serviced plot, and then continue to provide support for improvements to the property, as resources for this become available. This a common-sense approach, and also more in tune with the resourcefulness and resilience of the urban poor.

10. **Acknowledge and build on existing innovative and resourceful solutions of the poor.** Individuals and communities of residents of informal settlements and backyarders often demonstrate great resourcefulness and creativity in meeting their basic needs and addressing neighbourhood issues, with minimal or no government aid. Through genuine, broad public participation initiatives and ongoing community engagement processes, and by building local institutions, local government must strive to work with communities to tap into their ideas, skills and energy. It is important to recognise the importance of local resources and social capital to achieve solutions to settlement problems.

11. Prioritise the coordination and alignment of internal players within the municipality. Effective urban land governance also depends on recognition of the multiple players inside the municipality, each with a different focus or set of immediate concerns (e.g. housing, planning, finance, engineering).

The multiplicity of incentives and funding streams within a municipality makes coordination necessary to mediate and align these various incentives, and strike an appropriate balance.

This process of mediation and negotiation must precede interaction with the private sector, so that issues of conflicting interests within the municipality do not impede engagement with the private sector. It is important that when local government engages with the private sector, it does so in a transparent way and with clear, unified messages.

12. Acknowledge local government's room to manoeuvre. Recognise the limitations that the current policy and legislative framework for local government puts on municipalities' ability to respond, manoeuvre and intervene in certain sectors. In designing interventions, it's important that the municipality recognises what is within local government control, and which areas require engagement with and/or lobbying of other spheres of government.

13. Build institutional capacity. Given the complexity of markets, the need to be cautious when designing and implementing government interventions, and the need for proper information and monitoring systems to understand the impact of any intervention on the environment and the government's programme, municipalities should devote significant political and financial resources to building its own institutional capacity. This is essential to the sustained success of any municipal intervention (direct or indirect) in urban land markets.

Some of these principles may appear to be contradictory. This is because there are inherent tensions in urban land governance. For example, the government must move cautiously, and fully understand the market before intervening. At the same time, it must be proactive in urban land governance and land release, and seek out opportunities for investment, instead of taking a complacent, passive approach to the market.

In reality, many current government interventions do not adhere to all these principles. However, they are presented here as ideals that municipalities should move towards, on a long-term and incremental basis if necessary.

The chapters in this guide offer practical suggestions for ways in which municipal officials can take action to implement these principles in new programmes, and begin to move toward these principles in current, ongoing programmes.

NOTES

1 This chapter is based on Kihato, Wanjiku C., Momoniat, Y. & Gavera, L. (2009) Africa's urban land markets: piecing together an economic puzzle. Johannesburg and Nairobi: Urban LandMark and UN-Habitat.

2 Genesis Analytics (2008) The dynamics of the formal urban land market in South Africa. Johannesburg: Urban LandMark, p. viii.

OVERVIEW OF FORMAL AND INFORMAL URBAN PROPERTY MARKETS

The formal land and property market is officially recognised as the means for buying and selling urban land and space: commercial, residential and industrial. In the formal market, price is a major factor in driving the supply and demand of land. As a result, land supplied by the formal system is generally inaccessible to the poor, because of high land values, land regulations and the high costs of accessing land (in terms of legal costs and specialist skills such as conveyancing). This means that the formal system ignores most of those transactions that take place between people who cannot afford to operate in the formal market.

These excluded transactions are therefore not visible to municipal officials, because they are not formally recorded in the deeds office. The informal market operates differently from the formal market, with different dynamics, mechanisms and a different emphasis. However, both the formal and informal markets are essential parts of a city's land and property market.[1]

It is also important to note that the government is not absent from the informal market. Government policies and actions impact on the behaviour of people trading in the informal land and property market. Therefore understanding the relationship between the formal and informal markets, and the government's role in each market, is an essential part of effective urban land governance by municipalities.

This chapter gives an overview of the formal and informal land and property markets, and describes the dynamics and drivers of each market.[2]

The informal market may not be officially recognised, but it plays a crucial role in allowing the poor to gain access to the city and to find cheap accommodation quickly.

THE FORMAL MARKET

The land development pipeline and the market size

In South Africa as a whole, total property investment by the residential and non-residential sectors amounted to R69,2 billion in nominal terms (i.e. not adjusted for inflation) in 2006. The residential and non-residential sectors were responsible for roughly equal shares of this amount.

The formal property market can be divided into two broad markets, namely the market for existing space and the market for new space. The market for new space in a particular year will normally only be a small proportion of the total existing supply.

1. **Existing space.** Some of the existing space will be obsolete from a market perspective. This is evident in numerous CBDs that comprise office stock which no longer meets market requirements, and so stands empty.

Obsolete and unused space is created by physical, economic and functional factors in the broader society. In a dynamic property market, property owners and developers respond to the new reality and convert obsolete space into a product which appeals to the current market. For example, commercial properties situated in CBDs are being either renovated or demolished to reflect changing market conditions, such as the demand from a certain section of society to live in inner city apartments. Certain office buildings are thus finding a new use as residential units.

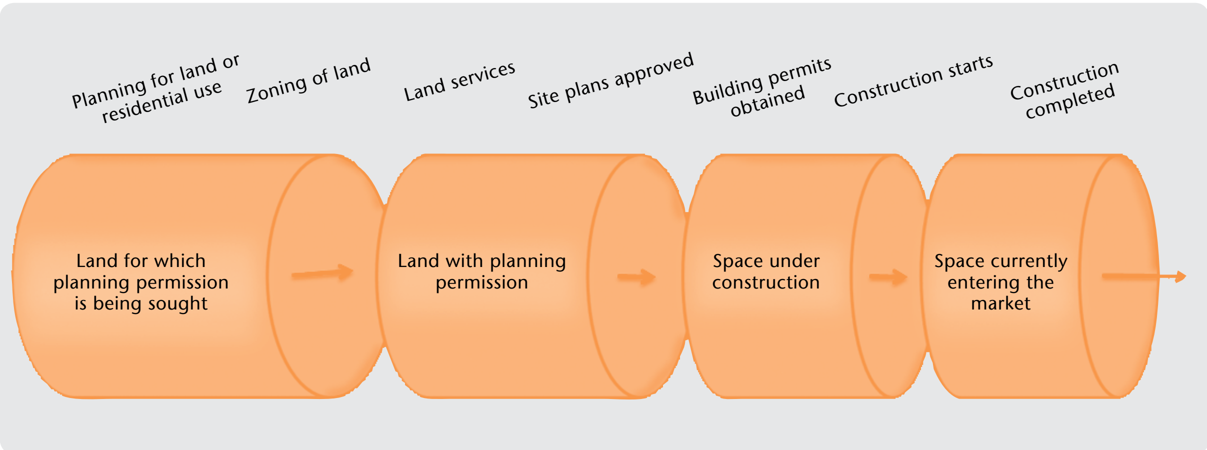
2. **New supply.** The second component of supply in the property market is new supply which developers bring to the market. New supply in the development segment of the market takes place through what is often referred to as the 'Supply Pipeline'. At the beginning of the pipeline is **land** for which developers are seeking planning permission from the state. The next step in the pipeline is **land with planning permission.** This is followed by **space under construction** and, finally, **space which is entering the market** for sale or lease. Figure 2.1 presents a diagram of the different parts of the pipeline.

What determines the size of the market, or the quantity which flows through the pipeline? The amount of building activity in a region (whether province or municipality) depends more on the strength of economic activity in the region than on the population size. Residential supply in a metropolitan area will be a reflection of urban growth, which takes three main forms:

- First, there are opportunities that arise from urban renewal driven by state interventions.
- Second, the property market grows in a particular area because of the specific market opportunities that the location offers, e.g. transport interchanges.
- Third, demand arises as a result of economic growth and development.

This process can be seen when we look at the new supply entering the market. Gauteng, the Western Cape and KwaZulu-Natal are the three top provinces in terms of total building plans passed (commercial and residential). This fact is largely a reflection of the economic contribution which these provinces make to the national economy.

Figure 2.1: The land development pipeline[3]



The commercial property sector

The structure of the South African commercial property market has changed in important ways over time. Some of these changes include the following:

- **Decentralisation.** From the 1960s onwards, there has been decentralisation of commercial and retail property stock away from most South African CBDs. From a development perspective, shopping facilities in the townships remained under-supplied during most of the 1980s and 1990s. This situation is changing, as larger malls open in former township areas, including Soweto. As a result of the socio-economic transformation that has taken place over the past 15 years, the disposable income of residents of Soweto has increased and investors' risk perceptions have changed. For these reasons, commercial developments such as major malls now seem viable in these areas.

  In the late 1980s and 1990s the decentralisation of office space accelerated in most metro areas. This decentralisation process was driven by numerous factors, including perceptions of inner city crime and grime and the lack of adequate parking. In the major metro areas, office-based firms that wanted to operate in low-rise office complexes began to acquire relatively cheap land in residential suburbs. More and more companies wanted to move to sites that were closer to shopping facilities and residential nodes. However, despite this strong trend, major commercial concerns such as financial, insurance and mining companies have continued to base themselves in the CBDs.

  Over the past two decades, the commercial property market has also changed because many industrial concerns have decided to locate themselves in different spaces from the traditional industrial zones. Industrialists have tended to move to well-located, secure industrial parks. This has resulted in high vacancy rates in older industrial areas located close to the CBDs.

- **Rising land prices.** The shortage of developable land has resulted in rising urban land values. Since 2006, industrial land prices have risen significantly – this is a direct consequence of land shortage in a time of strong growth. The shortage of land is partly caused by the introduction of urban boundaries, which restrict the conversion of agricultural land to other uses. The imposition of urban edges by the state has increased land prices within the urban edge, by curbing the supply of developable land entering the market.

  The future growth of the city will be influenced by the land made available for development, but equally importantly, it will be determined by the availability of infrastructure such as the Gautrain rapid rail link.

- **A strong retail sector**. The retail sector has outperformed the rest of the property market in the past five years. This trend reflects the fact that there have been rising real disposable incomes in the majority of households in the country, and relatively low inflation. Sustained high profits attract investors into the retail sector, and have stimulated many new developments, including retail centres in former township areas.

- **A wide range of rentals in the office sector.** The overall vacancy rates in the office sector (the percentage of empty space as a proportion of total space in the market) across different parts of the country are relatively similar to what they were in the 1980s. But they vary considerably from place to place. For example, decentralised office nodes are seeing vacancy rates as low as 5%, but vacancy rates in CBDs are as high as 15%.

  In decentralised nodes away from the historical CBDs, strong demand for space in most suburbs has resulted in a general decline in vacancy rates.

This has pushed rentals upwards, which has encouraged developers to enter this sector of the market. The low vacancy rates have presented opportunities for annual rental increases in excess of 20% and, as can be expected, developers are reacting to this with an increase in development activity.

The rise and fall in demand for, and prices of, space in different locations creates rental opportunities for people entering the market at different income levels. It also presents opportunities for investors to become active in under-performing areas, and to change these areas into profitable conversion and upgrading opportunities, so as to benefit from market demand.

Changes in the commercial and retail property sectors over the years open up opportunities at the lower end of the market.

The initiation of this market conversion process often depends on the wise intervention and support of the government, operating as a market facilitator. Intervention by the government can take the form of direct targeted incentives, or can be done by effectively addressing the causes of decline, such as crime, poor transport services and infrastructure, etc. Chapter 3 looks at this issue in detail.

Long-term forecasts for the commercial property sector remain positive. In keeping with global trends, the focus is likely to move towards integrated developments that offer an appropriate mix of residential and office properties. Developers will also increasingly turn towards inner city land, which offers relatively good infrastructure and which is easier to develop, from an environmental perspective.

The residential property sector

Apartheid created an urban fragmentation in the commercial and residential property markets that continues to this day. The legacy of highly skewed incomes, high rates of unemployment, unequal availability of funding, poor public transport networks and infrastructure backlogs perpetuates these discrepancies. On the other hand, enhanced public funding, rising disposable incomes (particularly associated with the emerging middle class), low-cost housing interventions, well designed incentives and related land use management policies are beginning to improve the integration of our cities.

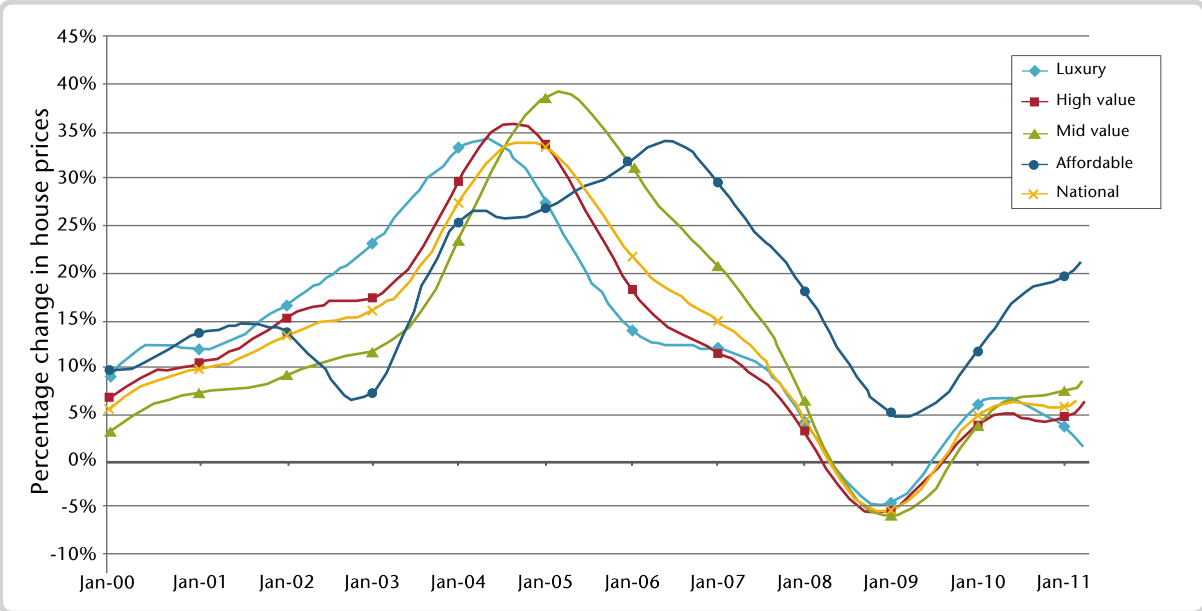
Affordability of the residential property market at the lower end of the market

South African residential property has become more affordable because of the decline in interest rates on housing loans, combined with a relatively strong and stable macro economy which has encouraged and supported investment in the residential property market. This trend has been reinforced by the growth since 1994 of the middle class.

However, in the years just before the global recession which began to substantially affect South Africa in the second half of 2008, there was solid growth in the world economy and this led to a particularly strong and sustained rate of increase in house prices globally. In 2005 residential property prices in South Africa grew by 35%, which meant that overall property became less affordable.

Although capital growth (growth in the value of the property) in the residential property market has slowed in recent years, demand for residential property has remained strong at the lower end of the market, driven by a shortage of housing and growing disposable incomes in less affluent households. Figure 2.2 shows that in 2007 the lower end of the market was experiencing price increases of about 30% per annum, while high-value housing that was growing at around 35% in 2004, was only growing at just over 10% by 2007.

Figure 2.2: Housing price changes in different sectors of the market[4]



The faster increase in the price of affordable housing, combined with a CPI inflation rate of 6%, meant that housing in this sector of the market was significantly less affordable by 2007 than it had been in the past. In June 2007 the National Credit Act was implemented, and this Act, combined with higher interest rates, further reduced the affordability of the housing market in general.

Movement on the residential property ladder[5]

Although there was strong growth in property prices in South Africa in the ten years up to 2008, it is important to note that this growth was not the same across all suburbs. Some suburbs experienced above-average growth while others saw a decline in property prices. Suburbs with falling prices offer an entry point to home ownership in well located areas for people who might not otherwise have been able to afford to live there.

Unaffordable house prices are one factor that may exclude people from living in certain areas. But there are also other significant obstacles which poor households face when they try to move up the property ladder, out of township areas and into some inner city or suburban areas. There is an insufficient supply of houses in the 'gap' market (see the Glossary for an explanation of this term) – houses which are affordable to households whose monthly income is too high to allow them to qualify for subsidised housing, but too low to be able to obtain a loan from a commercial bank. And the stricter provisions of the National Credit Act have made it much harder for poor households with weak credit ratings to obtain loans. Another obstacle is the fact that the secondary property market (sale of houses which are not new) in low-income areas functions very poorly in comparison to the residential property market in more affluent areas. Problems in this market include lack of title deeds, few property professionals able to guide people through the buying and selling process, difficulty obtaining rates clearance certificates, and low numbers of houses being offered for sale.

South African cities also seem to be experiencing an increasing trend towards residential 'filtering' in the middle and upper end of the market. This describes the process in which higher-income households in certain suburbs move out, giving way to lower-income households, who in turn have 'graduated' from lower-income suburbs. This process of upward filtering depends on, and also creates and reinforces, the existence of housing prices at different levels; and this range of different kinds of available property makes it possible for people to move into more expensive housing as their financial circumstances improve.

> Overall integration and mobility in the residential property market is improving slowly, and lower-middle income households are finding opportunities to locate closer to work and in areas which were previously unaffordable.

The role of government in the formal market

The formal property market is also affected by the institutional environment in which the market operates. The government can have a direct impact on this institutional environment, for example through town planning, transaction support services, environmental policies and transport policies.

Through these (and other) interventions, national, provincial and local government directly shape the efficiency, outcomes and spatial form of the market. The efficiency with which different spheres of government carry out these functions has a direct impact on the way residential and commercial property markets function across all sectors. Government needs to design carefully structured housing subsidy policies and land use strategies; it should also develop and extend innovative ways to incentivise private investment in urban upgrading and densification.

> The challenge for both the public and the private sector is to develop mechanisms that they can use to extend the formal market further 'down', and to improve the affordability of its lower end.

Chapters 8 and 9 describe practical steps that municipalities can take to incentivise developers to invest in retail centres and transport interchanges, in ways that improve spatial integration and offer greater economic opportunities to the poor. Through careful design, this type of investment in the commercial and retail sectors of the formal market can also serve to support the informal market.

THE INFORMAL MARKET

Apart from the formal section of urban land and property markets, there is a section of the market which is heavily shaped and driven by social interactions and networks within communities, instead of being determined mainly by price. Selling prices and building costs are still issues in this market, but they are less important in influencing the way people transact.

Transactions in this informal market take place outside the officially recognised system of land management and property ownership, and thus are often much less visible to government. One of the drawbacks of assuming that there is only one type of urban land market is that this attitude leads people (including government policy makers and officials) to see other ways of transacting with land and property as dysfunctional, weak, or quite simply non-existent.

Informal markets are not well understood or acknowledged in the formal public and private sectors; as a result, we often fail to appreciate how government, including local government, sometimes ignores the impact of its actions on informal markets. The same lack of understanding means that government often cannot recognise the role informal markets play in urban land and property markets as a whole.

The socially dominated informal market operates mainly in informal settlements, which play an important role in the overall urban land market:

- First, **informal settlements offer the poor an opportunity to live independently.** Many households in informal settlements are headed by women. For nearly half of the households, setting up the household is their first transaction over somewhere to live outside their parental home. These transactions appear to be motivated as much by the need for independence as by the fact that claims to the land rights are much cheaper.
- Secondly, **some informal settlements' location is very attractive,** as they often develop in areas close to employment and transport.
- Thirdly, **informal settlements are performing the function of 'reception areas'** for incomers to urban areas seeking work, and also act as a safety net when households are hit by 'shocks' that weaken them economically, but need to remain in the city. In both cases, informal settlements successfully offer flexibility in housing and land supply, which the state and private sector struggle to achieve.

The structure of township residential property markets[6]

The informal market operates primarily in informal settlements and, to a lesser extent, in low-income formal areas – including recently allocated government-subsidised housing projects, backyard shacks and areas of local council housing. Economic activity in many townships is generally limited to retail (frequently informal) trade, transportation and government services.[7]

According to several studies, township residents spend most of their disposable income outside the townships, due to the lack of retail shopping centres in township areas which offer a wide variety of affordable products. This trend is changing, however, as national chains recognise the market potential in low-income areas. Chapter 8 addresses this issue in more detail.

Increasing the flow of money into and within townships reduces the overall levels of poverty, as more people are brought into the functioning market system. If the government enables the necessary supporting structures, the increased flows of income will stimulate markets such as the residential and commercial property markets and promote overall economic development in township areas.

For poor households especially, housing plays a role as a social, economic and financial asset. As an economic asset, a house provides an important way for small-scale landlords to generate income by letting out rooms or backyard shacks. Chapter 6 discusses backyard rental in more detail. Informal settlements and low-income formal areas also have a large number of home-based businesses.

These are usually small-scale survivalist enterprises. Although some home owners will borrow money to finance improvements to their houses, generally owners do not use their houses as security for loans they take out.

Housing is also an important social asset, connecting the household with the community and serving as a base for the family. Township housing is usually characterised by stable ownership structures, with owners having little or no interest in selling their houses. Many houses are family homes that are often inherited, and the legal owners may feel obliged to keep the house for the benefit of the family.

The most common problems in the township residential property market are:

- Restrictive town planning regulations.
- Limited access to finance by households.
- Limited housing stock available for trading.
- Restrictions on trading government-subsidised housing.

As a result of these obstacles, property is commonly traded below market-related price or input (i.e. servicing and improvement) costs. Transactions are mostly done informally, not registered at the deeds office, and dominated by social relations instead of strictly by price – this feature is discussed further in the next section.

The importance of social relations in informal markets

In the informal market, the way that people negotiate for land is the result of the interaction between their social identity, their claim to the land and their social networks, all of which determine the nature of each transaction.

The role and importance of social networks emerges at different steps in the transaction process. Family and friendship networks are an important means through which people find other parties to transact with, and for checking the trustworthiness of the other parties to the transactions. When it comes to resolving disputes over land there tends to be a shift, and local neighbourhood networks seem to be more important. Social networks might also begin to include the local councillor or municipal officials, or the local induna in tribal areas.

Although social relations play a big role in the informal market, this does not mean buyers and sellers are acting in ways that are economically irrational. In fact, economic rationality is always part of the equation as people make decisions on the best place to live.

For example, people make the judgement that it is worthwhile paying the transaction and sale costs of living in a shack instead of moving to rural areas or staying in a backyard, despite the risks associated with this step. They may also see this as strengthening their

Breaking down the steps involved in land transactions

Acquiring land and housing in government-subsidised and informal settlements is a complex matter. Government officials and other role-players will understand the complexity of these transactions better if they see them as a process, rather than a single step.

Six steps make up the different stages of transacting around land in informal and government-subsidised settlements:

1. **Finding people or organisations to transact with.** The first step is to find other parties in the chosen settlement who are interested and willing to engage in a transaction.
2. **Recognising others to transact with.** For peace of mind it is necessary to know that the person or group willing to transact is the legitimate owner of the rights that are being transferred.
3. **Calculating and valuing**. Once it is clear that both parties to the transaction have the right to do so, the next step is to calculate the value of the land or house and of the rights to this property.
4. **Contracting**. A transaction involves coming to an agreement.
5. **Holding land.** Holders or occupiers of land and space have specific rights that can be defended in law. These rights influence the steps in the transaction process that come before and after the stage when the person takes ownership or occupancy of the land. Examples of these rights are the right to have access to services, and the right to have an address.
6. **Terminating.** A person who wants to terminate (end) a land contract begins by assessing the possibilities for moving on, finding another source of housing, etc., and then has to search for new buyers. This starts the cycle of land transacting again at step 1.

These steps are not fixed and do not always fall into a linear progression. Households and people may find themselves moving between different steps depending on different circumstances.

claim on government-subsidised housing or being part of a settlement upgrading process.

Informal markets also overlap with financially dominated formal markets

Transactions in informal settlements are not only informal. There is a significant overlap or merger between formal and informal ways of transacting. For example, there are clearly instances when people consider it appropriate to transact on the basis of price rather than social values, such as when households have improved their dwellings.

> Social relations and price can both play a role in the informal market, depending on the situation.

Furthermore, poor people often stay in peripheral or marginal locations where land is less expensive. The place that many poor people access in the city is therefore already a result of the financially dominated land market model.

The role of the state in informal land markets

People sometimes argue that informality in a market means the government has no influence on or control over that market. But in the case of property this is not true – government's actions and programmes clearly impact on the informal market.

> Most importantly, the government's actions can spark demand for access to certain areas of the city and thus impact on informal land markets among poor people. What some residents value most is the right to future development, rather than their present location in the city.

There are obvious ways in which the government is involved in poor and informal areas. For example, the municipalities may intervene by registering shacks or providing basic services.

These informal settlement management practices directly affect informal land markets, because when residents see this kind of municipal activity in the area they often interpret it as a signal that the government plans future development and investment there. This expectation may raise the value (and the cost) of having a foothold in the area. However, if residents feel they are waiting too long for development of their area by the government, they may start to believe that their rights to the land are becoming weaker.

When town plans, provincial or municipal policies, or political statements indicate that development is about to happen in a particular area, the value of being located in the targeted area rises, and demand to live there increases.

While that location may not have positive physical attributes, its benefit is its perceived potential for future development – once people are living in informal settlements which are later identified for upgrading, they become identified beneficiaries of these projects.

In this way, the locations poor people access can become their means of obtaining an officially recognised right to land in the city. It is therefore important that the government recognises the impact of its actions on informal markets.

Municipal housing plans, political promises on particular projects and infrastructure development along certain corridors are all actions which send signals to residents of informal settlements about the desirability of being located in certain areas, even if their immediate living conditions are hazardous (caused, for example, by a lack of services, living close to flood-lines, or in structures or areas which increase the risk of fire).

People who live in vulnerable informal settlements are not always acting against their own interests; they may expect that these settlements will be prioritised for upgrading. In this way, some informal land markets are driven by poor households desperate to access adequate housing in the future, if not immediately.

Take home points

- **Formal land and property markets currently exclude the poor.** On the whole, the institutions, legislation and practices which shape the formal market largely ignore the poor, and thus neglect their needs to access land and property in urban areas. However, there have been some recent developments in the formal market which offer greater opportunities to the poor. There has been decentralisation of the commercial and retail property market, as more shopping centres appear in former township areas and office space outside the CBD is in greater demand. In the residential property market, some suburbs have seen slow or negative growth in house prices, which makes them more affordable to people at the bottom end of the market. This suggests that it may be easier for low-income households to move out of township areas and 'up' the housing ladder.
- **Informal land and property markets operating in informal settlements play a crucial role** in allowing the poor to access urban areas quickly, cheaply and relatively easily. However, the areas they are able to access are often peripheral or marginal, mainly determined by forces of the financially dominated land market which place a low value on these areas. Housing in informal settlements is also inadequate, and basic services are sub-standard. The government needs to recognise the value of the informal market in giving poor people access to the city, recognise the rights of people living there, and not try to control this market or convert it into a formal market. Rather, municipal officials and other government agents need to understand how the informal land and property market works, appreciate its value for the city, and take steps to make it visible in planning and legal processes.
- **The government has a significant impact on the informal market** through its implementation of subsidised housing, informal settlement upgrading, public transport and other infrastructure investment programmes. It is therefore extremely important for government to make these alternative markets visible, so that planning and implementation of housing programmes can take this market into account in all its complexity.

NOTES

1 Some people argue that the identification of two markets (formal and informal) is incorrect, when actually there is one market which encompasses both formal and informal transactions. However, for ease of reference, in this publication we do refer to a formal and an informal market, recognising that it is helpful to acknowledge the distinct patterns, practices, laws and rules which govern each market. It is important to bear in mind, however, that there is significant overlap between the two markets and that one must not look at one market to the exclusion of the other.

2 This chapter is based on a report prepared for Urban LandMark by Genesis Analytics (2008), The dynamics of the formal urban land market in South Africa, and on a paper commissioned by Urban LandMark, How the poor access, hold and trade land. This paper was written by Colin Marx and Lauren Royston (October 2007) and was based on research conducted by Isandla Institute and Stephen Berrisford Consulting, with Progressus Research and Development. The research investigated how the poor access, hold and trade land in different types of settlements in three metropolitan areas in South Africa: Cape Town, Ekurhuleni and eThekwini. The types of settlements chosen were informal settlements, recently allocated Reconstruction and Development Programme (RDP) housing projects, backyard shacks, an area under a traditional authority, and an area of local council housing. The research methodology consisted of a literature review, social surveys and a legal and regulatory framework review.

3 Diagram adapted from Carn N., Rabianski J., Racster R. & Seldin M. (1988) Real Estate Market Analysis, Techniques and Applications. Englewood Cliffs, New Jersey: Prentice Hall. Quoted in Genesis Analytics (2008) The dynamics of the formal urban land market in South Africa.

4 Diagram source: Lightstone, August 2011.

5 Although we use the common term 'property ladder' here, it is important to note that in reality there is not a single directional path ('up' or 'down') for advancement in residential properties. People's specific circumstances or preferences mean there is not a unified hierarchy of worse-to-better properties. Furthermore, there is not a smooth spectrum of housing opportunities, as the term implies.

6 This section is based on the report, Impact of township shopping centres: market research findings and recommendations, prepared by Demacon for Urban LandMark, July 2010.

7 Here we use 'township' to refer to the following settlement types: informal settlements, RDP housing, backyard rental and older council housing (including hostels).

MANAGING AND TAXING LAND USE

WAYS IN WHICH THE MUNICIPALITY IMPACTS ON LAND AND PROPERTY MARKETS

The official line...

Case study

Things to consider

Relevant principles

- Give due regard to pro-poor objectives
- Know the market
- Adopt an enabling role
- Manage direct interventions to minimise market distortions
- Build institutional capacity

The municipality plays a number of critical roles in urban land and property markets. Each of these roles allows municipalities to carry out their developmental mandate to improve access by the poor to urban land and housing opportunities. This chapter discusses three of these roles:

- the municipality as land use manager
- the municipality as administrator of spatial information
- the municipality as property tax (rates) authority.

The chapter gives examples of how municipalities can use their authority proactively to achieve pro-poor outcomes, rather than adopting a passive approach to land governance.[1]

Municipalities can use these roles to directly increase the supply of well located land and low-income housing opportunities available to the poor, and also to influence the land use choices made by developers in pro-poor ways.

In order to take proactive, pro-poor decisions regarding the future sustainable development of its municipal area, the municipality needs to have the ability and political will to intervene in the use of urban space, even if it comes under pressure from individuals and groups with conflicting development agendas.

LAND USE MANAGEMENT

How does the municipality's proactive approach to land use management impact on access by the poor to urban land markets?

The White Paper on Spatial Planning (2001) advocates a more proactive, facilitative role for local governments in land use management and development (see box on this page). Local governments should therefore take charge of the physical development of their municipal areas, including addressing the spatial needs of the poor, rather than merely responding or being dictated to by other players or interests in the market. This is the first important shift in thinking that is required.

The official line...

A legislative mandate for the proactive role of municipalities in land use management

The White Paper on Spatial Planning and Land Use Management (2001) describes the shift from the control and regulatory functions, towards thinking in terms of a proactive, facilitative role in land use management and development:

'An important conceptual shift is that in the new planning system, the primary role of government – and especially of local government – in relation to spatial planning, land use management and land development is no longer merely the control of development (although that remains an essential function). The facilitation of appropriate development is an important new responsibility. Two aspects require particular attention: first, there is a need to allow for public-private partnerships that are specifically equipped to facilitate land development; and secondly, there is a need to strengthen municipalities' power to negotiate development with the private sector, rather than simply applying a yes-or-no approach to land development.'

How land use management can be used to implement strategic choices laid out in the Spatial Development Framework

Municipalities are responsible for the development of the spatial development frameworks (SDFs) that should indicate what development should take place where in the municipality, and what controls should be put in place.

Land use management is an implementation mechanism for the SDF. In itself, land use management does not affect what decisions are made about growth and development in the municipal area. It begins to play a role once policy and decision-making have come together to identify interventions and projects that will form part of the SDF. Land use management ensures that these decisions are carried out and enforced properly.

Part of the municipality's land use management function is to record land use and development rights and restrictions applicable to each property in the municipal area, and to ensure that developments do not contravene the rights that have been assigned to them.

Land use management can have a negative impact on pro-poor land management where SDFs are absent or when SDFs are not properly enforced. When land development is not guided by spatial frameworks or policies such as SDFs, the strategic policy decisions about land use and development are taken on an ad hoc basis, as and when land use applications are received. When this happens, the municipal land use managers are in fact making strategic decisions that are not based on any SDF.

In most cases, the market will then begin to determine the development trends in the municipality, and this process will not address the needs of the poor. When this happens, haphazard development patterns begin to emerge, driven by different private interests among developers, and unsustainable, inequitable land practices are established in municipalities.

Case study
Local development control in the UK

In the UK, under the Planning and Compulsory Purchases Act of 2004, all development is controlled by what is referred to as a Local Development Framework. This framework is a 'folder' of a number of different documents, including:

- The Core Strategy – this sets out general and spatially specific principles for the area. It usually includes broad social, economic and spatial analysis and recommendations.
- Development Policies – policies which guide the approval or refusal of planning permission. They provide interpretation, explanation and further detail for the core strategies, in essence making the core strategy 'practical.'
- Site-Specific Allocations – based on the Core Strategy and Development Policies, sets of strategic site-specific proposals are identified and elaborated upon in this document.
- Adopted Proposals Map – a map showing the location of local site-specific proposals.
- Statement of Community Involvement – this document sets out the process for public participation in both the Local Development Framework process as well as during planning applications.

How the municipality's lack of internal capacity for land use management impacts on access by the poor to urban land markets

Even with a proactive approach, and a sound SDF in place, municipalities may fall short on pro-poor land use management if they don't have the internal capacity they need (skills, systems and equipment). How does the local municipality's ability and capacity to manage land use and development (or lack of these things) impact on the ability of the poor in that municipality to access land, and to become part of market-related land development processes?

Pro-poor management of 'peri-urban' land in the rapidly growing urban areas of South Africa is an increasingly important issue. The peri-urban areas are formerly 'rural' localities that are now directly in the path of urbanisation, because of the rapid expansion of South Africa's metros and major towns. The majority of new affordable housing developments are located in these peripheral locations in the urban and peri-urban areas, where land is cheap and readily available but poorly integrated with the rest of the city, and too far away from the urban opportunities poor people need access to.

This trend persists partly because local government is often unable to manage land use effectively. Peri-urban land is managed by district and local municipalities, and these local governments often have **capacity constraints** which limit their ability to effectively deal with land management and facilitate poor communities' access to land.

Lack of internal capacity or efficient systems in the departments dealing with planning and land use management has major impacts on the ability of the municipality to address development for the poor:

- When there is a lack of human resource capacity, the daily pressure of dealing with land use management applications tends to overshadow all the other responsibilities that the planners have, such as spatial planning, strategic thinking, innovation, research and design. The result is that external consultants are appointed to compile SDFs for the sake of complying with legislative requirements, without the

> To ensure that planning departments and decision makers make the right recommendations and decisions about efficient and sustainable land development that includes the poor, there must be enough people who can devote their time to these strategic issues, and the decision makers must be qualified to make informed decisions based on best practice and national policy.

Things to consider: Creating a positive environment for investment

Efficiency in land development processes also has a wider impact on both public sector-led developments and private sector developments. The efficiency of land development processes impacts on the municipality's ability to attract investment, which in turn has an impact on the creation of employment opportunities and the improvement of the municipality's rates base. The size of the rates base, in turn, impacts on the financial ability of the municipality to deliver services to the poor.

municipality having a fundamental involvement in the formulation of the SDF and ensuring that aspects such as access to land for the poor are addressed. Officials often don't have in-depth understanding of these frameworks because they weren't involved in their formulation. As a result, they don't act as advocates for the policies and interventions that the frameworks propose.

- Local government officials who lack the necessary knowledge and experience have great difficulty in understanding spatial issues and relationships, and in fully realising how certain development proposals and initiatives will impact on the overall functionality and sustainability of the physical environment. This can lead them to take the wrong decisions with regard to land development, or decisions that only favour a certain segment of the market. Often, their inexperience and lack of knowledge make them unable to take hard decisions on drastic interventions in how land in the municipality is used – yet spatial restructuring regularly requires these kinds of interventions.

What capacity and systems do municipalities need to manage land use in a way which benefits the poor?

In order to carry out their land use management role effectively in a way that gives poor people greater access to urban land and housing opportunities, municipalities need to adopt a holistic approach to land use management, supported by strong systems. This approach includes:

- Providing sufficient resources, both human and technical, to enable officials to deal with land use management efficiently (as discussed above).
- Developing or re-establishing a proper and efficient land use management process in the municipality.
- Laying down clear timeframes and targets for processing and finalising land use management applications.
- Setting up an electronic land use application record system to clearly capture the applications received and the process that the applications followed.
- Implementing a spatial information system that can be used as a decision-making support tool.

Once a municipality puts these systems in place it will be able to manage land use and steer land development effectively, in a way that takes the needs of the poor into account. The next sections of this chapter discuss ways to do this.

Land use application decision-making processes

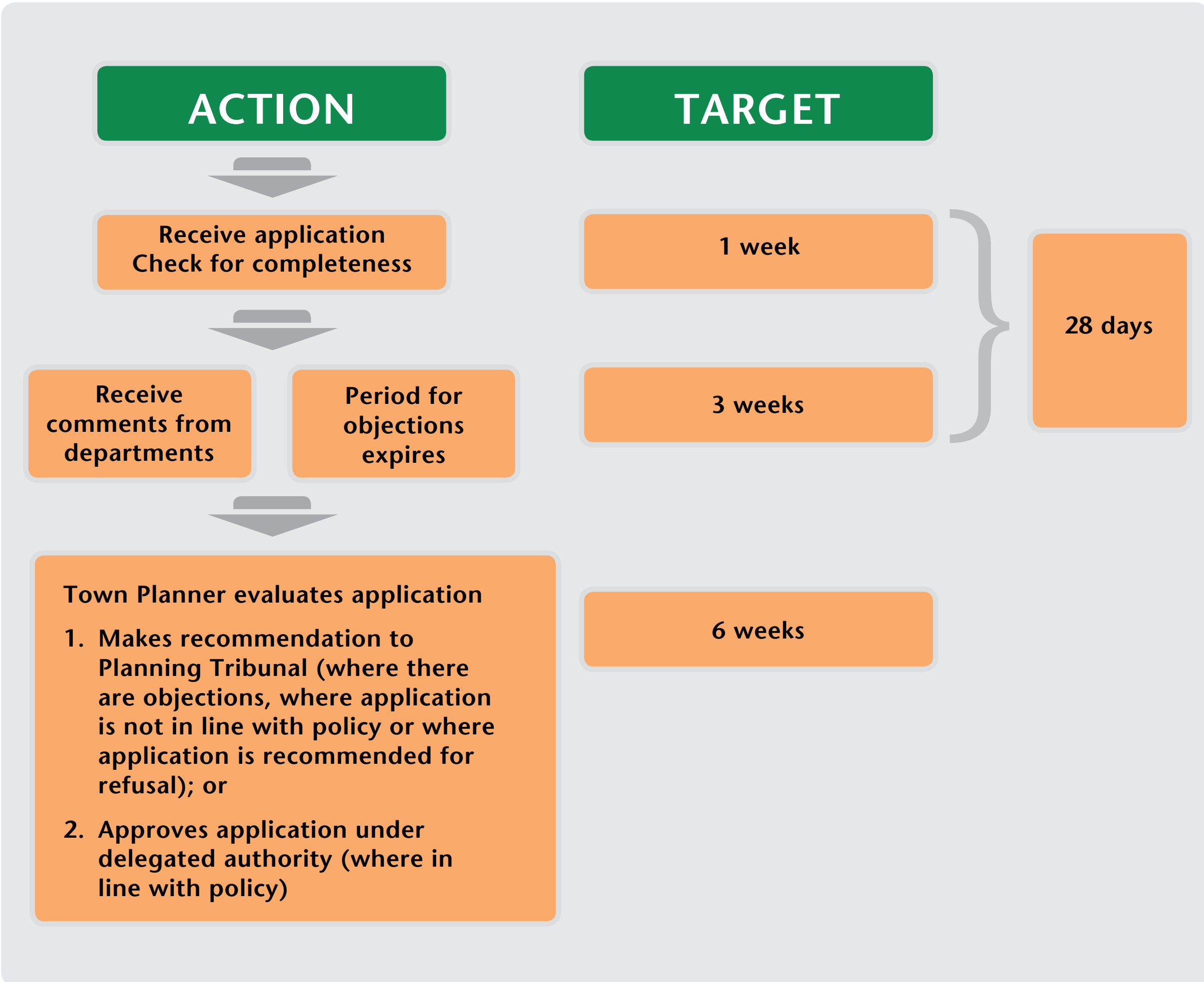
The best way to increase the efficiency of the land use management system is to establish clear targets for each step in the process of application, review and approval. The following interventions are recommended:

- The **first intervention** is to set up a system to ensure that all internal comments on an application are received by the same deadline that the period for objections (in the case of rezoning applications and township applications) expires.

  During the advertisement and objection period the municipality can't evaluate an application, but it can ensure that all the internal processes happen at the same time. This means that as soon as the period for objections has expired, the application will be ready for evaluation and finalisation.

  Figure 3.1 sets out an example of a process for rezoning applications in Gauteng. This process may differ for other applications where there are no advertisement processes, but the principle remains the same in all cases.

Figure 3.1: Land use management process workflow: a Gauteng example[2]



- The **second intervention** required is that the Municipal Manager should provide the Manager responsible for land use and planning with delegated authority to approve all applications that are in line with SDFs and other applicable local land use policies, where no objections have been received.

  This will ensure that the majority of applications will not need the Municipal Manager's signature, and the department itself will be able to finalise applications more efficiently.

E-land use application management system

Another system that is required in the Land Use and Planning Unit is a land use application management system. The purpose of this system is to capture land use applications electronically (i.e. on the computer system of the municipality) and to track the progress of these applications electronically. In this way, the municipality will have up-to-date information available on the number and type of applications it receives, the spatial distribution of these applications in the municipality, and whether the system is processing these applications quickly enough.

A number of municipalities around the country have developed sophisticated and very efficient land use application management systems, but at a considerable cost. If the municipality approves the budget for the design and implementation of such a system, it can appoint consultants to develop a proper electronic application management system.

What is important is that the municipality begins to capture applications electronically and does not continue to rely on a manual record system.

If the funds are not available for such a sophisticated system, the municipality can achieve a similar result with simple, commercially available database packages.

Such a system will be very effective not only for spatial development data, but also for line-function management purposes. It will also improve client services, because the municipality will be able to provide up-to-date information to applicants when they make enquiries on the progress of applications.

Ideally a link should also be created between the land use management and financial systems in the municipality, to ensure that the valuation roll is updated with relevant land use decisions which may impact on rates and taxes.

The system can also be linked to the spatial information management system (when that is set up) to generate spatial representations of the land use applications.

Administering spatial information systems

From the discussion of land use management in the first part of this chapter, it is clear that spatial information systems are a vital aspect of efficient land use management processes in the municipality.

No municipality can afford to be without a spatial information management system, with updated software, up-to-date cadastral information and a GIS specialist/operator who is able to manage the system, if it wants to manage land use efficiently and remain an attractive location for developers and investors.

The minimum requirement is a system that contains updated cadastral information, is linked to aerial photographs and displays land use management trends.

The municipality will need to have skilled people available to operate and manage the system. There are practical staffing options available for this, namely:

- The municipality can choose to appoint a GIS specialist who is not only able to operate the equipment and the software but also to manage the system.
- The current staff can be trained in how to operate the system, so that they are able to find the information they need.

  However, for the management and continued updating of the datasets the municipality will have to appoint consultants who can act as the developers of this system. This approach will be more cost-effective than appointing a highly specialised professional to a permanent post in the municipality, except in the very largest metros.

PROPERTY RATES[3]

How the municipality's approach to property rates mechanisms impacts on access by the poor to urban land markets

In its role as the policy maker and tax collector for property rates, the municipality has the opportunity to influence market behaviour in order to increase the stock of low-income housing and available land.

If municipalities approach this role creatively, they can design property rates policies that create incentives for property owners to choose particular types of land use, including affordable housing.

Two mechanisms for developing rates policies that benefit poor urban residents are discussed here; other options for using property rates policies for poverty reduction are included in Chapter 7.

Rates on vacant land

By increasing the rates on vacant land, the municipality can discourage absenteeism and speculation and create incentives for densification and improvements. A significantly higher rate for vacant land incentivises development, increases efficient land use, and facilitates densification.

Higher differential rates for vacant land are common in countries around the world, and in Africa specifically (for example in Namibia and Botswana).[4] The case study of Brazil in this chapter gives two examples of such rates policies.

> The creation of particular categories of properties or property owners, and the application of differential rates and rebates to those categories, is a *critical policy tool* available to municipalities.

Some cities have no special rate for vacant land; instead they tax undeveloped property at the regular residential rate. This has the effect of providing a comfort zone for property owners to hold well-located land in the city, without further investing in developments or releasing the land back into the market for investment by the next owner.

Municipalities that want to discourage land speculation will set their vacant land rating at 3 or 4 times the rate for residential land. For example, if the rate of residential land was R0.004 cents in the rand, serviced vacant land (i.e. with no improvements) would be charged at R0.016.

In order to prevent land owners from making minimal improvements which are only intended to avoid the vacant land rating, the municipality can require that improvements must exceed a certain percentage of land value in order for the property to no longer be categorised as vacant.

Density incentives and inner city rebates

A normal feature of the property market is that some of the existing supply will be obsolete from a market perspective. We see this in many CBDs that have office buildings which no longer meet market requirements, and so stand empty.

The official line...
The MPRA and differential rates

The Municipal Property Rates Act (MPRA) 2007 gives municipalities the ability to decide which properties to rate or exempt from rating, and whether rebates or reductions will be offered to some of the rateable property categories, based on local conditions and circumstances.

Section 19 of the MPRA forbids municipalities from levying different rates on residential properties (except in cases of phasing in newly rateable property, transitioning from the old to the new valuation roll, and public service infrastructure). However Section 8(1)c permits municipalities to levy different rates for different categories of rateable property, according to the geographical area in which the property is situated, 'subject to Section 19'. A municipality can therefore define inner city schemes as rebates for a category of ownership, which is permissible under Section 15 of the MPRA.

Over time, a property that no longer gives investors a good return on their money will be demolished or converted, and will make way for new developments. In South Africa, commercial properties in CBDs are being either renovated or demolished, in response to changing market conditions. Certain office buildings are finding a new use and are being converted into residential units.

These trends are strengthened or weakened by factors such as investors' perceptions of crime, grime etc., or tax incentives that aim to promote certain kinds of development in the city.

Public sector urban regeneration initiatives and incentives can play a role in bringing properties and sites that have been neglected by the private sector back into the market, in an appropriate use.

The future success of the inner city as a location for large-scale housing provision relies on both the provision of adequate social services and the introduction of targeted incentives to reduce private investors' fear of risk.

Local government has a particularly important role to play here, by using tax incentives to encourage and facilitate private investment:

- Municipalities can use inner city tax rebates to facilitate the conversion and revitalisation of vacant or obsolete space in downtown areas.
- A municipality can offer a rates rebate on a property that is used to accommodate a certain number of dwelling units, and if a certain minimum percentage of the floor space of the property is used for residential accommodation. This is a mechanism to incentivise densification and/or increase the supply of residential properties in a particular area.

This type of rebate could be applied in inner city areas where the municipality wants to bring people into

Case study

Incentivising the use of vacant land in Brazil[5]

- The Brazilian policy of 'progressive taxation on vacant or unused land' is an impressive policy tool for dealing with vacant or unused land. Vacant or unused land is taxed at a progressively higher rate every year for a period of 5 years, up to a maximum of 15%. If after 5 years the land owner has not subdivided, used or built on a parcel of land, the municipality can expropriate the land.
  In this way the Brazilian legal framework regulates speculative holding of urban land. Compensation for expropriation is paid in municipal bonds at the original use value of the land. In other words, the compensation amount doesn't include increase in land value produced by government investment in the area where the property is located.
- Another tool used to encourage the use of well positioned land in Brazil is the special rights of 'usucapião', used in situations where land is occupied informally. Under this provision any urban dweller who has occupied a parcel of land or property of 250 m^2 or less for more than 5 years, uninterruptedly or without contestation, and who uses it for their residence and does not own any other property or urban real estate, can establish their 'dominion'.

  In the case of private land, occupiers can claim 'adverse possession' or 'prescriptive acquisition rights'. In the case of public land, they acquire a form of leasehold referred to as 'concession of the real right to use'.

the city centre to live and to revitalise downtown areas. Such measures are used in many countries, and have been introduced in South African cities – an example is the Accelerated Depreciation Allowance implemented in specified cities by national Treasury. The case study of Barcelona in this chapter gives an example of the successful use of this kind of policy.

Additional tax mechanisms for incentivising pro-poor land use

The municipality can develop additional instruments for incentivising property owners to create jobs, offer accommodation or provide services for workers.

Examples of such instruments are:

- Rebates or exemptions for landlords who provide affordable rental
- Rebates for property owners who include a certain percentage of low-income units in their developments
- Tax relief for employers who provide housing for workers and/or landlords of low-income rental units.

The effectiveness of any of these indirect instruments will depend on how important the property rates are for developers and property owners when they buy, sell or make land use decisions on property – if the rates payable on the property don't influence their decisions, then tax-incentive instruments like the ones above won't be enough to encourage them to choose pro-poor development options.

The municipality must do a cost-benefit analysis from the perspective of the developer, in order to design incentives which successfully influence developer behaviour without scaring away developers and/or creating outcomes that undermine the aims they are trying to achieve.

Case study

A successful incentive-based policy from Barcelona, Spain[6]

Probably the most successful international example of a rates policy that works in favour of the urban poor has been the 22@Barcelona redevelopment of 200 hectares of derelict industrial land in the Poblenou quarter.

Within the new 22@Barcelona zone, developers were given new opportunities and increased rights if they were willing to share the preparatory costs of the urban transformation. In exchange for a planning permit, which allows for a change in land use or land development density, the city council 1) demands that rights to 30% of the total land area of the proposed development, or the equivalent current monetary value of the land, be transferred to the city; and 2) charges a development levy of €80 per m^2 of land developed (updated annually).

The transfers and levies are donated directly to the publicly-owned 22@BCN company. The company has made use of this capital to pursue two sets of goals:

- traditional urban regeneration goals: land clearance and site preparation, upgrading infrastructure, destination marketing, and the creation of business incubators and R+D centres, as well as encouraging collaboration between businesses and research institutions
- more social goals: devoting 10% of the previously industrial land to the creation of 114 000 m^2 of green spaces and 145 000 m^2 of public facilities in the area, providing student housing, and subsidising 4 000 affordable housing units using the value capture finance.

Things to consider: Practical cautions when implementing incentives and rebates

There are a number of important practical cautions that a municipality must bear in mind when it adopts any kind of density incentive or inner city rebate:

- If the density rebate is applied to sectional title properties, it can have the effect of disproportionately benefiting wealthier property owners. In many municipalities, the majority of residential properties in the lower value bands are freestanding houses, while the majority of sectional title properties (in number and value) have a value higher than R200 000, and so are owned by wealthier people.
- Take-up rates on such rebate programmes may be very low, unless the municipality makes considerable investment in time and money to advertise the programme and let developers know about this opportunity.

The Finance Department of the municipality usually needs to rely on the Town Planning Department to verify the eligibility of rebate applications. The municipality therefore needs to make sure that it has additional staff capacity for carrying out this verification, as well as protocols for internal coordination that permit the joint processing of rebate applications.

Take home points

- In its roles as land use manager, administrator and property rates authority, a municipality has the power to proactively facilitate access by the poor to urban land and housing opportunities, using the available policy tools. The proactive approach is preferable to a limited regulatory control approach to land governance.
- Municipalities that take a proactive, principled approach can use property rates policies to influence or incentivise developers to increase the supply of affordable housing or, at a minimum, support urban development and the creation of economic opportunities for the poor.
- The municipality must have adequate internal capacity — including management information systems, technical resources and skilled staff — to ensure that it can perform these roles in ways that promote, instead of hindering, access by the poor to adequate housing and opportunities in the city. In this respect, technology — such as electronic land use application management systems and GIS tools — can play an important part in supporting the staff in the municipality as they carry out this work, and in promoting evidence-based decision-making related to land use. It is also important that the municipality put protocols in place to ensure that there is internal coordination between the various departments which impact on the built environment.

- **For more on land availability, see Chapter 4.**
- **For more on property rates, see Chapter 7.**

NOTES

1 This chapter draws on the report, Peri-urban land management assessment and strategy in Metsweding District Municipality. Prepared for Urban LandMark and Metsweding District Municipality by Riana du Plessis Urban Planning, April 2008.
2 Figure 1 source: Peri-urban land management assessment and strategy in Metsweding District Municipality. Prepared for Urban LandMark and Metsweding District Municipality by Riana du Plessis Urban Planning, April 2008.
3 This section is based on the paper, Municipal rates policies and the urban poor – how can municipal rates policies promote access by the poor to urban land markets? prepared by Isandla Institute and PDG for the SA Cities Network and Urban Landmark, October 2009.
4 Interview with Prof. RCD Franzsen, Director: African Tax Institute, Department of Economics, University of Pretoria, Pretoria, 20 August 2009.
5 Adapted from Brown-Luthango, M. (2010) Access to land for the urban poor — policy proposals for South African cities. Urban Forum 21: 123–138.
6 Adapted from Clark, G., Notay, A. and Evans, G. (2010) Leveraging public land to attract urban investment. London: Urban Land Institute.

RELEASING STATE LAND

The official line...

Case study

Things to consider

Relevant principles

- Give due regard to pro-poor objectives
- Know the market
- Prioritise the coordination and alignment of internal players within the municipality

In urban areas in South Africa there is a scarcity of well located, affordable land and a backlog in supply of adequate affordable housing. There is thus a dire need in urban areas to establish integrated, mixed use settlements and increase the supply of land and space available for low-income housing.

The state is able to use its powers and resources to address this issue in ways that have positive impacts on the functioning of urban land markets. As a major land owner, the state can affect the supply of developable land in the market by releasing land to private developers — either through outright sale of the land, or with conditions for a particular use, for example through leasing or a Land Availability Agreement (LAA). This chapter looks at ways in which this can be done.[1]

> The municipality must take decisions on whether to hold a piece of land, sell it at market prices, use it for non-housing purposes, or develop it for human settlements purposes, including subsidised housing.

WHAT ARE THE OPTIONS FOR THE USE OF MUNICIPAL LAND?

The municipality is faced with a number of land use options for each parcel of land it owns, and for its portfolio of holdings as a whole. It has four basic options for each piece of land it owns:

1) **Sell the land** on the open market. Sometimes a particular land parcel may not be suitable for service delivery (including housing) because of its location, its zoning, or some other feature of the land. In such cases, the municipality can sell the land on the open market at market value and use the income from this sale for general service delivery, or ring-fence this income for housing development at another location.

2) **Hold the land**, in order to postpone the decision until a future date when the environment is different or more information is available. For example, budget constraints or lack of bulk infrastructure may mean that immediate development is not possible,but the location of the land is such that it's worth holding onto until funds are available in future. Or, the municipality has taken a decision to sell the land, but wants to wait until the market is more favourable.

3) The municipality itself can **develop the land** for human settlements. One option is for the municipality to develop parcels of its own land for affordable housing and other uses related to sustainable human settlements.

   A decision must then be taken on the type (or types) of housing and tenure most appropriate and viable for that site.

Things to consider: A municipal land audit

In order to properly manage its portfolio of its own land holdings, it is extremely useful for a municipality to conduct a land audit. Ideally, such an audit should also include state land owned by other spheres of government and by parastatals. This enables the municipality to have a full picture of state assets within its boundaries, and to properly consider the full range of options it has to use the land, including cooperation with other spheres or state entities to access land for local development. It is worth noting, however, that there may be issues related to municipalities wanting to keep their land asset register out of the public domain for various reasons.

4) Another option is to **release the land** to private developers, **on condition** that the development of the land includes some elements that further government's policy aims of helping poor urban dwellers to access affordable, adequate housing, and building sustainable integrated settlements in urban areas. For example, the municipality may sell permission for a developer to construct residential units on a piece of land and sell them, provided that a certain percentage of the units are subsidised houses and a certain percentage are for the 'gap' market. If a municipality chooses this option, it must ensure that the disposal of the municipal land is managed well, so that it can maximise the potential for pro-poor development of the land. The needs of private sector developers (and the financial viability of the project) must be balanced with government's aim to use the land for a project which supports the poor and provides them with good access to the city.

The official line...
Government policy on release or development of state land

The government's policy and legislative framework includes provision for the release or development of state land for human settlements. As part of the draft policy document 'Outcome 8, Sustainable Human Settlements and an Improved Quality of Household Life', the national Department of Human Settlements has identified two outputs related to land release:

- Facilitating the provision of improved housing finance opportunities for 600 000 households within the 'gap' market for people earning between R3 500 and R12 800 (output 3).
- Releasing 6 250 hectares of publicly owned land for housing development.

The achievement of these outputs must be done in compliance with the Municipal Finance Management Act (MFMA), which sets out terms for the disposal of capital assets, including land release:

Section 14 (2:) A municipality may transfer ownership of or otherwise dispose of a capital asset other than one contemplated in subsection (1), but only after the municipal council, in a meeting open to the public –

(a) Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal service.

(b) Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

This means that it is not always a requirement that the sale of land must be done at market value. In situations where the market value has been weighed against the 'economic and community value' to be received by releasing the land, a municipality can choose to sell this land at less than market value if the sale will contribute significant 'economic and community value'. LAAs (which may release land at below market value on condition that development of the land includes a certain percentage of subsidised or affordable housing and/or social and economic amenities) operate in terms of this legislation.

However, there can be varying understandings of 'fair market value' and different interpretations of this section of the MFMA. Municipalities should therefore develop a municipal land release policy which sets out principles and guidelines for the release of land in accordance with the MFMA.

TOOLS FOR DECIDING ON THE BEST TYPE (OR MIX) OF HOUSING OPPORTUNITIES TO DEVELOP ON MUNICIPAL LAND

Municipalities can use different methods and approaches to determine the best use for their own pieces of land. However most often, government entities don't have a set method for assessing land use options. Instead, land release programmes usually operate on an ad hoc basis, which can lead to inefficiency and inconsistency. Influence from the private sector, social and political objectives, as well as inter-governmental dynamics end up playing a role in whether the land is released, and on what terms.

How does a municipality best determine which type (or types) of housing opportunities are appropriate for a particular site? In this section we describe three tools that can be used to guide the decision-making process.

Tool 1: Checklist for determining feasible uses for a particular site

Table 4.1 on pages 45-46 provides a checklist which municipalities can use to do a relatively quick high-level analysis of which types of housing would be the most viable and appropriate for a specific parcel of land. This does not include all the factors which affect the decision on the most appropriate land use and land release option for a particular site; it focuses only on the major factors which will be key determinants of success.

It is intended to get the user thinking about the major issues to consider before developing the land for housing. If this high-level analysis shows that one or more housing options (or a mix of housing options such as 'gap' and subsidy) would be feasible on the site, then a more detailed analysis will be necessary to explore those options in depth. Urban LandMark has developed a detailed financial model for this purpose, discussed below.

Tool 2: Financial model of costs and benefits for different uses of a piece of land

The Urban LandMark tool is a detailed financial model that captures quantifiable costs and benefits for different use scenarios for a particular piece of land. The model represents a capital budgeting summary (using a discounted costs and benefits model) of a housing development from three perspectives: the state, the developer and the household.

The model allows the user to compare the costs and benefits across different options: holding the land, selling it at market rates, or using it for mixed income and/or subsidised housing. It is possible to input various options for the mix of subsidised, 'gap' or market-related units, and view the cross-subsidisation which would be required to make the development viable with each mix of types of units. The model and further information about how to use it is available on the Urban LandMark website, www.urbanlandmark.org.za.

Things to consider: Land owned by other spheres of government

There is also usually land within the municipal boundaries which is owned by other spheres of government or parastatals – this land is a valuable asset which may be used for low-income housing. Local governments can enter into discussions with the owners of public land which is unused or under-used, and which the municipality considers suitable for development in terms of its mandate to address housing needs. In some cases the land can be transferred to the municipality, or made available for housing purposes, in line with local policy aims.

Table 4.1: Checklist for determining feasible uses for a particular site

POSSIBLE USES FOR LAND PARCEL					
	Subsidy housing and serviced sites	**Social housing**	**'Gap' housing**	**Hold**	**Sell**
Ownership	• Who owns the land? • Are there competing claims on the land?*	• Who owns the land? • Are there competing claims on the land?*	• Who owns the land? • Are there competing claims on the land?*	• Who owns the land? • Are there competing claims on the land?*	• Who owns the land? • Are there competing claims on the land?*
Zoning	• Is it zoned residential? (environmental and biodiversity issues) • Can rezoning be approved? Is it within urban edge? Are costs of rezoning (delays, financial) too onerous?	• Is it zoned residential? (environmental and biodiversity issues) • Can rezoning be approved? Is it within urban edge? Are costs of rezoning (delays, financial) too onerous? • Is it in a re-structuring zone?	• Is it zoned residential? (environmental and biodiversity issues) • Can rezoning be approved? Is it within urban edge? Are costs of rezoning (delays, financial) too onerous?	• Is it zoned residential? (environmental and biodiversity issues) • Can rezoning be approved? Is it within urban edge? Are costs of rezoning (delays, financial) too onerous?	• Same as 'gap' housing (considerations will affect selling price)
Bulk infrastructure	• Is bulk infrastructure required for residential use already in place? • Is there capacity? • Is MIG available?	• Is bulk infrastructure required for residential use already in place? • Is there capacity?	• Is bulk infrastructure required for residential use already in place? • Is there capacity? • Can bulk infra-structure and connector costs be covered by developer (via cross-subsidisation)?	Long-term perspective: • Is bulk infrastructure required for residential use already in place? • Is there capacity? • Is MIG available?	• Is bulk infrastructure required for residential use already in place? • Is there capacity? • Availability of bulk infrastruc-ture will affect attractiveness to developers.

Neighbourhood and location	• Subsidy housing appropriate for site and neighbourhood?
	• Will costs of community engagement and delays be too much?
	• Impact on rates base:
	  • from perspective of existing property owners in the area
	  • from perspective of municipal revenue
		• Will community allow/support social housing?
		• Will costs of community engagement and delays be too much?
		• Impact on rates base:
		  • from perspective of existing property owners in the area
		  • from perspective of municipal revenue
		• Beneficiary preferences: is there sufficient demand for rental?
			• Impact on rates base:
			  • from perspective of existing property owners in the area
			  • from perspective of municipal revenue
			• Beneficiary preferences: is there sufficient demand for rental?
				Long-term perspective:
				• How is profile of area changing?
				• What type of dev-elopment would be advisable/ possible in future?
				• Holding costs and threat of land invasion?
				• Will this be a key area for subsidy or 'gap' housing in future? (site in relationship to economic growth nodes and urban edge)
					• Is neighbourhood attractive to developers?
					• Anticipated rates revenue from private development?

Table 4.1 continued

	POSSIBLE USES FOR LAND PARCEL				
	Subsidy housing and serviced sites	**Social housing**	**'Gap' housing**	**Hold**	**Sell**
Scale	• Is it too small for subsidy housing? Is it contiguous? (project management costs)**	• Is it too large? Too small?***	• Is it large enough to provide for cross-subsidisation and economies of scale?	–	• Size of land parcel attractive to developers?
Project costs	• Is housing subsidy available (sufficient political will)? • Are there geotechnical considerations which would incur costs not covered by variations to the housing subsidy?	• Is enough funding available through capital restructuring grant? • Is there institutional subsidy available? Contribution from SHI? • Are there geotechnical considerations which would incur costs not covered by variations to the housing subsidy?	• Costs for addressing geotechnical risks?	• Holding costs/ risks?	• Costs for addressing geotechnical risks? (May affect attractiveness for potential buyers)

* If the entity using this tool is already the owner of the land, then processes will be simplified. If instead the land is owned privately or by a state entity whose mandate is not human settlements, then the negotiations and costs to acquire and access the land will probably be higher.

** Scale is relative to need in the area e.g. number of possible units is small but there is great need in area and no other possible sites exist. The deal-breaker would be a single plot.

*** Ideal size for social housing projects would probably be 100–150 units.

Tool 3: Qualitative assessment tool for considering other key issues

This is a qualitative assessment tool that guides officials through key considerations which, although they are not quantified or captured in the financial model, remain critical in guiding land use choices. These non-quantifiable factors include:

- **Financial factors**
  - Access to financing
  - Ability to leverage asset
  - Asset growth potential
  - Mobility
- **Social factors**
  Community structures
  - Informal social networks
- **Natural factors**
  - Environmental sustainability
  - Greening
- **Physical factors**
  - Locality/neighbourhood (proximity to jobs, education, shopping, health facilities, transport hub, environmental risks
- **In-settlement features**
  - Quality of individual structure
  - Development potential
  - Open space
  - Security/crime in area
  - Privacy/density
  - Social and economic amenities

This tool is also available on: www.urbanlandmark.org.za.

STRUCTURING LAND AVAILABILITY AGREEMENTS

If the municipality determines that a housing development is suitable for a specific site, one option is to release the land to the private sector for development subject to a Land Availability Agreement (LAA). Under an LAA, the developer pays the municipality for the rights to construct and sell the units under prescribed conditions. The land remains in ownership of the municipality until it is sold to the end user when they take occupation, usually at a price determined by a formula or an arrangement set out in the LAA.

> The main advantage of the Land Availability Agreement is that it gives the municipality control over the housing mix without requiring it to fund the construction of non-subsidy units.

Thus the LAA mechanism gives the municipality some leverage over the developer, as it still owns the land. Developers also benefit from LAAs because these types of agreement allow them to avoid holding costs and the requirement to bridge-finance the purchase of the land.

Risks associated with Land Availability Agreements

LAAs are complex to negotiate, and they pose several risks for both the developer and the municipality. These risks include the following:

- As noted above, an LAA shifts the burden of holding costs from the developer onto the municipality. If holding costs are apportioned to units within the development in proportion to unit or erf size (as usually happens), this means that the effective per unit subsidy is largest for market-related units and lowest for subsidy units, and thus is regressive. The most important value of the LAA, from the perspective of the municipality, is not to lower project costs but to retain control over the development – a benefit for which it is prepared to pay.
- An LAA also transfers risks of zoning-related delays to the releasing authority. This can be a useful incentive to offer a developer, who often has to deal with the reality of zoning delays (and associated holding costs) in new projects.
- A key risk for both the releasing authority and the developer is the impact of interest rate changes on affordability. One option is for the municipality to shift this risk onto the developer, by specifying an income-based housing mix (as opposed to a price-based housing mix) in the LAA. To use house-hold income as the basis for working out a unit price, the developer has to make an assumption about the costs of end-user finance (i.e. interest rates and available terms). However, by the time the units are up for sale, the interest cycle could have turned and units may no longer be affordable in the target market.

Things to consider: Four perspectives on land use

Ideally, a municipality will take decisions on how to use its land after considering the true costs and benefits associated with each option. The options need to be considered from four different perspectives:

- the perspective of the municipality and other spheres of government
- the perspective of the developer
- the perspective of the beneficiary household
- the perspective of the broader property market, which may be affected by the options the municipality chooses.

- The municipality must also continually consider the project from the perspective of the developer, who must ensure a profit in order to remain involved in the project. One example is land costs. From the developer's perspective, land costs account for a relatively low proportion of total development costs. Similarly, from the perspective of the municipality the value of the land is a relatively small component of the upfront investment required to develop subsidy units. In some situations, the municipality may obtain a valuation of the land, and then release the land via an LAA at a market price. In such cases, the municipality must recognise that the developer stands to make greater financial returns on an outright sale than on an LAA, and thus may not be adequately incentivised to participate in land release projects (particularly if the LAA contains challenging requirements for the housing mix, as is often the case).

Dealing with problems in mixed income land release projects

If a land release project for mixed income housing (which may include market-related, 'gap', rental and subsidised housing) is to work successfully, there must be enough incentive for the private developer to take on the project and to remain involved. It is therefore important for the municipality to be aware of potential problem areas, viewed also from the perspective of the developer.

In this section we consider some of the problems that the municipality (and the developer) may face in a mixed income project, and some approaches to dealing with these problems. An unusual example of mixed income developments where there has been a high degree of integration of wealthy and poorer households is given in the case study of Chile at the end of the section.

> The municipality must share the risks associated with a development, without losing sight of its legal mandates and obligations to facilitate low-income housing.

Cross-subsidisation

Allocated subsidies play an important part in making housing available, but they don't fully fund the construction of subsidy units. Cross-subsidy must come from higher-priced units within the development, whose sale price is high enough to recover some of the costs of the lower-priced units as well as their own costs. These units target 'gap' market households who are by no means well off. As a result, houses become less affordable to households in the 'gap' market, which is a sector that is already squeezed for supply. Cross-subsidy from high-income markets to low-income markets may be justifiable in some cases. But it must be noted that so-called 'gap' and affordable market households earn up to R15 000 or R20 000 per month at the most, and aren't able to afford high-priced housing. It is therefore not sustainable to inflate prices of 'gap' houses to incorporate a cross-subsidy for households whose housing needs are fully subsidised.

There are other market limits on the extent to which cross-subsidy is a feasible option. Households in higher-income market segments have a choice. If they think house prices in a development are too high, they will simply buy elsewhere, and the developers will be unable to sell their units at the prices they planned for. This will put the financial viability of the whole development at risk. Households who fall into the 'gap' and affordable market categories may feel that they would be better off purchasing a house in the secondary property market, or in a relatively upmarket development, rather than in an integrated development where they are likely to end up paying inflated prices in order to support their poorer neighbours.

How to address cross-subsidy concerns

- To minimise the impact of the cross-subsidy on the price of both 'affordable' and market-driven housing units, the development needs to have a relatively low ratio of subsidy units to higher-cost units, so that each subsidy unit can receive smaller cross-subsidies generated by several affordable units. This ratio constraint limits the scope for the development of subsidised housing on state-owned land.

- Another option is to generate cross-subsidies from commercial components within a development. This would limit the effects of subsidies on residential property prices within the development.

Phasing and delivery problems

Another factor that can affect the viability of a mixed income development is the phasing (sequencing) of the various types of units.

Where the LAA specifies the overall housing mix for the development, the phases of delivery may not be specified. Clearly it would be in the interests of the developer to complete and sell the most profitable, and more expensive, units first. This would lower the funding requirements and improve the project's Net Present Value.

The municipality then faces the risk that the developer could withdraw after completing the most profit-able units. This risk is increased if the developer's initial investment in bulk infrastructure for the subsidy and 'gap' units is lower than the loss he or she expects to make on these units.

The developer may be financially better off walking away from the development midway, instead of seeing it through to completion. The municipality will then have to take legal action against the developer to recover surpluses earmarked for cross-subsidy, in terms of the LAA.

The sequencing of the development also poses political and market risks. When 'gap' units are constructed before subsidy units, communities may be angered by the lack of evidence on the ground that poorer households are being catered for. From the developer's perspective, the presence of subsidy units may reduce the marketability of higher-priced units. This is especially true where the specification of entry-level market units is only marginally better than the specification of the give-away subsidy units.

The same risk exists with rental units, which are likely to be earmarked predominantly for the 'gap' market. Households will resent paying rent when their close neighbours in the development, who benefited from ownership subsidies, will have obtained their very similar-looking homes for free. Furthermore, demand for rental may be limited while the rest of the area remains underdeveloped.

How to address phasing concerns

- One way to manage this risk is to make the development more appealing to high-income households by including other social and economic facilities.
- It may be better to construct rental units at the end of the development, after freehold houses are built and sold or allocated to beneficiaries, and once other social and economic facilities are in place.

Access to home loans

Access to home loans (also referred to as 'end-user finance') is another significant concern in mixed income developments. Applicants for home loans may be eligible in terms of their monthly income, but their applications for loans are often rejected because they are over-indebted or have poor credit histories.

How to address end-user finance concerns

- Municipalities should encourage potential home buyers to reduce their debt levels, improve their credit rating and, importantly, start saving for a home. Working with other spheres of government and the private sector, a municipality involved in housing development can consider making subsidised housing available only to households which demonstrate a commitment to building up their savings. Municipalities can also encourage financial providers such as banks to emphasise these messages more generally to people wanting to take out home loans. Some successful approaches to end-user finance are described in the case study of the Mivivienda Fund in Peru.

- Another practical option is for land release projects to be structured by the municipality so that they include an advanced pre-sale process. In terms of such a process, future buyers would have to sign up to a financial restructuring programme to encourage and assist them to pay off debt, and to save some of their available funds in a systematic way, so as to build up a deposit. This process of savings-led credit is commonly used in the microfinance. It enables households to adjust their expenditure and savings patterns to include the cost of their housing, before they take legal ownership of a property. This will reduce the risk of them defaulting on their home loan at a later stage.

Instalment sale

Some of the problems discussed in this section may be resolved by using alternative forms of tenure such as an instalment sale. In terms of this option, beneficiary households must fund a portion of the house price through an instalment sale arrangement, and must pay a deposit upfront. This enables the house-hold to obtain a better quality house and it also serves as a rationing mechanism, because it has the effect of setting aside some housing for those households who are willing and able to contribute some of their own resources towards housing.

This type of housing is well suited to integrated developments, as the improved specification for these houses can reduce concerns the developer may have about the negative impact of subsidy units on the marketability of higher-priced units. In addition,

Case study

Providing access to mortgage finance: the Mivivienda Fund, Peru[2]

The main public institution to provide social housing in Peru is the Mivivienda Fund. Mivivienda provides access to mortgage finance to population groups who cannot easily afford mortgage credit. People without a property can purchase a dwelling in a housing project, obtaining a soft credit or mortgage through a conventional commercial bank (listed by Mivivienda). For middle-class households, the government subsidises the interest rate, bringing it under market level.

The two other parts of the housing programme servicing poorer households, Mi Hogar and Techo Propio, offer more than credit. They are based on the A-B-C (*Ahorro-Bono-Credito* – Saving-Subsidy-Credit) concept adopted from international experiences.

This means that: (A) the household must make a down-payment of 10% of the price of the house with own savings; (B) it then receives a subsidy which covers part of the house costs; and (C) the household can then get credit/mortgage from a financial institution to cover the balance.

the contribution by beneficiary households could be used to fund the existing subsidy shortfall, rather than relying on cross-subsidies.

Effectively targeting the right beneficiaries

To allocate subsidies, municipalities must undertake some investigation of the household income of beneficiary households. There is no way to ensure that beneficiary households fully disclose all income sources for all household members. This problem occurs in other contexts as well, but it is especially significant in land release projects, because the very sizeable subsidy allocated to units in integrated developments means that the moral hazard (see the Glossary for an explanation of this term) is particularly high. The result can be that households receive subsidies even though their actual combined income would disqualify them from the subsidy.

There is also a risk that households who obtain desirable housing priced far below market value may sell immediately to higher-income households, or that poorer households may be used to front for higher-income speculators.

How to make sure the right beneficiaries receive housing

- To reduce the risk of higher-income households getting subsidised housing, one option is to deliberately reduce the specification of the unit – for example, limiting access to facilities that would be desirable to higher-income households (such as parking).
- To reduce the risk of 'gap' market beneficiaries immediately selling on their houses, an instalment sale arrangement can be used, as transfer is delayed for a number of years.

Case study

An unusual example of mixed income housing in Chile[3]

There are no hard-and-fast rules about the social outcomes of state-driven housing development. An interesting example of mixed income development of a different kind has been occurring in Chile. It has been driven largely by factors specific to the Chilean context: the existence of vacant land near different poor areas of the city, the enormous state and private spending on infrastructure since the 1990s (urban highways, shopping centres, etc.), and the need for developers to increase their profit margins. Together these factors have encouraged the construction of many housing projects aimed at the upper classes in traditionally marginalised areas, where government-subsidised housing is the norm.

This has led to spatial closeness between the upper-income groups and the poor living in subsidised projects, and has been beneficial for both social groups, leading to a process of 'mutually supportive gentrification'. The wealthy are able to buy a housing unit at a cheaper price than they would pay in an upper-class municipality and are able to find cheap labour nearby; at the same time, the poor get better municipal services, find employment closer to their homes, and gain a new market for selling their goods and services.

Stigmas and fear of those people who seem 'different' from themselves are present in the poorer and wealthier parts of the projects, but they don't seem strong enough to challenge this inter-class functional integration. While these dynamics may still be unlikely in South Africa, the similarities between the Chilean and South African housing programmes make this a possibility in the future.

Interventions beyond the control of local government

There are additional interventions which would help to set a positive environment in place for the development of affordable housing and help to remove obstacles in the development process. Some of these interventions are beyond the realm of local government and would require cooperation with other spheres. A revision and streamlining of environmental legislation should impact positively on lead time and costs in respect of developments. Also, the development of urban land is affected by the absence of or affordability of bulk infrastructure.

Take home points

- As substantial land owners, municipalities are able to use their own land holdings for the development of mixed use and low-income housing. Although land release projects carry risks which must be addressed carefully, they represent another potential mechanism for increasing the supply of land and housing available to poor households in urban areas.
- Land release projects which are structured through an LAA allow municipalities to retain control over the type of units which are built, without themselves having to take on the work of development, project management, and construction of the units.

- **For more on incentivising developers, see Chapter 9 on value capture.**
- **For more on making home ownership affordable for low-income households, see Chapter 7 on property rates.**

NOTES

1 This chapter is based on the report, Western Cape land release programme: case studies and lessons learned, prepared by Eighty20 Consulting for Urban LandMark, August 2010.

2 Adapted from Davelouis, L. (8 January 2008) Mivivienda prestará a migrantes y ampliará líneas a microfinancieras. El Comercio, Fernández-Maldonado, A., and Bredenoord, J. (2010) Progressive housing approaches in the current Peruvian policies. Habitat International 34: 342–350.

3 Adapted from Salcedo, R. (2010) The last slum: moving from illegal settlements to subsidized home ownership in Chile. Urban Affairs Review 46: 90–118.

UPGRADING INFORMAL SETTLEMENTS

Facts and figures

The official line...

Case study

Things to consider

Relevant principles

- Know the market
- Adopt an enabling role
- Recognise the diversity of role-players
- Partnerships are essential
- Accept incrementalism
- Acknowledge and build upon existing innovative and resourceful solutions of the poor
- Build institutional capacity

The management of informal settlements is a significant component of urban land governance. Residents of informal settlements have insecure tenure which lacks the forms of official recognition available in the formal markets. However, despite inadequate accommodation and poor service levels, the informal market in these areas does allow poorer people to access land and find accommodation in the city quickly and cheaply, although this often happens on poorly serviced land or in locations far from urban opportunities. The municipality's traditional response to informal settlements that grow in unplanned ways in the urban environment has been to move the people living in these settlements into formal subsidised housing.

Since 1994, the government's housing delivery programme has focused almost exclusively on this single type of tenure – ownership of a free-standing house provided to the household at no cost. However, municipalities are facing a reality that makes it necessary to look at widening this approach: the rapid expansion of informal settlements, a continuing increase in the housing backlog, and a scarcity of well-located, affordable land. It has become necessary for local government to prioritise the upgrading of informal settlements in situ and to start considering more flexible tenure options that offer short-term improvements to current conditions.

National government policy is geared towards these new approaches. Once greater tenure security is in place, opportunities increase for access to the economy, infrastructure services, social facilities and microfinance.In this chapter, we offer some practical guidelines for municipalities in how to use an incremental tenure approach to the upgrade of informal settlements.[2]

The official line...

National policy and budget frameworks for informal settlement upgrading

South Africa's policy framework already allows for interim approaches to tenure, and more broadly, for incremental in situ upgrading of informal settlements, in Part 3 of the National Housing Code. In terms of this policy framework, the government has made a deliberate effort to increase resources for expanding the process of informal settlement upgrade and focusing more on this approach:

- In 2009 a national upgrading support programme was established to provide support and assistance to provinces and municipalities to implement the upgrading of informal settlements.
- In 2010, as part of government's adoption of an outcomes-based approach, the national Department of Human Settlements identified certain medium-term targets linked to Outcome 8, Sustainable Human Settlements and an Improved Quality of Household Life. The first of these targets is the upgrading of 400 000 units of accommodation within informal settlements by 2014.
- The 2011/12 national budget announced that the role of metros and major cities in the upgrading of informal settlements will be strengthened over the medium term, through the creation of the new urban settlements development grant. The grant will flow directly to eight municipalities and is intended to give large cities greater flexibility in managing the built environment, so that they can increase the efficiency and speed of delivery of integrated human settlements and improve integrated national, provincial and municipal planning.

These developments are all part of a concerted drive by government to accelerate the delivery of basic services and housing opportunities and improve access to the property market.[1]

THE IMPORTANCE OF TENURE SECURITY

Traditionally there are two main approaches to tenure:

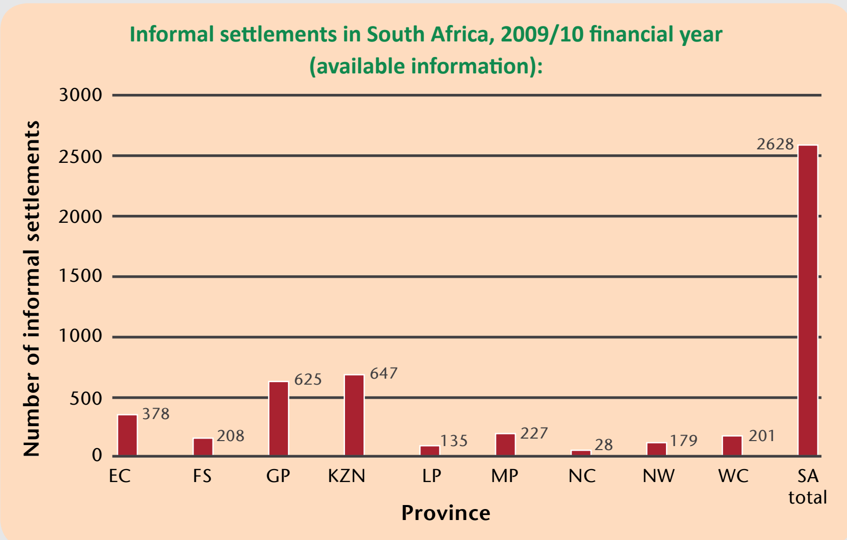
1. **Regularisation and ownership.** This approach emphasises legal tenure regularisation based on individual ownership rights. It is often complex to implement and takes a long time.
2. **Tenure security.** This approach emphasises tenure security rather than ownership. It stresses that tenure security in informal settlements derives from many factors and circumstances. It argues that it is possible to achieve substantial – and often sufficient – tenure security by using mechanisms such as administrative recognition, the provision of basic services, or the issuance of a written document as proof of occupation.

> The national policy drive towards informal settlement upgrading presents a great opportunity for municipalities to adopt an incremental tenure approach which uses administrative and legal mechanisms to increase tenure security in informal settlements.

There are many benefits to legal tenure, but some experts now point out that in many cases 'uncritical' demand for ownership rights can actually increase tenure insecurity rather than promote security of tenure. Ownership can also bring additional costs (e.g. taxation, service charges) which make it difficult for people to remain on the land.

Facts and figures[3]

Informal settlements have continued to be a challenge in South Africa. In 2001 there were 1 066 informal settlements nationally. The numbers of these settlements continue to increase each year in all provinces, and in the 2009/10 financial year there were 2 628 informal settlements recorded (see graph).



Information gathered from the provincial departments indicated that a total number of 1 108 informal settlements were identified for upgrading during the 2009/10 financial year. In November 2010, **out of the 1 108 informal settlements identified for upgrading, only 191 were completed and 335 were in progress.**

Another problem with ownership is that land that was previously occupied by poor people becomes attractive to people with more money available to spend on property. Poor property owners needing ready cash can come under pressure to sell their properties, and then find themselves once more without a legally secure form of housing.

Tenure security, on the other hand, can happen without individual ownership rights to land or housing. Instead it relies on simple administrative and legal mechanisms to protect communities against evictions.

Many of these mechanisms in fact recognise the right of informal settlements to exist, even if they don't officially state this. By providing services, service bills, voter rolls, registers, site plans, street and shack numbering, and identity cards, the local and national government authorities are acknowledging the right of informal settlement dwellers to live in the settlement.

The tenure security approach can take many different forms. In general, this approach starts by finding mechanisms to secure settlement rights for the settlement as a whole, rather than concentrating on individual rights.

Most people who argue in favour of the tenure security approach are not against individual ownership in principle.

But they are against the practice of using the individual title approach in all situations, which is widely advocated in South Africa, arguing that this approach is insensitive to the needs of some poor households.

> The incremental tenure approach does not prefer one form of recognition over another. Rather, it provides routes to achieve administrative and/or legal recognition, individually and in combination, depending on the situation.

Supporters of tenure security also accept that individual ownership does provide households with a higher level of tenure security in most situations, and that it is always better to give households as much legal protection as possible. But they warn that this approach is only a good one if it does not undermine the tenure security of more vulnerable members of informal settlements.

There is a third approach to tenure, which **combines elements of regularisation and tenure security** to improve the circumstances of residents in informal settlements, in a way that is incremental and developmental. This incremental tenure approach is discussed in detail in the next section.

WHAT IS THE INCREMENTAL TENURE APPROACH?

The incremental tenure approach uses administrative recognition mechanisms and legal recognition tools in a range of combinations and sequences, to secure tenure in a way that works best for each specific informal settlement.

This approach begins by securing tenure through administrative mechanisms for the settlement as a whole. Then, in a step-by-step way, using various legal mechanisms, it sets in place the requirements for ownership, where this is possible and desired.

Table 5.1: Comparison of administrative and legal recognition

	ADMINISTRATIVE RECOGNITION	LEGAL RECOGNITION
Main features	• Uses instruments which arise from policies or administrative practices to give residents tenure security. • The arrangements may not have a firm legal basis, but are given security through commitment by authorities in the form of council resolutions or administrative systems.	• Uses a legal procedure in terms of some recognised law to grant legal status to an area. • Usually results in declaring the area in terms of this law (a settlement area, an area zoned for informal housing), which then permits certain other actions to take place legally.
Examples of mechanisms	• Issuing an occupation certificate in recognition of residents' permission to remain in the settlement. • Undertaking shack enumeration and linking it to a list or record. • Agreeing on a block layout with a community and introducing basic services.	• The City of Johannesburg's Amendment Scheme, where the Ordinance declares designated areas as 'Transitional Residential Settlement Areas'. Certain legal conditions become applicable, e.g. land use conditions, basic layout plans, occupation certificates and registers. • 'Early' forms of township establishment, (although no longer available because of issues of constitutionality) also in the past afforded legal recognition to a settlement. Examples of these forms are Chapter 1 of the Less Formal Township Establishment Act, or a Chapter 5 Development Facilitation Act application

Advantages of the incremental tenure approach

From the perspective of urban land and property markets, the main advantage of the incremental tenure approach is that it opens up more officially recognised channels of supply of land and accommodation.

This approach also has a number of other key advantages:

- It is designed so that it connects to the ultimate delivery of individual ownership, but provides for increasing levels of security during the period before this goal is achieved. It therefore helps to provide immediate benefits to communities which are impatient and frustrated with the lack of delivery.
- It provides for different forms of legal and administrative recognition as a way of progressively providing more tenure security.
- It highlights the importance of alternative forms of legal tenure, such as short-term leases, rental and servitudes of use, and makes provision for these forms. It argues that in certain circumstances, such as in very poor locations or unusually good locations, these alternative forms of tenure may be the best instruments to use – even in the long term.
- It allows for flexibility and finding the mix that best suits a particular community and the municipality.
- In the context of budget constraints, an incremental approach allows more people to receive benefits, instead of giving a large, lump-sum subsidy to fewer individuals.
- By legalising informal settlements and getting these households onto the system, the incremental tenure approach enables a municipality to follow up with other investments in the area, including infrastructure spending and social and economic facilities.
- The approach tends to lend itself to greater community engagement and participatory processes.

- There is often conflict over rights and claims to land in informal settlements. The incremental tenure approach has the advantage of moving slowly; this allows boundary disputes, family disagreements, insider/outsider conflicts, and the competing claims of primary occupants and subletters to be resolved using social processes that may take a long time. In contrast, a full subsidy delivered in one step tends to spark serious conflict in the settlement, because of the high stakes involved and the tense environment that may exist there.

THE INCREMENTAL TENURE APPROACH: A STEP-BY-STEP GUIDE

The incremental tenure approach has a preparation step, followed by four implementation steps, as shown in Figure 5.1. This approach covers the period between the initial informal settlement of an area and the delivery of individual legal tenure ownership (through the housing subsidy).

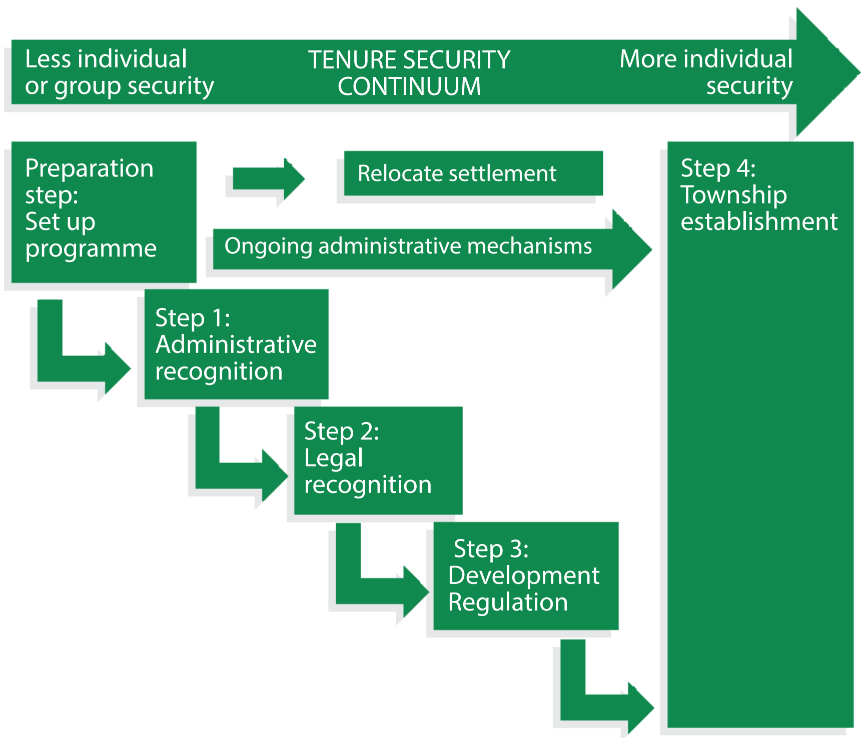
Preparation step: Set up the Informal Settlements Programme

Before a municipality starts to implement the incremental tenure approach, it must go through some important governance and institutional decision-making processes.

Institutionally, the municipality needs to:

- Develop an overall Informal Settlements Programme for all the types of settlement in the municipality.
- Obtain agreement for the programme, including the principles, vision and goals and generalised programme approach, by the Council and all key heads of department.

Figure 5.1: Steps in the incremental tenure approach[4]



- Make sure that the plan is transparent to communities, so that they know when they are likely to receive the benefit of state investment.
- Identify a political and administrative 'champion', to ensure strong accountability of all officials involved in the programme. It is critical to find a clear institutional home (department/unit) for the programme and to obtain commitment to participate from officials, possibly in the form of an inter-departmental committee.

  This institutional home can be the office of the Municipal Manager, the Planning Directorate or the Housing Department, but it must have enough power to bring all departments together and direct their actions within the overall programme.

  This approach is not fundamentally a housing approach, but rather an incremental settlement improvement programme. This means that it need not be located in the Housing Department of the municipality. As many of the interventions relate to urban management, planning and provision of services and facilities, the programme might be best placed in a planning/urban management department or an independent unit that can coordinate all the sector departments.

Step 1: Administrative recognition

In Step 1 a decision is made by a municipality or provincial government to make a significant intervention which will lead to the settlement either being completely or partially relocated (this could be in the near future or in the medium term) or remaining in its current location and being upgraded. This decision signals that there will be no forced evictions, resulting in a stronger sense of tenure security for residents even though the settlement is not yet legally secured.

> National policy, as set out in the Housing Code, is clear that relocation should be limited to exceptional circumstances and only considered as an option of last resort.

A. Gather information

The key activities at this stage of the intervention are aimed at gathering information on the land, the settlement and the residents. This information will be used to categorise the informal settlement, determine the next intervention step and establish the foundation for these interventions. This stage could include investigations into:

- **Physical conditions** (topography, wetlands and other environmental considerations, geology);
- **Planning aspects** (land zoning, land use, surrounding uses, conformity with the spatial development framework).
- **Land legal aspects** (deeds office search, title deeds, land ownership, servitudes, other legal constraints).
- **Infrastructure** (available services, who manages them, bulk connections, capacity required, road infrastructure and public transportation).
- **Residents and social relations** (information on the residents' origins and when they arrived, tenure status, economic status, livelihood strategies, prior commitments and/or engagements with authorities).
- **Existing tenure arrangements and local management practices** (perceptions of security, how informal transactions are done, what is transacted, impact of previous interventions, etc.).

These investigations are all quite different in nature and the information will be gathered in different ways, using different methods and having different sources. The technical information discussed above is relatively straightforward to gather, and the reasons for it are well known. The last two items – residents and social relations, and existing tenure arrangements and local management practices – are especially important for securing tenure on an incremental basis, and are considered in more detail next.

Residents and social relations

The investigation needs to gather information on the following:

- the local / community leadership structures and their origins, their current affiliations, their roles and relationships, where their authority derives from
- social movements active in the settlement
- the history of the settlement and its engagement with the government, and the outcomes of this (e.g. outdated registers, shack numbering, councillor promises, commitments to housing programmes)
- community conflicts or lines of cleavage.

Authority in the community comes from different sources – from the law and bureaucratic responsibility and delegated authority, but also from the local social meaning of land rights, the legitimacy of local structures, local political struggles, and party-political positioning. The relationships between different role-players in the community are important to understand – how they cooperate, come into conflict, or perhaps even work in ignorance of each other.

Tenure arrangements and local management practices

The investigation needs to gather information that can answer these questions:

- *What community processes and practices relating to tenure are being used?* How are land or shacks accessed and transacted, how are decisions made regarding allocation, who decides, what criteria are used?
- *How do community members understand ownership (or 'whose place this is'), and what rights and responsibilities does this confer?* This is important for registering names and, as tenure is incrementally upgraded, for understanding what form of tenure people are moving away from and defining the form of tenure they are moving towards. This is true for residential uses – plots and/or shacks – as well as for community structures such as crèches, or community halls and businesses. How secure or insecure do people feel themselves to be? What form of evidence do people immediately need and for what purposes? (It may be that having an address is more important than having a title deed, or that people want clarity and a piece of paper that protects them from arbitrary eviction, or in the case of a dispute.)
- *Is there a community register?* Who holds it, what evidence do residents use as proof of residence/ occupation, what processes are followed to obtain the form of evidence?
- *How are local transactions or transfers undertaken?* What is transacted (shacks, land), who can decide, with what restrictions, who authorises or approves or gives witness to transactions, and are changes made to the register?
- *What is the nature of property relationships?* Are the primary occupants resident on site, or do they rent out their site access? Are rooms or additional structures being rented? What are the most typical relationships between residents on any one plot?
- *How do people use land in relation to economic activities and livelihood strategies?* What activities are considered illegal, or harmful, and by whom, and which activities will not conform to the law even if land use management is put in place?
- *How are disputes settled in the community?* What structures are involved in conflicts, what recourse do people have, is this internal to the community or external?

The municipality should gather this information by working with community members and local structures. The information gathering could be done either as full in-depth studies, or alternatively a first level of understanding may be gained using rapid, participatory appraisal methods, to be deepened over a longer time. This can take place as community relationships are built, and extend into the next step of the incremental tenure process. In either case, the municipality needs to develop a picture that includes what is happening regarding access, land administration and management processes, the structures and individuals undertaking this, and where their authority to do so comes from.

Some of the social information itemised above can be gathered from discussion with key informants. Other information will come from an enumeration process involving the entire community.

How this information is gathered, who gathers it, and what process is used to do so, needs to be planned by the municipality. The decisions here will depend partly on the particular community and its structures and existing processes, and partly on the route the upgrading project is taking. In principle, though, it is important to work with the existing structures in a cooperative and developmental process, as this is more effective.

Table 5.2 provides an example of a tool that municipalities can use to organise and capture this information — it gives examples of data collected from an informal settlement. This matrix is a relatively simple device that allows an exploration of existing tenure arrangements.

Table 5.2: Example of matrix for collecting social information in informal settlements

Use of land	How and when did the residents or occupiers gain access?	What rights do the residents or occupiers have?	What evidence do the residents or occupiers have of their rights?	What responsibilities do the residents or occupiers have in association with those rights?
Residential	• **2004–2008** *'Open land': People settled where they wanted.* • **2008–now** *Buy or rent a structure or land from resident.*	• *Occupy, demarcate, build structures.* • *Sublet land, structure or part of either.* • *Sell rights above, subject to conditions.* • *Bequeath rights and structure.*	• *Local committee allows people to settle, and allocates a number to the structure.* • *City opened a register in 2006.*	• *Notify the committee about transfers.* • *Seek approval for shack extensions.*
Business	• *Any resident can use their site for small business*	• *Businesses are always at homes – understood as a right to make your livelihood.*	• *Some businesses may have some sort of business card.*	• *Since 2008, need to inform municipality.* • *May need to register with Informal Trading – Law Enforcement.*
Institutional: crèches	*Examples:* • *4 out of 6 built on vacant land with external funding.* • *1 bought land from owners to build.* • *1 built at home of principal.*	*Not very clear – rights might be stemming from registration with Social Development.*	• *Committee registration.* • *Some might have documents from Social Development.*	• *Since 2008 need to inform municipality.* • *Registration with Social Development.*
Institutional: church, community hall	• *Some built on vacant land, others take place in shacks.*	*Unclear*	• *Committee registration.* • *Churches may have specific documents (from religious bodies).*	• *Since 2008 – need to inform municipality. Community leaders responsible for community hall.*

Case study

Enumeration as a grassroots tool for securing tenure in informal settlements: insights from Kisumu, Kenya[5]

Local and national governments in developing countries have begun to give increasing attention to the process called 'grassroots enumeration', which involves people living in informal settlements collecting information about their own community. This form of enumeration is not only a means to collect data to allow for local planning; it is also the process that builds consensus in a community and makes possible the inclusion of all residents.

Enumeration is a means to federate and organise communities and involve them in large-scale slum upgrading projects. This approach started in the 1980s as part of the work of the Indian NGO Society for the Promotion of Area Resource Centres (SPARK), with pavement dwellers in Indian cities. It has grown into an international network of affiliated organisations that make up Shack Dwellers International (SDI).

Enumeration is one component of SDI's method, which also includes mobilising communities through savings and credit groups, house modelling and self-construction of housing, and mapping informal settlements. These different activities all combine to strengthen a community's ability to manage their housing and other needs.

Community-based enumeration was carried out in Kisumu, a 'slum' area of Nairobi, Kenya, from 2005 to 2008 as part of a city-wide slum upgrading initiative. SDI used an approach and a questionnaire developed from their own experience, but they also consulted focus groups in the settlement who made important additions and changes to the questionnaire to suit their own situation. The enumeration process was successful largely because there were already savings groups in the community – these savings groups were a way to mobilise and organise people to carry out the enumeration, and to answer the questionnaire.

The enumeration process raised expectations amongst the people in the settlement who answered the questionnaire. Some residents (particularly landlords) resisted the enumeration, but an unexpected positive outcome was a change in landlord/tenant relations. The process acted as a 'wake-up call' that enabled tenants to claim better living conditions and awakened landlords to business principles – they realised that if they provided better living conditions their own income from rentals would probably increase.

Due to time and resource constraints, one important aspect of the SDI enumeration method was not followed – the information given by residents was not checked by follow-up door-to-door processes. This had a negative result: some people questioned how accurate the information was that residents had given about their situations, and it became difficult to sustain grassroots trust in the process.

B. Agree on a developmental register

Using existing registers as a starting point, the municipality should compile an officially recognised register of structures and households in the community. It should do this in partnership with the community itself — with the purpose and method for creating the register jointly agreed upon.

The important point is that the register is developmental, rather than control-oriented. It can provide information that can be used to improve the area, and support informal land markets operating in the area and make them more transparent, rather than trying to simply control numbers and create 'insiders' and 'outsiders', which can create conflict in the community.

As part of this step, it is important to:

- use existing community registers;
- name the settlement and get it onto the municipal GIS or land information system (i.e. cadastral definition of the property);
- prepare a base map or site plan, based on an aerial photograph. This is a depiction of what is already there, and no planning is necessary at this stage. The base map/site plan is a spatial record of what exists, and forms the base for future planning and management of the area. Local mapping should be combined with formal maps of the area.

C. Provide households with an acknowledgement of occupation

Each household should receive a document acknowledging that they occupy their dwelling. The municipality can do this by linking the registration process discussed in Step 1B above to a list or record of occupants. The register of occupants should, in turn, be linked to the municipal land information or other administration systems. A developmental approach links the data of the structures and households to the spatial base plan.

In some cases, a municipality may choose to issue an occupation permit to residents. This should be seen as an administrative mechanism that increases tenure security by recognising occupation. It should not substitute for a position on a housing subsidy waiting list, or be communicated as a promise of a formal house. At this stage, the underlying land is either owned by the municipality or there is a land agreement between the municipality and the private land owner. It is therefore not possible for the municipality to undertake legal recognition at this stage. However, recognising occupation and setting out the roles and responsibilities of each party is a developmental step in the incremental process of tenure upgrading.

D. Categorise the informal settlement and take a decision on relocation

Based on the information gathered in Steps 1A and 1B, the municipality should be able to take a decision on (full or partial) relocation of the settlement. It should also be able to decide on how to intervene to increase tenure security in the settlement, and what components of the incremental tenure approach are likely to be most applicable.

Things to consider: The principle of community engagement

The principle of community engagement is extremely important in decision-making related to relocation. The municipality needs to form partnerships with community organisations, and use structured processes and institutions to communicate information and plans for changes in the settlement. This will help to ensure that communities understand the reasons behind any relocation decision, and how the relocation will affect them. Working with the community like this can help to reduce their need to express their frustration and to protest in other ways.

E. Formulate an incremental tenure plan for each settlement, based on information gathered

The detailed plan for each settlement should be based on work done in Steps 1A–D: it should bring together all the factual information collected about the present situation in the settlement, and use the strategies and implementation programme agreed on for the proposed interventions. This incremental tenure plan should be drawn up in consultation with the community, and be approved by the municipality.

Case study

Formulating an appropriate approach to tenure: an example from Cambodia[6]

In May 2003, the prime minister of Cambodia announced a plan to upgrade 100 settlements per year in Phnom Penh for the next five years. But this plan posed a danger that, if there were no clear criteria for determining which settlements should be upgraded and which should be relocated, the local authorities might take pre-emptive action to remove some settlements, while other settlements would be selected for upgrading according to political considerations rather than because of the needs of residents and the conditions in the settlement.

The government's first proposal was therefore to provide all households in informal settlements with a temporary occupation licence similar to that used for informal businesses in Kenya (see the case study on temporary occupation licences in Nairobi, discussed in Chapter 7). However, they realised that the administrative burden of identifying eligible families and issuing them all with temporary occupation licences would be too great. They therefore proposed that the **authorities announce a moratorium on relocations and evictions for a provisional period of six months.** They hoped that this would give people living in a settlement enough security to allow them to go to work in the morning knowing that their homes and possessions would still be there when they returned.

The authorities could then use the six-month period to agree on criteria for deciding which settlements could be regularised and upgraded on a long-term basis, and to identify sites to which families could relocate if this was necessary. Finally, longer-term tenure options could then be introduced at the end of the moratorium period.

Case study

Lowering infrastructure service costs in Cotonou, Benin[7]

One of the best ways to lower the costs of network infrastructure services is in the 'last mile' (the connection from the trunk line to the consumer), through partnerships that often link formal and informal service providers, at different geographical levels and relying on different technologies.

In Cotonou, Benin, for example, the Programme for Sanitation and Protection of the Environment has built successful partnerships integrating informal participants into the city's delivery of services to unserviced and outlying settlements. These informal service providers offer garbage collection, recycling, and an improved water distribution system organised and facilitated by the Partnership for Municipal Development.

F. Provide emergency services

The provision of emergency services is a Constitutional obligation, and the municipality should provide water standpipes and basic sanitation. The incremental tenure approach also advocates a basic refuse removal service, and possibly some grading of roadways/paths with basic storm water channelling. These services will improve health and safety in the settlement.

Case study

Creating participatory and integrated microfinance systems: PRODEL in Nicaragua[8]

For a decade the Local Development Programme (PRODEL) has assisted low-income people in eight cities and towns of Nicaragua in an integrated approach to local development. Projects include basic infrastructure (e.g. installation of sewerage and drainage systems, paved roads), social infrastructure (footpaths, street lighting, schools, playgrounds, sporting facilities), as well as small loans to households for home improvements (for plumbing, kitchen improvements, roof repairs) and the addition of rooms.

PRODEL takes a particular approach to delivering social infrastructure projects which emphasises community engagement and decision-making. It is not an implementing agency – it supplies funds to local institutions and builds their capacity. Community participation is a prerequisite: communities collaborate with local authorities in identifying, executing, and maintaining the infrastructure and services installed. The municipal councils are required to allocate resources to social infrastructure investment.

Micro-planning workshops allow community representatives to work with municipal staff to develop draft proposals, which are discussed at general assemblies. An elected project administrative committee reviews the project design, supervises the use of resources, and manages building materials, equipment and labour during the project execution. This committee also takes an active part in the financial and technical audit once the project is completed. Community participation and administration keep down costs, allowing scarce resources to reach more communities.

Several lessons have been learned from this programme:

- Concrete alliances based on tangible plans work better than community demands that are often unrealistic in terms of what authorities can deliver.
- Limited resources go farther and are used more efficiently when improvement programmes are developed through negotiations between communities and external agencies.
- Programmes need to work with existing local institutions, since these institutions are closest to the demands and the needs of users and can develop a participatory engagement with them.
- It is possible to reduce the influence of political change on programmes if clear rules are set for the use of external resources channelled through the government. There is a need to recognise the different interests of those involved (the bank's need to meet the costs of loan supervision, the municipality's need to obtain co-financing for maintenance) and to ensure that these needs are met.
- Programmes must avoid creating unrealistic expectations among external agencies about what community participation can do. Community participation needs to be supported, to provide families with new options, capacities and skills in identifying problems, planning projects, and managing finances.
- Municipal officers need to be given training and helped to develop methods that enable them to support community participation in programmes.
- Technical and financial advice is most effective at a scale that makes it possible for local communities to be fully involved in the process of planning and implementing a programme.

Step 2: Legal recognition

For settlements that will not be relocated and are able to be upgraded in situ, it is appropriate for the municipality to proceed to Step 2. In this step, the municipality provides blanket legal recognition to the settlement. In order for the status of the informal settlement to change from illegal to legal, the area must be acknowledged in legal terms by initiating township establishment through rezoning the area or using a Town Planning Scheme instrument.

Legal recognition is important because it allows for incremental improvements in tenure security,

Case study

Linking group titling to increased community ownership in Kenya[9]

Individual titling is costly and time-consuming for low-income groups, as it involves full surveying and registration. A better approach is to use group registration, blocks, and some form of individualised lease rights managed by community groups together with local authorities.

An example from Kenya is the **community land trust**. The basic principles of the trust are as follows:

- Land is kept under one title held by trustees.
- Community efforts are targeted at mobilising resources, acquiring land, obtaining official permits, and getting the government and municipalities to provide infrastructure.
- Land acquisition costs are reduced by doing away with title surveys for individual plots.
- Communities are encouraged to create governance structures that allow full participation in settlement affairs.

Allowing individual members to hold leases from a group title makes it possible for the community to control transfers and discourage speculation. The community land trusts are run by local organisations, within a policy framework established by the Ministry of Local Government in a consultative process.

Case study

Tenure security and services in Colombia[10]

Governments often believe that formal tenure systems are essential for controlling access to public services. However, in Colombia, legislation permits all citizens to receive services such as water supply, sanitation, electricity, storm drainage, garbage collection, telephone and gas supplies. The only condition is that they must prove that they live in their homes and can pay for the services provided.

A range of intermediate tenure systems such as 'Declarations of Possession', 'buying and selling rights for future use' and 'communal tenancy' all provide stepping stones with increasing rights and levels of protection from eviction, enabling poor households to obtain secure housing at affordable costs.

infrastructure services, land use planning and regulation and integration into municipal administrative systems.

There are other advantages to legal recognition:

- It immediately makes the settlement legal, removing its illegal status so that residents and their activities are no longer criminalised. Residents can now invest in their properties without fear of repercussions such as forced removals, changes in political leadership and other insecurities that might result if the settlement was only under an administrative regime.
- It allows municipalities to begin to undertake developmental (as opposed to control-orientated) management of the settlement. Without legal recognition the municipality would be contravening many of its own legal provisions (such as town planning schemes and by-laws). Once legal recognition is in place, services can be upgraded from the level of emergency services, and this will provide greater security and health and safety for residents.
- It immediately increases tenure security because it brings the settlement into a regulatory framework where land use and tenure can be effectively managed.
- It can put the settlement on a path towards township establishment, which can then be fast-tracked as many of the steps in this process would already have been undertaken during the process of legal recognition.

Based on the information obtained in Step 1, and the decision that the settlement will not be relocated, the municipality or provincial government now needs to take a decision on which legal route to use to establish legal recognition of the settlement.

There are a number of ways of going about legal recognition. As shown in Table 5.3, each approach has advantages and disadvantages which the municipality will want to consider in deciding on its choice of action. It is important to note, however, that some options that were previously available have now expired due to constitutionality issues (as in the case of the Development Facilitation Act). New land use management legislation will need to provide further equivalent legal routes.

Table 5.3: Comparison of possible routes to achieve legal recognition

POSSIBLE ROUTE TO ACHIEVE LEGAL RECOGNITION	ADVANTAGES	DISADVANTAGES
Designation of Transitional Residential Settlement Areas in terms of Amendment Scheme: The municipality can incorporate an Amendment Scheme provision into the town planning scheme applicable in the informal settlement. This allows the settlement to be listed as an informal settlement area, provides a definition of such an area and sets out conditions for management. This is the regularisation route taken by the City of Johannesburg.	• Area is designated and given legal recognition upfront. • Quick and easy process for a municipality to undertake. • Provides a set of management rules which are legally enforceable. • Makes provision for certificates and a local register – these would be administrative tools and use administrative procedures rather than registers and procedures in terms of the Deeds Registry Act. • Applies to land with any type of zoning. • Does not require an Environmental Impact Assessment or township establishment. • Allows improved service beyond basic levels of service.	• Only applicable in certain settlements, not an overarching approach. • Does not necessarily involve community consultation in the designation process. • Seen as an interim measure, and settlements will still need to go to township establishment in term of the Ordinance to achieve ownership. • May be perceived as a ‘lesser’ option and thus politically unacceptable. • Tenure is not legally defensible. • Area must be in a town planning scheme area or get incorporated into one. • This is more a planning instrument, and needs buy-in from municipal housing department.
Rezoning in terms of a TPS: The municipality can rezone the settlement as an informal settlement area in terms of a town planning scheme. Some ordinances and town planning schemes make provision for such a zone. Normal rezoning procedures would need to be followed.	• Locally controlled mechanism (but may require provincial approval in some municipalities). • Provides legal framework for early recognition. • Introduces strong land use management and regulation.	• Need to have such a zone in the TPS already, which the municipality may not have. • May still need to do township establishment when conferring ownership. • Will need capacity to manage and enforce land use.

Step 3: Developmental regulation

In Step 2 the settlement as a whole achieved legal status. It now has additional tenure security, and a legal framework has been set up which allows a number of government interventions and investments to follow.

Step 3 involves the ongoing developmental regulation and improvement of the settlement. This includes:

- Increasing tenure rights including, for example, trading and inheritance rights.
- Providing more formal tenure options (such as leases).
- Providing ways to give residents physical addresses.

During this phase, the Department of Human Settlements can set up systems and institutions for land use management, building control and housing improvements. Services can also be upgraded during this phase because it is now legal to provide them; municipalities can now invest in and budget for these services.

The informal settlement may already have the benefit of a number of administrative interventions. It is therefore important for these Step 3 activities to build on the existing systems, and not to introduce new, duplicating and confusing systems.

Case study

An innovative example of 'planned' informal settlements in Peru[11]

In 1971, the government of Peru Villa El Salvador wanted to create a new set of 'planned' informal settlements on the periphery of the city. What made this example innovative is that the standards adopted by the government treated these settlements as functional neighbourhoods in the city, rather than treating them as a slum. Each block had its core space set aside for elementary schooling, a clinic and space for sports, and each block was surrounded by a road designed to be a major thoroughfare.

Just as important was the fact that the plan emerged from a dialogue between the communities and the state, so that the standards imposed were appropriate and the community bought into the plan – so much so that a space of land allocated to an industrial park was guarded by the community against squatter invasion for fifteen years, until the vision they had had of the industrial area could be realised.

Villa El Salvador shows that it is possible to impose a set of development standards based on public participation, which allow for an orderly layout and effective integration of public facilities into informal settlements.

Overall plan

Example of a superblock

Specific government activities during Step 3 include:

- **Preparing a basic layout plan** (if no plan has been prepared before), or a more detailed layout plan, in consultation with the community.
- **Identifying individual** (or block) boundaries with residents (this is part of the layout plan exercise).
- **Providing infrastructure services to a higher level** than basic services. Once there is cadastral definition of the settlement, it is possible to supply electricity points to the boundaries and develop a reticulation system internally with the community.
- **Community consultation on forms of tenure** (based on the tenure plan formulated in Step 1E) and how to manage them. This can include leases, servitudes of use or permits.
- **Introducing land administration systems** to record and update claims and rights through registers, and including this information in the municipality's administrative systems (if this hasn't already been done in Step 1).
- **Creating addresses for residents**. This is possible now that the structures have been registered, a layout plan is in place and a record or register has been compiled. These addresses should be indicated on the layout plan and on the leases or permits for each household, or the existence of each address can be confirmed by issuing a services bill or account from the municipality.
- **Introducing land use management**, in the form of a 'mini' town planning scheme that sets out the agreed responsibilities of both the municipality and residents about the use of their plots, land uses in the whole settlement, contraventions and procedures for changing uses and erecting structures (building controls).

Forms of tenure provided in Step 3

Different forms of tenure may be appropriate at this stage in the process:

- A (short-term) lease.
- A servitude of use (used like a common law 'contract' between the municipality and the identified plotholder that need not be registered).
- A longer-term unregistered lease.
- Continuing with the municipal or provincially issued occupancy permit, but updating it to include additional 'rights' such as succession/bequeathing, subletting, etc.
- A municipal services account.

The form that the municipality chooses will depend on which route to legal recognition it took in Step 2.

The Amendment Scheme and rezoning approaches are interim measures, and the municipality or province may not want to provide anything more than temporary occupation rights, until township establishment proceeds. If an administrative form of tenure was given in Step 1, such as a letter of occupation or an occupation certificate, the municipality may not want to deviate from this and introduce a new form.

In all situations, the municipality may use contracts of some kind, tailored to deal with tenure security concerns in the settlement.

Contents of land rights contracted in Step 3

The contents of the rights that are being granted to a settlement will be influenced by the nature of the form of tenure. For example, a (short-term) lease arrangement does not allow the occupier to sell the land or occupation right. The same limitation applies if rental is in the form of tenure. However, many specific rights and responsibilities can be written into the appropriate contract document, to suit the situation.

Some examples of contents of rights in Step 3 are:

- The right to occupy land owned by the municipality or province.
- The right to build a temporary structure on the land for own use.
- The right to use the land that is occupied, including productive uses such as home-based enterprises.
- The right to let or sublet the land or part of it, or to let or sublet the structure or part of it.
- The right to have occupation protected.
- The right to bequeath the structure, and occupation rights to it to a successor on death.
- The right to have access to basic or higher levels of services.
- The right to have access to social services.
- The right to sell the variety of rights referred to above, subject to conditions.

It is crucial that any rights accorded by the municipality can be officially administered and protected. For example, the municipality should only make available the right to sell a structure if there are municipal administration systems to record and keep track of changes or transfers.

Things to consider: Setting up a local land office

As part of the management of the settlement during Step 3, it may be sensible for the municipality to set up a local land office in the informal settlement, if this has not already been done at an earlier stage in the process. This may be permanent, temporary or a mobile structure. The local land office can play many important functions relating to settlement and tenure management, including:

- developing an understanding of the power relations underpinning the tenure arrangements in place in particular informal settlements (this knowledge will be one of the inputs to the Tenure Plan)
- being the place where the spatial maps and registers for the settlement are kept
- being a meeting place for the community and the municipality
- developing, together with the community, a system for recording and updating local records of occupation, rights and transactions
- actively managing changes to the records
- ensuring that certain data components of the local register are fed into central city-wide data recording processes
- actively updating and managing the process of adding information on changes to the central data system
- overseeing the debates around tenure as upgrading proceeds
- continuing to serve as a link between local processes and centralised data systems, even after ownership has been delivered to the settlement
- playing a role in community witnessing of tenure, and resolving tenure disputes.

In terms of land use management, there should be an interactive relationship between centralised planning and land use management processes and local decision-making processes.

Local land offices, together with the local community, can make land use decisions in terms of a mandate agreed on at the central level.

Moving on from Step 3

In Step 3 residents have some form of tenure evidence, there are rules in place for tenure and land use changes, and there are infrastructure and social service commitments. A settlement may remain in this Step 3 status, or it may proceed to township establishment (Step 4).

It is also possible that only parts (blocks) of the settlement may proceed along the path to township establishment, by becoming registered so that residents are able to obtain ownership. To become established townships, these parts of the settlement must proceed to Step 4.

Step 4: Township establishment

Step 4 of the incremental tenure approach involves township establishment for the settlement, and the award of individual ownership to beneficiaries on the opening of township registers. These processes may already have been started during Step 3.

If residents choose ownership as their preferred tenure option, then a township register must be opened at the Deeds Office to enable title deed registration. If a housing subsidy is allocated for upgrading the settlement, then this title deed registration will be a requirement.

A SUMMARY OF THE INCREMENTAL TENURE APPROACH

The traditional approach to tenure is to view it only in its legal form, for example as a title deed. In the incremental tenure approach, the legal form of tenure which is most commonly thought of – a title deed – is only the end point. A great many other initiatives and interventions can provide households in informal settlements with greater tenure security before the municipality reaches the point of being able to issue title deeds. For example, assigning street addresses or installing basic infrastructure have the positive effect of providing households living in informal settlements with greater assurance that they will be able to remain where they are.

Table 5.4 provides a summary of the various forms of tenure that are used in the different approaches. It shows that, in each of the three stages or approaches to tenure security – administrative recognition, legal recognition and township establishment – the components of informal settlement upgrading (e.g. plot identification, recording of occupants, service provision) take different forms.

Table 5.4: Incremental steps towards tenure

TENURE MECHANISM	ADMINISTRATIVE RECOGNITION	LEGAL RECOGNITION	TOWNSHIP ESTABLISHMENT
Plot identification	Basic site plan – no individual plot boundaries, perhaps neighbourhood blocks, main roads. Based on aerial photographs and community verification.	Detailed layout plan: individual plot boundaries, all roads, sites for facilities and plots identified.	Approved layout plan with pegged sites which informs the General Plan that gets approved.
Recording of occupants	List (database) of occupants, dependants, linked to a shack number with or without a single GPS point reference.	Full register of all occupants, dependants, linked to a property description, tenant relationships, next of kin.	A township as per the Deeds Registry Act.
Tenure evidence	Letter of occupation certificate/ card acknowledging occupation.	Simple lease with municipality/ province. Simple servitude of use. A municipal bill could serve as a contract.	Title deed Lease Long lease
Land use management	Basic health and safety rules. Can be indicated on letter of occupation.	Through the Amendment Scheme (see table 3 in step 3), rezoning, or rules or conditions for managing land use in the settlement.	Town Planning Scheme zoning and title deed conditions.
Service provision	Basic communal level of service (LOS1).	Planned, upgraded services, individual connections (LOS 2-3).	Highest level of services as per township establishment conditions.

Take home points

- With greater tenure security, residents of informal settlements will be able to benefit from increased levels of service, and will also have better access to microfinance and economic opportunities.
- The incremental tenure approach looks at how municipalities can make improvements in informal settlements during the period between settlement formation and housing subsidy allocation.
- The approach lends itself to greater community engagement and participatory processes in its implementation.
- The approach also emphasises practical mechanisms that allow land rights to be upgraded over time in an incremental manner. It combines administrative recognition mechanisms with legal recognition tools to secure tenure.
- For communities who have embarked on an incremental path to adequate housing opportunities, it remains extremely important that government sustains its commitment all the way through the process.

- **For more on other forms of tenure security and informal housing, see Chapter 6.**
- **For more on land use management, see Chapter 3.**

NOTES

1 2011/12 National Estimate of Expenditure.
2 This chapter is based on the Urban LandMark report by Dan Smit and Gemey Abrahams, Incrementally securing tenure: an approach for informal settlement upgrading in South Africa (April 2010).
3 Adapted from Select Committee on Public Services (National Chamber of Provinces) (2010) Department of Human Settlements Annual Report and Financial Statements for 2009/2010, 2 November 2010.
4 Adapted from the Urban LandMark report by Dan Smit and Gemey Abrahams, Incrementally securing tenure: an approach for informal settlement upgrading in South Africa (April 2010).
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STRENGTHENING SMALL-SCALE PRIVATE RENTAL

Facts and figures

Case study

Things to consider

Relevant principles

- Recognise that inaction also has an impact
- Know the market
- Adopt an enabling role
- Manage direct interventions to minimise market distortions
- Accept incrementalism
- Acknowledge and build upon existing innovative and resourceful solutions of the poor

Interventions beyond the control of local government

HOW DOES SMALL-SCALE RENTAL FIT INTO THE SOUTH AFRICAN HOUSING SECTOR?

Small-scale private rental is an important sub-sector of the informal housing market. Sometimes referred to as 'backyard rental', this sector has often been overlooked in South Africa's human settlements policy. Some policies refer to it, but they don't deal with it directly. As a result, settlement policies don't recognise that small-scale private rental can be a good way to deliver affordable rental accommodation on a large scale.

> In South Africa and in countries around the world, people have always built shacks or more formal structures separate from the main dwelling on a plot, and this has been an important way to provide affordable, flexible rental accommodation.

Some backyard units offer sub-standard accommodation, but many small-scale rental units do meet minimum acceptable accommodation standards. The accommodation may be of lesser quality than the main dwelling, but still offer a better level of service than people living in shacks in informal settlements experience. More than half of all small-scale rental stock is formally constructed,[1] and meets basic international norms and standards in relation to space required per person.[2]

Surveys have shown that most small-scale rental units in existing townships and suburbs offer secure tenure, and most units have access to all basic services on-site. Informal tenure (that is, an arrangement that isn't recorded in a formal lease) is not the same thing as insecure tenure. Sometimes the tenure security of small-scale rental occupants is unclear, but there is evidence to show that a well regulated tenure system exists: this can be seen from the length of time renters stay in small-scale rental units, and their perceptions of their tenure security in these units.

The small-scale rental sub-sector is one of the most successful and efficient accommodation delivery systems in South Africa, and it exists all over the country. It receives no direct state support, and at times it contravenes a policy framework that is hostile to it. Municipalities need to recognise this reality, and change their approach to small-scale rental. They need to see that this sub-sector of the rental market is big and efficient enough to make a major contribution to increasing the supply of rental stock for low-income households.

The government is beginning to consider ways to address the needs of tenants in backyard and other small-scale rental units, through programmes to improve services and expand supply, particularly in cities where backyarders have successfully mobilised and made their voices heard to municipal officials and politicians. Alternative government approaches are beginning to be used which view backyard rental as a positive and vital component of the housing delivery system, as opposed to a blight to be eradicated.

Facts and figures

- 2.4 million South African households rent their primary accommodation.
- 850 000 households (35% of the total) occupy small-scale rental units.
- Approximately 10% of all South African households live in small-scale rental units.
- 53% of all small-scale rental units are formally constructed (houses, flats or rooms).
- 47% of small-scale rental units are shacks.
- The number of houses, flats and rooms being built on existing properties grew at a rate of 83% between 2002 and 2006.[4]

This chapter offers some fresh perspectives and ways of thinking about small-scale rental that encourage municipalities to take a new approach to this form of housing.[3]

The chapter sets out an approach that municipalities can take, on their own and with other spheres of government, to increase the rate and scale of delivery of affordable, acceptable rental accommodation in suburbs and townships. The approach described here involves supporting the activities of private landlords, for whom small-scale rental is an important source of economic benefits.

WHAT IS 'SMALL-SCALE PRIVATE RENTAL'?

The term 'small-scale private rental' (usually referred to as 'small-scale rental') covers different types of housing units built by a private landlord for rental to one or a few households. For example, the owners of the main dwelling on a plot may erect rooms attached to their house, or a structure in the front or side yard, and rent it out. Or a landlord may own a small building, on a different plot of land, which contains dwelling units for one or a few households.

Small-scale rental has these common elements:

1. First, it is generally a small-scale activity, seldom with more than five units per property (although some areas have much higher densities).
2. Second, it is produced on privately held land.
3. Third, the rental units are built (or bought) and managed by private individuals.
4. Fourth, the accommodation is rented to separate households through private rental agreement.[5] These agreements may be either written or verbal.

This definition of small-scale rental **excludes rental of units in informal settlements**, unless tenure in such settlements is being formalised. If a settlement is in the process of tenure regularisation or upgrading (see Chapter 5), the rental units in the settlement can be classed as small-scale rental, as defined in this chapter. This definition also excludes corporate and publicly owned accommodation such as social housing, private sector company rental housing, inner city multiple-unit, multiple-storey accommodation, and hostels.

There are many different types of small-scale rental. The following elements of the rental units may vary:

- The size of the structure (varying from small single rooms to large, multiple-room dwellings).
- The construction materials and methods (ranging from informal or impermanent materials through to formal standard construction methods).
- Standards of accommodation (the units may not meet any recognised accommodation standards, or they may comply with accommodation standards fully or partially).
- The number of units per stand (ranging from a single unit per stand to multiple units on a plot).

WHAT GOOD ASPECTS OF SMALL-SCALE RENTAL CAN MUNICIPALITIES BUILD ON?

The small-scale rental delivery system provides a certain type of housing which meets a specific demand in the market, and is not provided by other housing systems available in the city. It also has the potential to produce other benefits for households and for the city as a whole.

Small-scale rental is the preferred housing type for certain urban residents

Of all the households that are part of the 'housing backlog' in the municipality:

- About one-third are single-person households
- About one-third are two-member households
- The remaining third are households of three or more members.

Some of these small households may exist only because they had to split off from a bigger household due to the lack of adequate accommodation. But many smaller households come into being because of normal demographic trends. They include singles such as unmarried people, students, widows and widowers and temporary migrants, and two-member household units including young couples, couples without children, same-sex partners and single parents.

These households may not qualify for government-subsidised housing under the current national housing programme, or the housing options available from government may not fit their needs.

Small-scale rental is not always a forced, undesirable accommodation option that people only turn to because they can't find what they really want. In many cases it is the most sensible, effective accommodation choice for a household. Households choose this option for different reasons:

- They may prefer rental over ownership.
- They may only need small living spaces (such as single people and small households).
- They may not want to (or be able to afford to) pay large sums of money for accommodation.
- They may be more interested in living in a specific location than in having a big dwelling.

Even when there is the option of receiving a fully subsidised house, a proportion of all households in any society will still consistently choose small-scale rental as their preferred type of accommodation.

Small-scale rental provides a steady income stream for landlords who are often unemployed or poor

Small-scale rental offers steady income generation potential for the owner or landlord. The average rental in informal small-scale rental dwellings in 2006 was R147 per month, and in formal dwellings, R291. As with all housing markets, rentals vary according to the area where the dwelling is located, and according to its size, nature and level of finish.

> Any government programme to support landlords to provide small-scale rental is also an enterprise creation strategy.

Generally in the small-scale rental market, landlords have lower incomes than tenants.[4] Many landlords are marginalised members of society, such as the unemployed or under-employed and the aged. Furthermore, women-headed households are the main suppliers of small-scale rental.

International experience has shown that landlords choose to rent out rooms for a number of reasons and may be motivated by other reasons than profit maximisation. For example, rental can serve:

- As a 'safety net' against unreliable employment
- To pay for household expenditure
- To cover the cost of housing improvements
- As a regular source of income when moving from waged employment to independent business activity with no steady income
- As a capital investment and to invest in other business developments
- As a form of pension after retirement and old age
- As an investment for the next generation.[5]

Looked at in this way, it is a sensible poverty reduction strategy for government to help potential small-scale rental landlords to become owners of an on-site, long-term capital asset (the housing unit itself) that will grow in value over time, and that instantly generates an ongoing source of revenue. For instance, a R15 000 investment in a well located formal unit can earn a starting rental of R500 per month.[6] Rentals generally increase over time, although the increases may not be inflation-linked. This works out to a return on investment of about 40%. It takes about 2.5 years for the landlord to earn back the initial investment he or she made in the rental unit. After this time, the rental unit becomes a source of regular income for the landlord's household.

Small-scale rental can be a cost-effective means to deliver affordable, decent rental accommodation on a large scale

South African municipalities face many problems in supplying housing to urban residents:

- An enormous housing backlog
- A scarcity of well located land, and the fact that this land, if available, is very expensive
- Government budget constraints which limit what can be spent on construction costs.

The only viable way for a municipality to deal with the housing needs of its poorer residents is to form partnerships with private suppliers and to use alternative approaches that can address these needs. Small-scale rental offers one such approach: it is a potential short-cut to the provision of acceptable accommodation when compared to other delivery systems such as informal settlement upgrading or greenfields development, and can be seen as a 'quick win' delivery system that could rapidly produce affordable, appropriate, acceptable and desirable accommodation.

For example, if the owners of every freestanding house in well located areas add one dwelling to their plot for rental, this will create a massive boost in available stock and make a sizable dent in the housing backlog.

Small-scale rental supports government's aims to densify and promote a more compact, efficient form for cities

Increasing the amount of small-scale rental available can result in other economic benefits for the government. Many people choose small-scale rental over other housing options because they want to be in a convenient location, near to opportunities and amenities in the city. If the municipality facilitates small-scale rental in established neighbourhoods close to the city centre, it is actually using private land to provide low-income housing opportunities in more

Case study

An innovative tenure system in Anticretico, Bolivia[7]

An innovative tenure system has been developed in Bolivia to deal with the need to put the existing housing stock to full use, and also increase access to housing for those in need. It is called an 'anticretico', or 'against a normal credit', and involves a legally binding contract in which the owner receives a lump sum (in dollars) from the occupant of the house in return for the right to use the property, normally for a period of two years.

At the end of the contract period, the owner returns the full amount deposited by the property occupier. For the owner this is an effective way of raising capital sums without incurring high interest rates from the banks. For the user, it is an effective way of living at low cost if he or she is able to raise the initial deposit. 'Anticretico' tenure also encourages people to maintain the property, because there is a possibility for them to buy it when the contract period expires.

The system enjoys widespread social acceptance, but it is only successful when both the owner and the occupant fulfil their obligations. Recent government attempts to formalise the system and use it as a source of government revenue (by applying a transfer tax) have made the approach more bureaucratic and expensive for both parties involved.

central, desirable locations. This is a way to densify the city and optimise land use.

Because small-scale rental uses existing serviced properties, this reduces the municipality's total investment needed in new serviced land. Densification also improves the municipality's return on investments (such as savings on transport infrastructure and transport subsidies).

Densified urban areas are more likely to take on a mixed use profile (where business and residential activities happen side-by-side), as the increased number of residents provides growing markets for other goods and services, as well as a more socially and economically integrated pattern. They also have an overall lower impact on the environment.

At the level of a total settlement, accommodating additional households in small-scale rental would cost the municipality much less in per household and per capita infrastructure costs than housing them in stand-alone accommodation.

Things to avoid in designing state interventions to support or improve small scale rental

Internationally, the two most common government strategy responses to small-scale rental are:

- Eradication or removal ('slum clearance')
- Upgrading or improvement of existing accommodation.

Policies that aim to improve the small-scale rental market must be carefully designed to avoid damaging the existing market, which balances supply and demand well – this balance could be easily destabilised by changes introduced by various role-players such as the government.

Things to consider: Bulk infrastructure requirements

A common criticism of small-scale rental is that it places too much pressure on neighbourhood infrastructure networks, which aren't able to cope with the pressures imposed by these additional households.

There are neighbourhoods where this problem exists (especially some older settlements with high small-scale rental densities). But other neighbourhoods do have excess infrastructure capacity. This problem is generally over-stated, because people think only of the extreme cases of backyard development such as Alexandra and Orlando East in Soweto, where densities of up to 17 rooms per stand are recorded. For example, if 50% of stands were to have one additional small-scale rental unit, and given that average occupancy in these units is about one-third that of the main house, (e.g. two people in the rental unit versus six people in the main house), the total water and sewerage infrastructure capacity increases would only be about 17%.

The costs of increasing infrastructure capacity don't increase capital costs in the same proportion, due to the high ratio of fixed costs of infrastructure installations. The municipality can also deal with the issue of increasing capacity by doing better up-front settlement planning to provide for densification opportunities (see pages 87-89 of this chapter).

As with any urban settlement programme, policy makers must consider what it means to displace people who are already housed in the targeted area. Interventions that reduce the number of housing units in the market, or make them affordable to a different group of people from their present occupants, will lead to displacement of house-holds.

And, if there is no alternative, equally affordable accommodation available, this will be against South Africa's Constitutional principles.

A government small-scale rental strategy should not deal directly with de-densifying, improving or gentrifying standards in existing areas, because this will interfere in the fragile existing small-scale rental sub-sector.

The likely outcome of such a strategy would be to upset the intricate supply-and-demand patterns, leading in turn to, at best, displacement of the poorest and most vulnerable households into poorer conditions, and at worst, loss of accommodation opportunities, however meagre these may initially appear to be.

> Given the existing benefits and potential positive outcomes of small-scale rental, the key challenge for the government is to encourage and support the supply of affordable rental accommodation that small-scale rental offers, while at the same time a) ensuring basic standards and levels of service are met, and b) not creating negative side-effects in the urban land and housing markets.

Therefore, if the government tries to intervene in the small-scale rental market to improve the level of service of existing small-scale rental units, it must be extremely careful not to intervene too much, for fear of doing more harm than good.

Small-scale rental is therefore a good example of the principle that government should avoid intervening in the market if it's not necessary.

This type of rental housing has become widely available as a natural response by the informal market to people's need for affordable, well

Things to consider: Gentrification is not the main threat to tenants

Some housing experts argue that, because higher standards make project areas more attractive, this leads to a demand from the better-off households who can afford to enter the upgraded settlement. Current tenants can become victims in this process if an increase in rent forces them to leave their rented home and look for other housing. For example, in Kenya, when formal systems of financing residential development were introduced into Mombasa's low-income settlements, the result was absentee landlordism, escalating rents, and the 'invasion' of low-income settlements by higher-income groups.

However gentrification is not something that automatically happens in upgrading situations. For example, in Pakistan, in most cases informal neighbourhood consolidation does not lead to displacement. This may be because there are cultural and quality barriers that make these low-income neighbourhoods unattractive to middle-income households, or because there is resistance to moving among the original inhabitants (or both). In general, there is only a danger of gentrification where the location of an upgraded settlement is particularly attractive to higher-income groups. **The problem that most often occurs when a settlement is upgraded is that the officials directing the upgrading programme are insufficiently aware of the presence and needs of current tenants. This underlines the importance of two key principles: understanding the market and being committed to community engagement.**[8]

located rental opportunities. It is also a response to local government's failure to enforce zoning regulations.

Government should focus on ensuring that there is an adequate standard of accommodation, and facilitate existing suppliers of rental units, but should not intervene directly as a supplier of small-scale rental housing when the private sector is already playing this role.

A MUNICIPAL STRATEGY FOR DEALING WITH SMALL-SCALE RENTAL

For all the reasons discussed in the first part of this chapter, it is important for municipalities and other government spheres to facilitate small-scale rental as a form of private rental housing provision.

The strategy proposed here has two prongs:

- Proceed carefully when improving existing small-scale rental.
- Focus instead on facilitating an increase in the supply of new small-scale rental units.

First, municipalities need to recognise, accept and proactively support the existing small-scale rental sector as an important component of South Africa's total human settlement system. A municipality planning to upgrade settlements must recognise that any direct intervention to improve conditions will lead to displacement of low-income households into more vulnerable accommodation circumstances.

Secondly, municipalities must acknowledge the role of the small-scale rental sector in meeting future accommodation needs by developing supportive policy frameworks for the creation of new rental housing by private individuals. These policy frameworks should support and facilitate the production of more and better small-scale rental options, and should avoid implementing policies that try to change the existing small-scale rental market.

Case study

Backyard Rental programme, Gauteng[9]

The Background Rental programme provided an Affordable Rental Accommodation Grant to qualifying landlords to repair or rebuild backyard accommodation. The Department of Human Settlements had first right of refusal should the landlord wish to sell the property, but the beneficiary was required to stay in the property for five years before selling. No further shacks could be built in the backyard. The relationship between landlord and tenant would be regulated in terms of the Rental Housing Act of 1999 as amended. Should the landlord cancel the lease, he or she would be obliged to enter into another lease agreement with a tenant relocated from another property.

While a substantial number of units (over 800) were delivered through this scheme, it has had a number of limitations:

- In many cases those living in the backyards were family.
- Backyard upgrade encouraged landlords to raise the rents and poorer tenants were displaced.
- Agreements between landlords and tenants remained verbal.
- Some landlords converted their upgraded rooms to business premises.
- Tenants organised themselves into a Backyard Dwellers Association to motivate backyarders in other areas to reject the scheme.
- The upgrade requirements reduced the number of rentable rooms per plot, which the landlords found problematic, contributed to displacement of households from the area, and led to further increases in rent.
- Services and infrastructure could not cope with the densification (pre-or post-upgrade).

What practical steps can a municipality take to facilitate the increase in small-scale rental?

Municipalities have a range of policy, planning and regulatory mechanisms that they can use to facilitate the growth of the small-scale rental sector. Some simple actions and changes can go a long way to facilitating small-scale rental. Working across departments and disciplines, engineers, town planners, project managers, legal professionals and housing officials can all play their part in encouraging and supporting small-scale rental.

Plot-level design

The **availability of surplus space on existing titled sites** within existing proclaimed urban areas is a critical precondition for the growth of small-scale rental.

At the level of plot design, housing officials can ensure that plot layouts include the placement of the main dwelling flush at the back or front of the plot. This allows the occupants to make better use of the yard space by the primary and secondary households. Even if the owners cannot afford or do not want to erect a second structure immediately, appropriate plot design can ensure that this option is there in the future.

Most importantly, the municipality must consider the requirements for stimulating small-scale rental from the initial stages of settlement planning and urban design.

This means it must adopt a more multidisciplinary approach to planning, including close liaison between planners, urban designers and engineers.

Access to on-site services

A further precondition is **access to on-site infrastructure such as sanitation, water and electricity** for occupants of the second dwelling. In certain cases external access to services already exists. In many old apartheid townships and some older subsidy housing developments, the provision of services accessible from outside the house itself facilitates the sharing of services by a secondary dwelling unit.

Where there is no external access, it may be necessary to install a second or additional service connections for water and sewerage. Minimal initial investments by the municipality in external access to key services (toilet, water, electrification) can lessen costs and ensure better service levels for those living in the second dwelling.

Zoning

Home owners who want to erect a room to rent on their plots may face lengthy bureaucratic processes which make the investment impractical or unaffordable. Town Planning Schemes and by-laws can therefore be used as facilitative instruments for small-scale rental.

Municipalities may instigate the proactive rezoning of areas identified for regeneration or densification at no cost to the land owners. This is another potential mechanism to leverage and encourage intensive and mixed use development of inner City land.

The municipality can remove some of the bureaucratic obstacles through changes to various municipal controls in areas where it wants to support the increase of small-scale rental units by:

- **providing blanket approval** for second (and subsequent dwellings) and/or for the subdivision of properties;
- **granting general rights** for densification under conventional planning systems (e.g. Residential 2-zonings);
- **introducing corridor and densification zone development incentives** (these are included in most metropolitan development plans, following on from the National Spatial Development Strategy).

Bulk infrastructure design and delivery

The municipality's larger human settlements development plan and sector plans must **include bulk and link infrastructure capacity** to cater for envisaged densification. Additional upfront infrastructure capacity may increase capital costs to developments, but the municipality must weigh this up against the per capita or per household costs of infrastructure provision, as well as other economic benefits related to densification.

Plans can incorporate thinking and planning for small-scale rental from the outset.

An incremental approach to housing developments

A serviced land investment approach (either as a serviced site scheme, a phased development or an upgrading programme) provides more opportunity for owners and occupants to engage in debate over the location and design of the original dwelling. Where formal houses are to be built later in the process, often the initial dwelling (such as a shack in an upgraded informal settlement) is used for occupancy by the primary household until the formal house is constructed, and then this shack or room enters the rental market.

Municipalities that adopt an incremental approach to human settlements will do more to encourage small-scale rental than those that choose a conventional turn-key development approach.

Small-scale rental supply chain management

Home owners who want to make improvements or additions to their property to provide small-scale rental must invest time and money in a number of necessary processes before they can even start building: getting rezoning approval, producing building plans and costings, obtaining building plan approvals and organising municipal inspections.

Along these lines, there are various programmes in South Africa linked to microfinance that facilitate the purchase of materials and their delivery on-site, as well as relationships with building contractors.[13]

Things to consider: Extensions to houses should be encouraged

Adding rooms to an existing house is comparatively inexpensive – it can cost as little as half the price of new building, as no new land is required and at least some of the structure is already in place. Yet, because planning regulations on maximum use of plots often discourage extensions, occupants of relatively well built and well located housing may be discouraged from supplying rooms for rent which they can well afford to build.[10]

Case study

Phased development: Gauteng's Mayibuye programme[11]

Gauteng Province's Mayibuye programme consisted of a three-phase development of subsidy houses: land first, then services installation, then house construction. This programme had the unintended positive outcome that almost every beneficiary initially invested in a basic structure, and once the subsidy house was built, these initial structures became rental units. This resulted in a large number of rental opportunities in the settlement, potentially doubling the number of households accommodated in the area.

Municipalities can work with the private sector and NGOs to help provide:

- Standardised and customised plans
- Cost-benefit analyses of different small-scale rental options
- Landlord and tenant rights and responsibilities training
- Building materials procurement approaches
- Access to a network of approved contractors.
- If the municipality can facilitate access to contractors and/or building material suppliers to fulfil the requirements landlords must meet before they start improving their properties, this can lessen the burden on the individual home owner and thus encourage more home owners to make the investment in small-scale rental.

Things to consider: Rental Tribunals

Another potential intervention to improve the tenure security of tenants in small-scale rental units is to open up Rental Tribunals as a means of recourse and dispute resolution for tenants in conflict with their landlords, or when they need protection. Rental Tribunals are operating in some provinces, including the Western Cape and Gauteng, and are intended to assist tenant-landlord relations and mediate disputes in formal rental situations. Expanding their mandate to include small-scale rental, or assisting small-scale rental tenants to formalise their rental agreements so that they fall within the jurisdiction of the Rental Tribunal, are two options that municipalities can consider.

Interventions beyond the control of local government

Local government has influence and control over many aspects of the housing process that can encourage and facilitate small-scale rental provision. But there are additional – potentially more powerful –interventions that fall under the jurisdiction of national and provincial government. Municipalities can take an active role in working with other spheres of government to initiate and push for cooperative action on these fronts, in an advocacy and partnership role. Three possible initiatives are discussed here:

- Using housing microfinance to provide funds for private rental construction
- The review of minimum accommodation standards
- The piloting of a subsidy to incentivise landlords to provide small-scale rental.

Use housing microfinance (HMF) for small-scale rental provision

For many home owners, the main obstacle to providing small-scale rental is a lack of access to finance for the construction of the second dwelling or improvements in services. Where landlords build accommodation, they use either informal or formal materials. Where the tenant constructs small-scale rental accommodation, he or she always uses informal materials. In both cases, obtaining the necessary funds or materials is often a problem.

Housing microfinance (HMF) has tremendous potential to stimulate the production of small-scale rental units in existing areas. **Major opportunities exist for mobilising microfinance as a tool to expand housing production, especially in the small-scale rental sector.**[12] Municipalities need to explore the available HMF options in their region, and initiate processes in which HMF institutions and private landlords can come together to discuss financing the construction of small-scale units for rent.

Municipalities can facilitate the provision of small-scale rental by setting up or supporting programmes that give people access to financial institutions interested in lending for this type of activity.

Revise minimum accommodation standards

The current minimum accommodation standards in South Africa were developed over fifteen years ago, and the country's housing needs have changed in important ways since then.

National norms and standards for accommodation must be set to meet basic per-person needs in respect of space, services, light, health and safety, rather than as requirements for an 'average' 4.6-member household, as is currently the case. This will make them more appropriate to the approximately 66% of households in informal settlement and small-scale rental that comprise one or two members only.

The longer current minimum standards are maintained, the more there will be a 'bad fit' between subsidised housing being delivered and the real households requiring accommodation.

Local and national government will need to review the current minimum accommodation standards, and acknowledge that the majority of people seeking accommodation now are living in smaller households that may not need to be built according to the existing standards. The review should be based on UN-Habitat and other international human settlement standards, in order to find the appropriate standards to be used in South Africa.

Houses of specified minimum standards and size do not necessarily create sustainable settlements. Sustainability revolves around diversity of unit sizes, spatial standards and tenure.

Pilot a small-scale rental incentive subsidy scheme

A key constraint in the small-scale rental market is that market rentals may not cover the costs to landlords of money they must borrow to build well constructed units. This means that landlords have to rely on their savings, on incremental building methods and on the erection of basic, informal units to make the investment returns necessary.

A **small-scale rental incentive subsidy scheme** can address this problem. The subsidy could take the form of a fixed-cost contribution to cover basic (hidden) costs associated with the construction of small-scale rental units. The unit itself would still be constructed using the landlord's own sources of capital (savings or finance).

The grant can be used either to facilitate the development of an on-site small-scale rental unit or units, or to cover the costs of subdivision and servicing of existing sites for on-selling to private individuals. Construction can be undertaken by an accredited contractor. This grant would cover some of the same elements that are currently covered by local governments in the production of Breaking New Ground (BNG) houses using the National Housing Subsidy Scheme (NHSS) (i.e. land identification, regularisation, survey, titling and service installation). Specifically it could cover the following elements:

- Site survey and location of small-scale rental structure/s on-site
- Production of standard building plans and bills of quantities

- Municipal plan approval and inspection
- Internal infrastructure installation and connection to mains supplies – i.e. sewer connection, water connection with prepaid meter (Basic Infrastructure Grants are not implemented in these areas), electricity connection and prepaid electricity meter.

This incentive should be made available in designated zones or pilot project areas where the municipality wants to create densification, and infrastructure capacity is adequate. Households would apply for assistance, and successful applicants would be approved for a small-scale rental/Densification Incentive Grant. Preconditions of grant approval would be that the household has proof of secured financing (savings, mortgage or small loan) to cover the full costs of construction of one or two small-scale rental unit/s, either with or without cession of rental to repay the loan.

By covering certain basic underlying costs which come with the construction of a small-scale rental unit, an incentive scheme run by the municipality could ensure that the landlord-builder meets certain stipulated service and structure standards. This could be done without affecting the lower (informal, fully private) sector of the market which affordably accommodates the most vulnerable households.

Case study

A housing loan programme for community networks in Thailand[13]

In 1992 the government of Thailand set up the Urban Community Development Office (UCDO) to address urban poverty. The government provided UCDO with a capital base of about US$50 million to allow it to make loans to organised communities for a range of activities relating to housing and income generation.

Initially, loans were available to community-based savings and loan groups for income generation, revolving funds, housing improvement, and other housing-related costs (such as allowing communities threatened with eviction to purchase slum land or land elsewhere and develop housing there). Any community could receive these loans, provided it could show the capacity to manage savings and loans. Loans could be used to respond to the particular needs of each group.

Through this loan programme, UCDO developed links with a wide range of community organisations, savings groups, NGOs and government organisations. Loans had much lower interest rates than those of the other sources that poor households could turn to, although they were high enough to sustain the initial fund and cover administrative costs.

As the savings groups became larger and more numerous, UCDO found it more difficult to provide them with sufficient support. This difficulty in scaling up encouraged UCDO to link individual savings groups into networks or federations; loans could then be provided to these networks, which on-lent to their member organisations. The emergence of large-scale community networking brought immense change to community-led development processes in general and to UCDO in particular, and it increasingly became the means through which funds were made available to low-income groups.

Take home points

- Small-scale rental can be a significant provider of affordable, decent, intermediate rental accommodation in South Africa. It offers an opportunity to policy makers to harness and facilitate this private delivery system in order to rapidly increase the rate and scale at which affordable rental accommodation is provided.
- In addition to providing a housing benefit, small-scale rental simultaneously meets a wide range of urban development objectives, including: densification, utilisation of existing human settlement investments, encouraging private sector activities and enhancing the growth of capital in housing areas.
- The framework presented in the introductory chapter of this guide makes it clear that the proliferation of small-scale rental is a natural outcome of urbanisation and housing pressures. Small-scale (backyard) rental has been allowed to emerge because municipalities have not enforced land use regulations. Given the scarcity of desirable residential rental space close to economic opportunities, transport and other amenities, existing home owners have become private developers of units in their own backyards.
- This chapter shows that the appropriate intervention for municipalities that want to increase the supply of small-scale rental is not to enter the market themselves by providing land, constructing small-scale rental units, or acting as small-scale rental landlords. Instead,these municipalities, and other spheres of government, can take the practical steps suggested in the chapter, which offer ways to act as a facilitator in the capital and development segments of the market. By doing so, local and national government spheres can help to increase the supply of small-scale rental space, and municipalities can play a decisive role in supporting small-scale rental as a necessary and viable housing sub-market.

- **For more on informal settlements and tenure options, see Chapter 4.**
- **For more on zoning and land use management, see Chapter 3.**

NOTES

1 Social Housing Foundation (2008) Supply and demand of rental accommodation in South Africa. Compiled by SHF and Eighty20. Quoted in Gardner, D. (2010) Small-scale private rental: a strategy for increasing supply in South Africa, paper commissioned by Urban LandMark.
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USING PROPERTY RATES TO IMPROVE AFFORDABILITY

The official line…

Case study

Things to consider

Relevant principles

- Give due regard to pro-poor objectives
- Balance pro-poor objectives with growth and revenue aims
- Acknowledge local government's room to manoeuvre

Interventions beyond the control of local government

Chapters 5 and 6 of this guide focus on residents in informal settlements and people living in backyards. Moving along the continuum of informality towards more formal housing, this chapter looks at how municipalities can use rates policies to help low-income home owners, including beneficiaries of subsidised housing.[1]

Zoning regulations and rates policies can impact on the property market by influencing land use decisions, property values and affordability. As a result, the stock of available land and low-income housing is affected, and poor households may find it more difficult to move up the housing ladder from backyards or informal settlements to formal housing and/or more secure forms of tenure.

Municipalities rely heavily on property rates as a source of income. Municipal rates policies can also provide direct tax relief to poor home owners to help them maintain or improve their foothold in the formal housing market.

Direct tax relief schemes can be carefully designed to support the poor without seriously threatening the municipality's vital revenue stream.

Towards this end, the Municipal Property Rates Act (MPRA) calls on municipalities to consider the impact of rates on poor households, and national government offers guidelines to municipalities on how local government can use rebates, exemptions and other tools to ease the burden on vulnerable groups.

The official line...

Pro-poor objectives in the MPRA

The Municipal Property Rates Act (MPRA) contains an explicit mandate for municipalities to provide relief for the poor in their rates policies. Rates policies are foremost an instrument created through the MPRA to provide a policy framework at municipal level within which a transparent and fair system of rating, exemptions, reductions and rebates can be implemented.

However, the MPRA explicitly incorporates a pro-poor objective alongside its fiscal goals; Section 3(3)f of the Act states that municipalities must 'take into account the effect of rates on the poor and include appropriate measures to alleviate the rates burden on them'. Municipalities may consider applying exemptions, rebates and reductions for vulnerable groups, including indigent property owners, social grant recipients and property owners who are unemployed or temporarily without income.

The Act's intention is for municipal rates policies to target tax relief for indigents and avoid overburdening the poor with rates liabilities. Some specific measures are built into the MPRA for this purpose:

- Section 17(1)g bars municipalities from levying rates on land reform beneficiaries or their heirs for a ten-year period from when their title was registered.
- Section 26(3) says that municipalities may apply tax deferral to indigents.
- In the past, municipalities often provided a residential rebate set at various levels. The MPRA mandates a R15 000 exclusion for residential properties which relieves the poorest home owners of any rates burden.

The official line...

MPRA guidelines on rebates and exemptions for vulnerable groups

Section 15(2) of the MPRA states that for purposes of granting exemptions, rebates and reductions to owners of categories of properties, such categories may include the following:

- indigent owners
- owners dependent on pensions or social grants for their livelihood
- owners temporarily without income
- owners of property situated within an area affected by a disaster within the meaning of the Disaster Management Act (2002), or any other serious adverse social or economic conditions
- owners of residential properties with a market value lower than an amount determined by the municipality
- owners of agricultural properties who are bona fide farmers.

From the perspective of the Department of Cooperative Governance (DCOG), the Act only permits the national department to influence the residential exclusion amount which is stipulated in the Act. Given that a living wage differs from city to city and municipalities are thus more able to define a 'poor' household in their jurisdiction, the Act leaves it to municipalities to decide on pro-poor rebates and exclusions, according to local circumstances.

However, the DCOG MPRA guidelines do recommend to municipalities that they exempt property owners who are recipients of an old age or disability grant, as well as owners who are not grant recipients but have an income equal to or less than the grant amount.

The Act also recommends that residential property owners who are unemployed (in the formal or informal economy) and without other sources of income, or are temporarily without income, should be exempted from rating during the relevant municipal financial years.

The burden to provide proof of circumstances rests on the property owner, but the Act advises municipalities to take special care in addressing the needs of those who cannot read or write.

HOW DO MUNICIPAL RATES POLICIES IMPACT ON THE POOR AND THEIR ACCESS TO URBAN LAND MARKETS?

In South African cities, the municipal account (which includes property rates as well as user charges for services) is usually less than 15% of monthly household income.[2] However, the tariff bills for water and electricity are generally a bigger burden on low-income households than property rates. Water and electricity tariffs are also likely to have higher annual increases than rates.

Very poor households living in informal settlements and backyard shacks are not affected directly by municipal accounts, because of the indigent policies and the residential exclusion – these measures exempt owners of residential property under a certain value from paying any property rates. And obviously, much wealthier households spend a much smaller percentage of their household income on the municipal account than poorer households.

As a result, the group most negatively affected by property rates and service charges are lower-income households. Their income disqualifies them from benefits provided to those on the indigent register, and their property values may exceed the residential exclusion.

An unaffordable property rates account can have the following effects on poor property owners:

- It can cause eviction or downward movement on the housing ladder.
- It can stop households from moving up the housing ladder due to fears of being unable to pay rates in the future.
- It can simply reduce disposable income available for other household necessities.

To address this problem, the MPRA requires municipalities to target indigents in their jurisdiction and monitor the affordability of municipal rates for poor households, in order to ensure that they are not overburdened with rates liabilities.[3]

Rates rebates, exemptions and reductions are targeted at vulnerable groups for the purpose of eliminating or relieving their rates liability. However the impact of this direct property rates tax relief on poverty reduction is quite limited, due to the simple fact that only very few poor people are property owners.

Yet, for households seeking ownership and for poor households who do own property (primarily subsidy housing and old government housing stock which has been transferred), municipal rates policies can increase affordability of ownership if they are well designed.

MUNICIPALITIES NEED TO BALANCE REVENUE ENHANCEMENT AND THEIR PRO-POOR MANDATE

Property rates are a critical source of income for municipalities. They are the third-highest source of municipal revenue. Service charges and inter-governmental transfers are the largest and second-largest contributors to municipal operating budgets, respectively. In 2007/08 rates made up 18.1% of total municipal revenue, service charges made up 41.6% and intergovernmental transfers made up 22.4%.[4]

Municipalities need to grow their rates bases. But this imperative must be balanced against the municipality's developmental role, and its need to protect the poor from an unaffordable rates burden.

Two direct tax relief instruments

There are two main direct tax relief instruments available to the municipality to alleviate the impact of property rates on the poor:

- **The residential exclusion:** this is probably the most important instrument in the municipal rates policy for providing direct relief to the poor.
- **Targeted rebates and exemptions:** this instrument provides relief to specific groups of households within the municipality.

Both these direct tax relief instruments entail revenue foregone for the municipality.[5] This revenue foregone is not significant in comparison to total rates revenue, because of the low ability to pay of these vulnerable groups and the lower value of properties in this band.

However, tax rebates and exemptions also incur administration costs associated with identification and verification of eligible households. For example, special rebates and exemptions for certain vulnerable groups, such as child-headed households, are a well-meaning and progressive tax relief instrument, but they may incur heavy costs to identify eligible households, and to verify a means test if this test is used to apply the rebate.

The total cost to the municipality of implementing the tax relief measure is therefore the cash revenue foregone plus the administrative costs and staff time to chase arrears, verify documentation and conduct public awareness campaigns to increase uptake of this relief measure.

So the key question is whether measures used by municipalities to target tax relief to the poor are:

1. Effective in reaching the right households
2. Cost-efficient in implementation, when also considering administrative costs.

A PROPOSED APPROACH: USE RESIDENTIAL EXCLUSION AS THE PRIMARY TOOL TO ASSIST POOR HOUSEHOLDS

From the discussion in the previous section, it is clear that effective direct property tax relief measures must:

1. Be narrowly targeted to the poor
2. Reach a majority of the eligible population
3. Be cost-effective from the perspective of the municipality, which must weigh revenue foregone and administration costs against the benefits to poor households of the tax relief measures.

There is thus a need to balance these three factors in designing direct property rates relief mechanisms for the poor. The following basic approach is proposed to achieve this:

- Use the residential exclusion as the primary direct tax relief instrument, as it is one of the most effective and least costly mechanisms (from an administration perspective) for targeting the poor for rates relief.
- Supplement the safety net with income-based rebates and other specific measures to reach particularly vulnerable groups.

Setting the residential exclusion level to maximise its impact on the poor

Section 17(1)(h) of the MPRA mandates a minimum R15 000 residential property exclusion. Some municipalities simply adopted the R15 000 minimum stipulated in the MPRA, while other municipalities have higher, more generous thresholds. A number of municipalities raise this limit to as much as R150 000.

Are government-subsidised houses covered by the exclusion?

At the time when the MPRA was drafted, this R15 000 exclusion level was chosen to reflect the perceived average market value of a government-subsidised house. However since then, the amount of the subsidy has increased significantly as the specifications for the standard subsidised house have improved. Inflation has also devalued the original amount.

The link between the required residential exclusion and the value of a government-subsidised house is a natural and logical one: in order for government poverty reduction policies to be consistent, a housing beneficiary who is poor enough to qualify for a free house (R1 500 monthly income)[6] should not subsequently be defined as not poor enough to qualify for rates exemption. At the time when the MPRA was drafted, the government's intention was to periodically update the R15 000 amount to keep pace with the value of the subsidy house.

In short, this means:

- The mandated R15 000 residential exclusion has not kept pace with the input costs of a government-subsidised house, or with the estimated re-sale price of a government-subsided house through formal or informal transactions.
- The wide variation in residential exclusion thresholds (from R15 000 to R150 000) means that government-subsidised beneficiaries in some municipalities are liable for rates while beneficiaries in neighbouring municipalities may be exempt from rates.

Targeting and administration of the residential exclusion

The important advantage of the residential exclusion as a pro-poor mechanism is that it is automatically carried out within the municipal administration between the valuation roll and the billing system.

Residents need not approach the municipality to apply, and no additional documentation is required to determine eligibility beyond the valuation roll itself.

A disadvantage of the residential exclusion is that it is applied in a blanket way, because of this automatic process. This means that high-income households can also benefit from the exclusion. The residential exclusion provides the same maximum benefit to all households – poor and non-poor.

What is the revenue foregone due to the residential exclusion?

The revenue foregone due to the residential exclusion depends on three things:

- The total value of the properties which fall under the residential exclusion
- The collection rate in this band
- The residential rate.

It is worth noting that in many municipalities, those properties which are entirely exempt from property rates due to the R15 000 threshold are a very small portion of the total properties on the roll and the total value of the roll. Hence the revenue foregone due to the residential exclusion is a very small percentage of the total rates revenue.

Also, low collection rates may mean that actual revenue foregone is substantially smaller than the theoretical revenue foregone.

The municipality's ability to calculate collection rates of different property value bands is therefore a critical part of determining the residential exclusion amount. The municipal accounts section must set up systems to regularly share this information with their colleagues in the rates section, as they model and determine the residential exclusion rate each year.

> Some municipalities limit themselves to the minimum in rebates and exemptions, while others apply more generous and innovative rebates.

Setting the residential exclusion

When municipalities set the residential exclusion threshold annually, they must carefully consider collection rates and the number and rand value of the potentially eligible properties:

- If the residential exclusion threshold is set too high, then more non-poor ratepayers become eligible for benefits which are intended for the poor, leading to errors of inclusion.
- If the residential exclusion threshold is set too low, then greater numbers of households may fall into debt. The municipality must then weigh the higher administrative costs of attempting to collect bad debts against the actual revenue foregone if that category of property owners is instead given a blanket exemption from rates. Lower collection rates imply higher administrative costs and less rates income.

Things to consider: Questions when setting the exclusion level

The following are questions municipalities should consider when setting the residential exclusion level:

1. Will beneficiaries of government-subsidised houses be covered?
   - What is the value of subsidy houses which are on the municipal valuation roll, both new developments and old ones?
2. What is estimated revenue foregone at the proposed threshold?
   - What is the historical collection rate for properties which fall within the proposed threshold?
   - What is the total value of the properties which fall within the proposed threshold?

REBATES AND EXEMPTIONS FOR VULNERABLE GROUPS

The MPRA sets a minimum amount of R15 000 for the residential exclusion. But it also provides municipalities with the freedom to determine rebates and exemptions for vulnerable groups as they see fit. This section offers options and suggestions of measures which municipalities can use to provide rebates to vulnerable categories of property owners:

- Senior citizens
- Persons with disabilities
- Indigent persons
- Child-headed households.

Options for providing direct tax relief:

1. Rebates to senior citizens and property owners who are recipients of old age or disability grants

Offer sliding-scale rebates

Municipalities can offer a rebate of between 10% and 100% applicable to senior citizens and property owners who are recipients of old age or disability grants with incomes below a certain threshold.

The number of levels of available rebates can vary. The more blocks or categories of income are identified in the sliding scale, the more nuanced and sophisticated the rebate system is in targeting relief.

However, improved targeting means increased complexity in administration of multiple tiers of rebates, and this incurs more expense for the municipality. From a tax simplicity perspective, it is therefore better to have one or two basic levels of rebates.

Link rates relief to the Old Age Grant

Municipalities can link rates relief to twice the amount of the Old Age Grant.

This approach is fairly common. Its advantage is that it is well aligned with other aspects of government's poverty reduction policy.

Supplement the means test with a limit on the value of the property

Municipalities can combine the means test with a limit that they set on the value of property eligible for a rebate.

For example, a municipality may add a requirement for recipients of the old age rebate that pensioners with property whose value is above a certain threshold are not eligible for the rebate.

Offer a reduction in the taxable property value

Municipalities can set an exemption level for tax on the value of the property.

For example, pensioners and disability grantees may be exempted from paying rates on the first R400 000

Case study

South African examples of exemptions for child-headed households[7]

- Mangaung provides a full exemption for child-headed households with properties valued at less than R100 000. To qualify, the household must not have an income exceeding R3 000/month.
- Ekurhuleni's policy is less stringent and applies to all child-headed households with an income less than R2 020/month.
- eThekwini has a particularly generous policy which lifts the residential exclusion to R400 000 for child-headed households. Furthermore, there is no limit on the value of property in order to apply for this reduction/rebate.

of their property's value. The municipality may also choose to install a limit on the total value of the property in order for property owners to be eligible.

The advantage of this approach is that it eliminates the need for means testing and income verification. A disadvantage is that it is based on the assumption that property values are an accurate indicator of the property owner's income.

2. Direct tax relief to poor and indigent persons

Provide full exemptions to persons on the indigent register

Most municipalities already fully exempt persons on the indigent register from property rates.

However some municipalities go further, and also include exemptions for persons with monthly income below a certain threshold, or with property below a certain value.

Use a multi-dimensional poverty index to allocate direct tax relief

Johannesburg has developed an innovative approach for targeting rates and tariffs relief for the poor through its Social Package Policy.[8] Instead of targeting subsidies to households with income below a certain threshold, individuals are given a score on a poverty index which takes into account other factors than income, including access to services.

Individuals are then grouped into one of three bands, depending on their poverty score, with a differentiated comprehensive subsidy package available to each band. The subsidies are applied on an additive per-person basis, with a maximum cap per band applicable for each household. The differentiation between individuals improves the efficiency of the subsidy, allowing more relief to be given to those who need it more.

Case study

South African examples of innovative tax rebates to stimulate job creation and incentivise services for workers on farms[10]

Mangaung Municipality has incorporated progressive measures into its rates policies which give incentives to farmers to provide services and infrastructure to farm workers. The municipality rates farm property at R0.00034, a ratio of 1:0.06 to the residential rate. An additional 10% rebate is available as follows:

- 2.5% for the provision of accommodation in a permanent structure to farm workers and their dependants
- 2.5% if these residential properties are provided with potable water
- 2.5% if the farmer electrifies these residential properties
- 2.5% for the provision of land for burial to the farmer's own farm workers, or for educational or recreational purposes for own farm workers as well as people from surrounding farms.

Buffalo City Municipality offers a rebate to bona fide farmers who own agricultural property and who can demonstrate that they create employment and provide services to workers. To access the rebate, farmers must supply information on:

- Their contribution to local employment and job creation (i.e. the number of permanent staff employed)
- The extent to which permanent residential properties are provided for permanent staff
- The extent to which such properties are provided with potable water
- The extent to which such properties are provided with electricity
- The extent to which land and buildings are made available to farm workers for cemeteries, education and recreational purpose.

Those property owners who are not pensioners, but whose income falls below the threshold set for the Expanded Social Package, receive a rebate dependent on their points rating (a maximum rebate of 75% according to the policy).[9]

3. Target relief to child-headed households

Some municipalities provide special relief for child-headed households as a progressive mechanism to provide support to vulnerable children, many of whom have been orphaned by HIV and AIDS.

In some municipalities, eligible households must provide written documentation of their situation from a registered social worker. As a result of these administrative requirements, as well as low public awareness, these well intentioned tax rebate programmes often have extremely low take-up rates.

For such a programme to be effective, the municipality must have effective human resource capacity in its social development department to ensure social workers are knowledgeable and trained in the available tax relief scheme, so that they can fill out the necessary paperwork on behalf of eligible households. It also requires close cooperation between the finance and social development sections of the municipality, as well as with other spheres of government and relevant public and private agencies (e.g. NGOs involved in the children's sector and the South African Social Security Agency (SASSA)).

TAX REBATES TO STIMULATE JOB CREATION AND INCENTIVISE SERVICES FOR WORKERS

In accordance with Section 15(2) of the MPRA, municipalities may also try to reward farmers who contribute to employment creation and/or provide on-site services and infrastructure to workers. A municipality may offer rebates – typically up to 10% – to farmers who show evidence that they have provided their workers with accommodation, potable water, electricity, and land and buildings for education or recreation. Such rebates are not common, and it's not clear how much they actually stimulate the provision of these services by employers, rather than just rewarding those employers who are already providing such services.

The difficulty with these rebates offered for properties – often in remote areas – is how to verify a farmer's eligibility for the rebate. Municipalities usually require farmers to provide their SARS tax certificate confirming their status as a farmer in order to qualify for the rebate. Given the limited capacity of municipal rates departments to send inspectors to check the facilities provided on various farms, the municipalities are essentially agreeing to accept the farmer's word.

Thus, while these tax relief measures are admirable in their pro-poor intention, in practice it is difficult for municipalities to verify who is eligible. The accuracy of this relief instrument in targeting employers often depends largely on the employers' self-regulation in reporting what they have done.

COMPARING DIRECT PROPERTY TAX RELIEF INSTRUMENTS

Each year, municipalities must consider the trade-offs between the different direct tax relief instruments they have available, when they are developing the pro-poor aspects of their rates policy.

Furthermore, to ensure consistency in municipal policy, they need to ensure that there is a link between the definition of the poor in their rates policy and in the indigent/Free Basic Services (FBS) policy.

Table 7.1 is a tool that municipalities can use to help them compare the positives and negatives of the different direct tax relief instruments, from the municipality's perspective.

Table 7.1: Comparison of direct property tax relief instruments[11]

DIRECT PROPERTY TAX RELIEF INSTRUMENT	SELECT MUNICIPAL EXAMPLES (2008/09)	BENEFITS	COSTS OR DOWNSIDES
Rebate based on monthly income (means test) – single or multiple blocks or income bands (A variation of the means-tested rebate is to add a further condition tied to property value e.g. the rebate is not available to those with property exceeding a certain value.)	**Cape Town:** Senior citizens and disabled persons receive 10% –100% rebate based on monthly income (R8 000 or below) – 9 tiers **Buffalo City Municipality:** Senior citizen ratepayers with monthly income of R2 020 or less receive 40% rebate.	• Improved targeting of vulnerable group (reduces errors of inclusion). • In the case of multiple blocks, a sliding scale increases accuracy of targeting.	• Revenue foregone. • Low coverage/take-up due to requirement that residents come forward to apply. • Financial and institutional costs related to administrative burden of: ◦ verifying documentation to test eligibility ◦ conducting public awareness campaigns to increase take-up rate ◦ providing customer service to facilitate application process for residents ◦ administering different rebates for multiple income bands.
Exemption on rateable property for vulnerable groups	**eThekwini:** Pensioners and disabled persons are exempt from paying rates on first R400 000 of residential property value. **Mangaung:** Child-headed households are exempt for properties with value up to R100 000.	• Means test not required. • Easier to administer than a percentage rebate.	• Same as above. • Less accurate targeting of benefit: provides same maximum benefit to all, regardless of income.
Residential exclusion for all ratepayers	**eThekwini:** Rates are not levied on first R120 000 of value of residential property.	• Low administrative costs (exclusion is automatically applied to rates accounts).	• Revenue foregone (from property valued under and over the exclusion threshold). • Applied to everyone: potential errors of inclusion (e.g. high-income property owners living in low-value houses). • Assumes property value as a proxy indicator for income (this problem is rectified if this measure is combined with a means test).

MEASURES TO IMPROVE ACCESS AND TARGETING OF PRO-POOR RATES REBATES

At present, a large number of eligible poor people are not accessing available property tax rebates. The main difficulty is that the rebate process puts the onus on the ratepayer to access the benefit. Often residents must go to the nearest municipal office to apply for the rebate on an annual basis. Applicants must provide documentation of their income, for example a bank statement or recent payslips.

A further problem is that a large number of eligible households are probably unaware that the rebate is available, or how to apply for it. Municipalities cannot simply rely on their indigent register as a source of names of property owners who would be eligible for rebates because the registers are often outdated and incomplete.

Municipalities can increase the rebate take-up rate for households by:

- Reducing the application burden on eligible households
- Increasing public awareness of the programme by publicising who is eligible and how to apply.

In order to make their tax rebate programme for the poor more effective, municipalities need to focus on ways to increase the take-up rate by eligible households.

Some practical suggestions for improving targeting and take-up of property tax rebates

- Undertake public education programmes to raise awareness of the rebate programme and increase take-up by eligible consumers.
- Enlist councillors and ward committees to be in touch with consumers in their area who are in need of a rebate but are unaware that they can apply.
- Partner with NGOs and social workers to sign up vulnerable households for direct tax relief.
- Conduct indigent registration campaigns where events are held in communities and rural areas to sign up eligible households on the indigent register and connect them to available benefits and rebates. Informal settlements, government-subsidised housing developments and rural areas should be targeted, in order to reach people who can't afford transport costs to travel into town to register, or are unaware of the programme.
- Establish a regular interface or cross-referencing between the indigent register, the valuation roll and the municipality's property rates billing system to share information among departments in the municipality, and help to keep the indigent register updated and comprehensive.

Interventions beyond the control of local government

The previous sections of this chapter have focused on instruments that are immediately available to local government, and over which the municipality has the greatest influence or control. However, there are additional – potentially more powerful – interventions which fall under the jurisdiction of national and provincial government.

Municipalities can play an active role in working with other spheres of government to initiate and push for cooperative action on these fronts, in an advocacy and partnership role.

VAT

Properties valued at below R500 000 are zero-rated for transfers involving a natural person (i.e. not a company or organisation). However, VAT is applied to newly built houses which are sold by developers. As a result, beneficiaries of government-subsidised houses effectively pay 14% less compared to households who purchase their own units. Recommendations have therefore been made that government should waive VAT on newly built houses in the affordable housing market.

Alignment with social policy

Different government initiatives need to align their social policies to support the poor better. At a minimum, tax measures and social programmes should not undermine each other. Specifically:

- The definition of a poor household in the indigent policy should be a guide for municipalities when they determine the residential exclusion amount in their rates policy.
- The residential exclusion amount mandated in national legislation should be calibrated to keep

pace with a government-subsidised house, so that beneficiaries in different municipalities are not burdened unfairly and unevenly.

Changes to transfer duties

Transfer duties also impact on poor households who wish to sell and/or buy a house. Properties valued at less than R500 000 are exempt from transfer duties. However, transfer duties for properties valued at between R500 000 and R1 million are 5%, and the rate for properties valued over R1 million is 8%. Lessening the burden of transfer duties can reduce the financial costs for low-income households who are looking to move up the property ladder. One option for doing this is to increase the threshold at which transfer duties are levied. Another option is to reduce the rate at which the transfer duties are levied. These options need to be investigated by SARS in order to understand the likely impact on tax revenue as well as the anticipated impact on households.

Take home points

- Effective direct property tax relief measures must a) be narrowly targeted to the poor, b) reach a majority of the eligible population, and c) be cost-effective from the perspective of the municipality, which must weigh revenue foregone against administration costs.
- Research and practice suggest that the residential exclusion is one of the most effective and least costly mechanisms (from an administration perspective) for targeting the poor for rates relief.
- Better information on collection rates at different income bands and the secondary residential property market in township areas can help municipalities to improve their methods of setting the residential exclusion threshold, thus improving its pro-poor benefits while respecting municipal revenue needs. Income-based rebates and other specific measures to address particular vulnerable groups can then be used to enhance the rates safety net for the poor.

- **For more on indirect tax relief to property owners, see Chapter 3.**
- **For information on other tax instruments related to transit-oriented development, see Chapter 9.**

NOTES

1 This chapter is based on the discussion paper How can municipal rates policies assist to promote access by the poor to urban land markets? prepared by Isandla Institute and PDG for the SA Cities Network and Urban Landmark, October 2009.

2 According to the 2008 Local Government Budgets and Expenditure Review, the weighted average was 9% of household income in 2003/04 and 2006/07, ranging from a high of 11.6% for eThekwini to a low of 7.4% in Cape Town in 2006/07.

3 DPLG (2004) Local Government: Municipal Property Rates Act No. 6 of 2004. General Guidelines.

4 National Treasury (2008) Local Government Budgets and Expenditure Review.

5 According to the MPRA, revenue foregone must be disclosed in the municipal budget and also be reported to the Council. Section 15(4) states that the municipality's budget must reflect the rand amount of the revenue foregone through rebates, exemptions and exclusions, both as a source of income on the revenue side and as an expenditure. However not all municipalities are complying with the requirement to report on revenue foregone and the accuracy of the methods they use varies. Some municipalities find it difficult to determine the amount of the revenue foregone while others are only reporting revenue foregone for exclusions, in total or part.

6 The current national housing subsidy programme requires households with a monthly income of R1 500 to R3 500 to pay in a contribution of R2 479 to access a BNG house. Households with an income below R1 500/month are eligible for a full subsidy.

7 Mangaung Local Municipality Property Rates Policy-Final (18 May 2009) for implementation 1 July 2009, p. 14. Contained in Annexure B of Mangaung Local Municipality 2009/10 Budget; Ekurhuleni Budget Resolutions passed at 28 May 2009 meeting of Council, p. 122; eThekwini MTREF 2009/10-2011/12 p. 83.

8 Johannesburg 2009/10–11/12 MTREF Budget, p. 62.

9 2009/10 Johannesburg Budget, Annexure 1, p. 2.

10 2009/10 Mangaung and Buffalo City rates policies.

11 Source: 2009/10 Municipal rates policies

SUPPORTING RETAIL CENTRES IN TOWNSHIP AREAS

Facts and figures

The official line...

Case study

Relevant principles

- Give due regard to pro-poor objectives
- Recognise that inaction also has an impact
- Balance pro-poor objectives with growth and revenue aims
- Recognise the diversity of role-players
- Partnerships are essential
- Acknowledge and build upon existing innovative and resourceful solutions of the poor
- Prioritise the coordination and alignment of internal players within the municipality

Thriving human settlements include non-residential as well as residential uses, offer economic opportunities for employment and shopping, and include public transport linkages to other urban areas. A balanced local economic development (LED) strategy works with existing local businesses and spatial patterns, and seeks to strengthen specialist economies, create multiple nodes and ensure integration, through effective public transport and other infrastructure.

Having shopping centres – also called 'retail centres' – in township areas is one way to help to create more mixed, sustainable neighbourhoods. Introducing shopping malls into townships can also make it possible for centres of intensive economic activity (nodes) to develop in these areas.

Local government is concerned with local economic development and poverty reduction, as well as with town planning. Municipalities therefore have an extremely important role to play in guiding the development of retail centres in township areas so that their impact is as positive as possible.

In concrete terms, retail centres can create employment opportunities for local residents, boost local businesses, and enable shoppers to save on transport costs by offering a wide range of shops closer to home.

However, LED approaches which opt to include the development of new shopping centres in township areas should also be aware of their potentially negative effects. There is a risk involved in having retail centres in township areas, where informal trading is a dominant economic activity and a major income source for households. When retail centres are introduced into town-ship areas they may squeeze out local businesses, because they can offer lower prices on a wider range of goods.

For municipalities which have chosen to support the development of shopping centres in township areas as part of an overall LED strategy, this chapter gives practical recommendations to help maximise the benefits and minimise the negative impacts of such development.[1] It presents two sets of recommendations:

- Guidelines for formal retail centre development in township areas.
- Ways to support local businesses and strengthen the local business environment, so that these businesses are better able to absorb and respond to retail centre developments in their area.

What is retail activity?

Retail activity is the sale of goods from a fixed location, such as a department store, boutique or kiosk, or by mail order or internet, in small or individual quantities, for direct use by the purchaser. Retail activity may include other services, such as delivery. Purchasers of retail goods may be individuals or businesses.

TRENDS IN RETAIL CENTRE DEVELOPMENT IN TOWNSHIP AREAS

New patterns of economic activity have developed in South African cities, particularly since the early 1990s.[2] Today, many cities are 'multinodal' – they have many nodes of economic activity and workplaces, concentrated in several different locations. Many townships, especially those built in the 1970s and 1980s, have been excluded from these developments because they are far from the city centre, with poor public transport links to the centre. As a result, many residents live far from work opportunities and shopping centres.

The official line...

The legislative context for local government's role in local economic development (LED)

The legislative context for LED was shaped by the Constitution's requirement that local authorities implement social and economic development, and the Local Government White Paper of 1998 that introduced the notion of 'developmental local government'. Furthermore the Local Government Municipal Systems Act of 2000 firmly positioned LED as a core component of integrated development planning.

The 2006 Stimulating and Developing Sustainable Local Economies framework provides the clearest picture of the roles and responsibilities of local government in LED. Three core roles are identified:

1. provide leadership and direction in policy making (cut red tape, improve the business environment)
2. administer policy, programmes and LED projects
3. be the main initiator of economic development through public spending, regulatory powers and promotion of industrial and small business development, social enterprises and cooperatives.

In line with international best practice, local government should aim to play a facilitative or enabling role in LED processes. The 2005 Policy Guidelines for Implementing Local Economic Development in South Africa provides a checklist of the various roles and responsibilities municipalities have in promoting LED:

- earn the hallmark of a capable municipality
- emerge with innovative solutions to local challenges
- improve financial viability
- learn to effectively market the local area
- deal effectively with local-level crises and/or structural economic changes
- address localised socio-economic challenges and promote LED whilst contributing to broader national socio-economic objectives
- mobilise local resources effectively and encourage local initiative
- build social capital
- create the conditions for local action to emerge
- seize development opportunities
- tap into networks, programmes and funds
- insert the locality into the global economy as a key centre of production, investment and innovation
- plug leaks in the local economy
- develop local skills.[3]

However, some cities have expanded in ways that have brought their townships closer to the city. Most of these well located townships have become the destination for large numbers of migrants who are moving from rural areas to the city in search of work. But being close to urban growth nodes has not always led to these townships being economically integrated into the city, or to any visible development in the townships.

Patterns of earning income have changed in the black community, and this has led to the rise of a black middle class. People in this category are aiming to improve their lifestyles, and they are keen to buy the kinds of luxury items sold in major retail centres. Many black middle class households now live in formerly white suburbs, but they maintain strong links with the town-ships where they used to live. As a result, they raise the levels of retail demand in townships.

Consumer demand in townships has also grown, because more households are receiving social grants which they spend in shops in the townships. These trends have increased the financial stability of townships, since more households now have income to spend on retail goods and services. As a result, South African townships have become a new and important market for national retailers, especially supermarket chains, which are moving into township locations in growing numbers.

Facts and figures: Increase of shopping centres in townships

- Between 1962 and 2009, 160 retail centres have been developed nationally in rural and township areas (the 'second economy').
- These centres cover about 2 million square metres of retail floor space.
- 65% of retail centres were developed after 1994. The average size of retail centres also increased from a mere 6 500 m^2 retail gross lettable area (GLA) to nearly 20 000 m^2 retail GLA over the period 1962–2009.

Table 8.1 shows that township shopping centres have contributed:

- R34.2 billion worth of business sales
- R2.5 billion worth of business tax
- R166 million worth of rates and taxes
- about 54 300 permanent jobs to the national economy since the 1980s.

These contributions do not include their impact on informal businesses.

Table 8.1: Overall impact of township shopping centres in South Africa (net present values)

	AMOUNT INVESTED BY DEVELOPERS (R MILLION) BUSINESS SALES	INCOME (R MILLION) PERMANENT JOBS	CREATED BUSINESS TAXES	PAID (R MILLION) RATES AND TAXES PAID	(R MILLION)
1980s	2 371	3 831	6 100	278	19
1990s	7 328	11 838	18 800	858	57
2000s	11 454	18 503	29 400	1 341	90
Total	21 153	34 171	54 300	2 477	166

Retail centres develop where there is a big enough demand for the goods they sell. But there must also be other positive economic conditions (referred to as supply factors) in a township, to attract a retail business to the area, such as favourable rents.

Table 8.2 lists the factors that affect customers' demand for retail goods, and investors' concerns about other economic conditions (supply factors) that affect a shopping centre's ability to give them a good return on their investment. The demand factors depend mainly on the consumers' individual and household behaviour, but some of the important supply factors are controlled by municipalities. For example, the municipality can help to encourage retail centres to locate in a particular township area or other areas by including zoning for retail in these areas, and supplying the necessary bulk infrastructure there.

Table 8.2: Factors driving retail supply and demand

FACTORS DRIVING RETAIL DEMAND	FACTORS DRIVING RETAIL SUPPLY
• Population size in an area • Population growth in the area • Existing quality of retail space in the area • Household income • Household expenditure patterns • Consumer preferences (choices of goods) • Seasonality factors – whether consumer demand increases or decreases at different times of year	• Current rentable/useable area • Rent/ m^2 • Competition from other retailers in the area • Construction costs • Surrounding land uses • Infrastructure availability • Municipal by-laws • Speculative climate: available capital, low interest rates etc.

RETAIL CENTRES ARE IMPORTANT FOR DEVELOPING ECONOMIC NODES

For consumers, shopping centre developments are useful additions to townships because they provide a vital retail service which is not otherwise available – local businesses offer important goods and services, but not everything the consumer needs or wants. Residents therefore spend a large percentage of their money outside the township. For the full retail service to be offered in townships, both shopping centres and local small businesses need to exist there.

> A retail centre is often the first non-residential property type to be included as part of a node – this is why it is such an important type of investment within an area that wants to develop economically.

The danger is that when formal shopping centres arrive in township areas, the local small businesses may be squeezed out. This impacts negatively on the owners of those businesses, and also undermines the range of retail services available to township consumers. Overall, this weakens the local economy. It is important that shopping centres are developed in township areas using an approach which supports, rather than neglects or undermines, the needs of small local businesses.

From a broader town planning and urban development perspective, shopping centres in township areas play a critical role in the emergence of economic nodes in these previously disenfranchised areas. They are often the starting points for wider economic development in townships. They must be developed at the right location, and with enough space to develop over time into mixed use nodes. Municipalities therefore need to make provision for retail nodes and transport interchanges in township planning layouts, in order to secure enough land for them in the long term.

UNDERSTANDING AND BALANCING THE INTERESTS OF DEVELOPERS

Municipalities that want to effectively support and guide retail centre development need to understand:

- The consumer market in their area
- The incentives and constraints which shape decisions of investors and developers
- The likely impact of the development on existing local businesses, both formal and informal.

From the perspective of developers and investors, retail centres in townships carry high risks which must be limited or managed. These risks can be addressed by ensuring that certain characteristics are in place which have been shown to bring success in prior developments.

Based on interviews with investors and developers, the guidelines below describe what these investors and developers are chiefly concerned with when they consider and/or plan a new township retail centre. It is useful for municipalities to be aware of the interests and concerns of investors and developers – and to consider the risks from their perspective – in order to be able to effectively negotiate the terms of the development and protect the poverty reduction and LED objectives which are the municipality's main interest.

Empowered by this information, the municipality can play a central role in ensuring that new retail centres meet the needs of both investors and the local community, by facilitating a four-way dialogue between the developers, the community, the municipality itself and local businesses. This is essential to ensure that the profit aims of the developers are in balance with the LED policy objectives of the municipality.

Space and location

- Retail centres should be located in highly accessible places such as public transport interchanges or railway stations, where high concentrations of people (i.e. potential customers) pass through on a daily basis.
- Shopping centres create opportunities for other commercial development in the centre and the surrounding area. Space should therefore be available to accommodate future expansion of businesses around the centre.
- The best performing centres (depending on location) are those centres sized at 25 000 m^2 retail GLA and larger. Most major investors and investment fund managers regard 14 000 m^2 as the absolute minimum centre size, and most of them prefer 25 000 m^2+ GLA as an ideal size. This size gives them the opportunity to incorporate major banking institutions into the centre – banks are often reluctant to occupy space in centres smaller than 15 000 m^2.
- Centres of 5 000–10 000 m^2 can be very successful, depending strongly on their location and current supply. However, only a few national tenants would occupy space in a township shopping centre of this size, and hardly any national tenants would sign up for a smaller centre due to lack of a critical mass of potential customers.

Ownership and land issues

- Land ownership and control, as well as land use rights ('business' zoning) are extremely important. The site needs to be controlled, preferably by a single stakeholder or a limited number of (private) stakeholders. Tedious and lengthy processes to rezone the land and obtain environmental impact assessment (EIA) approval can also delay the overall development process. If land ownership issues are too complex and present unusual challenges, developers and investors may simply be encouraged to move on to less complicated projects/sites.
- Land ownership by a government entity (or tribal authority) may introduce timing delays. Practice has shown that delays of 12–24 months or longer may occur if land is not zoned or controlled by a private entity. State land is difficult to obtain, due to lack of clarity about who owns the land (e.g. the municipality or the Department of Land Affairs) which results in further time delays.

- Obtaining tribal land may be particularly difficult due to a number of issues, including multiple owners, lack of agreement and difficulty with the valuation of the land. Furthermore, tribal land does not have title deeds as municipal land does, making it difficult to obtain financial loans for the purchase of the land. In a number of cases local communities want a share of the development equal to the value of the land.

Project cost structures[4]

- The cost of land in rural and township areas is very affordable and represents a very small percentage of the total project cost. However, servicing the land, upgrading the existing services and obtaining the correct land use rights (and required EIA) all increase these costs substantially to approximately 5–10% of total project cost.
  - Unserviced land: between R12.50 and R35/36 per m² depending on the location of the land.
  - Bulk land township values: Between R550 and R1 200 per m² depending on the location of the land and whether or not it is zoned.
- The top structure costs for rural and township areas differ. In general, rural centres are open plaza-type centres with top structure costs of approximately R5 000–R10 000 per m². Urban township centres generally have enclosed malls with top structure costs of R7 000–R13 000 per m².
- Projects are generally financed by a bank loan. However, only a few developers or investors can obtain 100% loans; in most cases a 60–70% loa to value is obtained.

Tenanting process and mix of tenants

- In terms of current trends, the mix of tenants in the shopping centre should generally be in a ratio of 70% national tenants to 30% regional and local tenants.
- Most township/second economy consumers insist on first economy tenants, i.e. national tenant typically found in any modern shopping centre in a typical first economy urban setting.
- Township markets attract an increasing share of new developments, but they present a comparatively higher risk profile. This makes risk mitigation (reduction) strategies for the developer/investor particularly important. Some key risk mitigation strategies include:
  - Introduction of a high percentage of national tenants (95%+ of centre income).
  - Development along a major taxi route and incorporation of a taxi rank (including liaison with taxi associations).
  - The incorporation of national banks as tenants.
- In terms of tenanting, the biggest challenge is to attract banks to the centres, followed by the positioning of tenants within the centre. Developers typically first secure a food anchor as a main tenant. (Centres of less than 20 000 m² GLA allow for a single food anchor; centres larger than 20 000 m² GLA allow for two food anchors.)
  - Food anchors generally require additional space for expansion – e.g. Shoprite requires approximately 3 000–4 000 m² GLA to be built now and 1 000 m² GLA in storeroom space for future expansion.
  - Shoprite and Spar supermarket chains dominate in retail centres in township areas, followed by Score and Pick ‘n Pay.
  - Rural centres are generally anchored by Shoprite. In rural areas Spar is only seen as a convenience store, and does not represent an anchor in these centres.
- Preferred tenants:
  - Township fashion outlets are usually the same as the tenants in urban malls. However fashion outlets in rural centres are generally represented by the bottom-priced national companies, such as Pep, Jet and Ackermans. However, it is important to note that women represent key shoppers in urban malls, while men are typically the main consumers in rural

areas. In rural areas, stores such as Truworths Man and Markhams therefore outperform stores such as Foschini and Milady's.
    - In terms of furniture stores, JD, Lewis and Ellerines are the most preferred tenants.
    - In terms of restaurants, KFC, Chicken Licken, King Pie and Brazen Head are the most preferred tenants.
    - Other key tenants include Cashbuild, Build It and Tops Liquor.
    - No entertainment facilities are included in township centres because these types of tenants underperform and generally fail in these centres.
- National versus local businesses:
    - In the majority of centres national tenants generate 95%+ of centre income, with some centres having a lower proportion of national tenants that brings in 70% of centre income.
    - Often local businesses can't afford to move into formal centres, because they lack the expertise and business knowledge to do so. Most local businesses in centres are operating franchises such as KFC or Debonairs. Doctors, hairdressers, and traditional food outlets are also common.
- Attracting banks as tenants:
    - A centre's success relies heavily on the investors' ability to attract banks. Township areas are strongly characterised by a 'cash culture'. Consumers shop where banking facilities are available and near to their preferred retailers.
    - Banks are often accommodated in centres at extremely low rentals, and the required high installation costs are shifted onto the investor/developer's shoulders.
    - Banks are generally not keen to move into smaller centres. However, the government is placing increasing pressure on banks to provide local communities with banking services in these centres.
- Rural centres generally have more low-end retailers, and township centres more high-end retailers, for example Pep (rural) versus Markhams (township).

Average rentals

- Rental through rates (the weighted average rental) differs for open and enclosed malls. A rental through rate of R80–R90 per m^2 needs to be achieved in open centres, and R100–R120 per m^2 is the general figure in enclosed centres.
- Lower rental through rates usually mean that there are 'second rate' tenants in the centre, and may lead to a substandard development. But this situation is made more complex because national retailers usually pay lower rentals. National tenants pay between R55 and R70 per m^2, whereas smaller shops pay rentals of between R200 and R400 per m^2.
- National tenants often take space in a centre to keep their competition out. They carry limited financial risks, while all the risk is put on the shoulders of the developer and the banker. Some lease clauses allow that if there is a certain vacancy rate in a particular centre, the national tenants can walk away from the underperforming centres without any further responsibility.
- Average rentals:
    - Grocery anchors: Between R55 and R70 per m^2 (township centres R60–R75 per m^2; rural centres R55–R65 per m^2). Spar's rentals are slightly higher, Checkers and Pick 'n Pay are in the middle and Woolworths Food is R60–R65 per m^2.
    - Clothing tenants: Between R85 and R140 per m^2 (excl. VAT) (township centres R65–R140 per m^2, rural centres R85–R120 per m^2).
    - Furniture and furnishings: Rentals range between R75 and R80 per m^2 (excl. VAT).
    - Entertainment and restaurants: R100 per m^2 and higher.

Developer investment conditions

- Project development yields: Due to the higher risk profiles of these types of retail centres, smaller investors will only consider investing in such a centre if it has a paper yield of 11–12%, and the larger investors require a minimum paper yield of 16–17%. However, urban and rural land dynamics and financial models are so different that direct comparison of yields is not useful.
- Pre-letting requirements: Banks and investors require that 70–85% of centre income should be secured through pre-letting commitments before the development is financed or construction commences.
- Minimum lease periods: In terms of lease periods, national tenants are required to sign 5-year leases while local businesses must sign 3-year leases.

Centre design

- Open versus enclosed: Retail centres should be designed to include both open and enclosed spaces, so that they can accommodate the mass of consumers moving through them. Most rural centres are developed as open centres, and township centres are developed as enclosed malls. When the centre size is bigger than 20 000 m^2, there is a tendency to develop enclosed malls due to the walking distance created by the design.
- Number of levels: Best practice indicates that centres should not be designed on multiple levels; the site needs to be big enough to accommodate a single-floor retail development.
- Parking: There is no uniform standard for parking ratios. The larger developers prefer a parking ratio of 4 bays per 100 m^2 GLA, whereas the smaller developers require 3 bays per 100 m^2 GLA for township centres and 2 bays per 100 m^2 GLA for rural centres.
- Taxi rank: In general, centre design includes the development of a taxi rank – financed as part of the development. However, if a rank is provided, the developer needs to obtain buy-in from local taxi associations or else these facilities will be boycotted and unused.
- Informal trading: Design of the centre should include spaces for informal traders in areas where many people pass through the centre. In general, developers try to formalise informal trade by providing 'trade boxes' around the centre. However, if this is not addressed and managed correctly these facilities remain unused.

Consumer preferences

- Developers should not introduce low-key, second-rate centres to township areas. Market research confirms that communities living in these areas want to improve their lifestyles, and this includes having access to national brands in their areas. National retailers are increasingly interested in having shops in these areas.
- Centres in township areas are usually focused on offering local residents a convenient, pleasant and sociable shopping experience. More and more successful 'destination' shopping centres are being developed, where people go for the experience of being there, as well as to do their shopping. These centres also include retailers of high-quality semi-durable and durable goods such as furniture, computer equipment etc. Shops selling these goods need to be attractive to local consumers, without changing their national brand image.
- The majority of investors conduct market research to test the viability of a proposed centre within a specific locality before they start developing the centre. However, limited research is conducted in the centres themselves to ensure consumer satisfaction, healthy tenant performance etc. This type of research is only conducted in centres which are not performing to the required standard.

Given all of the considerations discussed above, some investment groups have developed a simplified decision-making tool to help investors in new retail centres. This tool is a checklist to work out whether a particular site is a good place to build a centre. It is presented in Table 8.3.

Table 8.3: Developer's checklist to test the feasibility of a retail centre development

1. Are there 100 000 people within a 10 km radius (or at the very least 60 000–70 000 people)?
2. Can the site accommodate a development of 15 000 m^2 or more (or at the very least 10 000 m^2)?
3. Can the site accommodate future expansion?
4. Is the site controlled by a limited number of private land owners?
5. Is the site controlled by a tribal authority? Do they support the project? Can the absence of a land claim be verified? Does the local tribal authority agree to have an ownership share of 3–7.5% in the project? Does this percentage represent the approximate cost of the developable land that the tribal authority is providing for the project?
6. Is the site located along a main provincial route or freeway?
7. Is there an existing group of business activities, social services and/or a taxi rank near the site, and is the site far enough from the closest 'old town' CBD (at least 10 km)?
8. Is it a 'greenfields' development OR will there need to be demolition and redevelopment?
9. Are there any burdensome obligations that may increase the project risk – for example, the need for complex / difficult site assembly because there are multiple private or public land owners, the need to rezone, social obligations to the surrounding community, political expectations?
10. Will the development be able to dominate the local market?
    - Do local conditions in the area allow for a centre with a modern design and major national stores as the main tenants?
    - Could the income earned in the first year that the centre operates be at least 9–10%?

GOVERNMENT INTERVENTIONS THAT CAN SUPPORT RETAIL CENTRE DEVELOPMENT IN TOWNSHIP AREAS

Retail centre development depends on inputs from other role-players besides the developer: the local municipality, provincial government, tribal authorities, the private sector and NGOs. These inputs are set out in Figure 8.1.

Figure 8.1 shows that municipalities contribute critical inputs to retail centre development such as town planning, regulatory instruments and bulk infrastructure and services.

As discussed earlier, they also play a key role in guiding centre development to ensure a positive impact on local businesses and local communities.

Table 8.4 lists specific actions that different spheres of government can take to support retail centre development. The table indicates which interventions are within municipalities' direct control, and which require coordination with other spheres of government.

Figure 8.1: Critical inputs, role-players and challenges of retail centre development in township areas

CRITICAL INPUTS

- ✓ Land
- ✓ Capital
- ✓ Human resources and skills
- ✓ Statutory approvals and authorisations
- ✓ Market potential – critical demand thresholds

LOCAL MUNICIPALITY

Inputs

- ✓ Land
- ✓ Capital – infrastructure, services, social facilities
- ✓ Town planning – township layouts
- ✓ Regulatory Instruments – zoning, building control by-laws
- ✓ Safety and security
- ✓ Maintenance and operation of public facilities

Challenges

- ✓ Accessing resources – budgets and land
- ✓ Release of municipal land
- ✓ Red tape in terms of delivery systems
- ✓ Statutory approval difficulties and delays
- ✓ Human resource capacity constraints
- ✓ Maintenance of conducive business environment around investments

PROVINCIAL GOVERNMENT

Inputs

- ✓ Land
- ✓ Public infrastructure
- ✓ Capital
- ✓ Statutory approvals and authorisation

Challenges

- ✓ Accessing resources – budgets and land
- ✓ Inappropriate department standards and delivery systems
- ✓ Statutory approval difficulties and delays

TRIBAL AUTHORITIES

Inputs

- ✓ Land
- ✓ Political support

Challenges

- ✓ Multiple ownership
- ✓ Time delays of agreement process
- ✓ Land not under-scribed by the title deed
- ✓ Demanded equity

PRIVATE SECTOR

Inputs

- ✓ Investment
- ✓ Top structure
- ✓ Services / upgrade of services
- ✓ Road network
- ✓ Taxi facilities
- ✓ Informal trade facilities
- ✓ Critical mass
- ✓ Spot on tenant mix
- ✓ Supportive commercial and residential uses

Challenges

- ✓ Securing of land in suitable location
- ✓ Insufficient size of available land
- ✓ Availability and quality of municipal services
- ✓ Availability and quality of surrounding road network and access
- ✓ Access to finance
- ✓ BEE requirements
- ✓ Lack of retail hierarchy – result in 'cannibalisation'
- ✓ Provision of critical mass
- ✓ Inducing appropriate tenant mix
- ✓ Local community buy-in
- ✓ Local Taxi Association buy-in
- ✓ Load Trader buy-in
- ✓ Attracting complementary economic uses – office, light industries, etc.

Table 8.4: Government actions to support retail centre development

LEVERAGE MECHANISM	DESCRIPTION	ENTIRELY WITHIN LOCAL GOVERNMENT CONTROL	REQUIRES COORDINATION WITH OTHER SPHERES
Make government land available	• Develop an inventory of available government land in the area. • Identify portions of land to be made available at related market values. • Put land out on tender.	✓	
Provide for economic nodes in township layouts	• Township layouts should make provision for economic nodes anchored by retail centres. • Development guidelines and a precinct plan should be developed for the node. • Provision should be made for future growth and expansion and diversification of the node, including additional land to accommodate supporting uses – offices, light industries, mixed income residential uses and public/social facilities. • The economic node should be located within a highly accessible and visible location – with emphasis on linkages with public transport facilities, high volumes of daily commuters etc. • If township layouts originally did not make provision for such nodes, they should be revised and land use rights should be revised accordingly. • Open the township register to accommodate the sale and transfer of land in the node.	✓	
Ensure public sector commitment	• Develop and maintain public infrastructure in and around the economic node where private sector investment is located. • Provide and upgrade services (water, electricity and sewerage) as incentives to private sector investment in these second economy areas. • Improve accessibility via main road and internal road network development and upgrades, as well as via pedestrian walkway development and upgrades. • Invest in public facility development – community health care centres, government department offices, pension pay points, police stations etc. as part of the nodal development.		✓
Streamline application processes	• Prioritise retail centre applications in these second economy areas. • Provide concessions on rezoning applications. • Provide a service advising applicants of zoning application requirements – contributing to fast-tracked approvals. • Ensure that there is an integrated town planning scheme.	✓	
Prioritise service delivery in township areas	• Prioritise service delivery in township areas – with emphasis on the location of proposed mixed use nodes. • Allocate municipal budgets for service delivery in these nodes.	✓	
Obtain tribal land	• Develop an inventory of the various portions of tribal land that are suitable for private sector investment. • Conduct meetings with tribal authorities in terms of the availability of tribal land for private sector investment. • Offer certain incentives to tribal authorities for the land.	✓	
Ensure critical mass and tenant mix	• Conduct market research to determine the ideal retail centre size, making provision for future expansion. • Conduct market research to match tenants with consumer market characteristics and demand profile. • Increase critical mass by developing mixed income residential projects close to the proposed development site. • Provide incentives to attract financial institutions to move into the centre.		✓

Table 8.4: Government actions to support retail centre development continued

LEVERAGE MECHANISM	DESCRIPTION	ENTIRELY WITHIN LOCAL GOVERNMENT CONTROL	REQUIRES COORDINATION WITH OTHER SPHERES
Involve the local community	• Involve the local community in the planning and development process. • Hold public meetings, workshops and briefing sessions in which the advantages of the centre are discussed. • Provide information, explanations and options with regard to centre composition, role, function, local businesses support, taxi facilities etc.	✓	
Ensure local taxi association buy-in	• Involve the local taxi associations in the planning and development process. • Discuss the needs of these associations relating to the size of the rank and supporting facilities.		✓
Ensure local trader buy-in	• Involve the local traders in the development and planning process related to formalising the informal trade facilities provided.	✓	
Improve safety and security	• Improve visibility and frequency of policing in and around this node. • Implement a CCTV system within business node.		✓

ENSURING THAT RETAIL CENTRES HAVE A POSITIVE IMPACT ON LOCAL BUSINESSES

The introduction of a retail centre in a township will significantly impact on local businesses, as well as providing more options and convenience for consumers.

Opportunities and threats for local businesses

New retail centres in an area may threaten local businesses by attracting consumers away from the older businesses to the new centre, and introducing price competitiveness and product duplication. Local businesses which cannot compete with national chains and are unable to relocate to the formal retail centre may be forced to close.

At the same time, the introduction of a shopping mall into the area sparks positive changes which local businesses can benefit from, if they have the capacity and the business skills to respond.

These positive impacts include:

- Increased numbers of consumers along access roads towards the centre
- Better access to banking facilities
- Improved supplier linkages
- Easy access to stock
- Increased levels of security in areas near the centre.

Identifying the challenges and needs of local businesses

The main reason that small local businesses find themselves unable to grow and relocate to formal retail centres is that they lack the business management and financial skills to develop themselves into more profitable businesses.

Small businesses that want to relocate into a formal shopping centre must apply for space in the centre, and this involves submitting a business plan with information about how they plan to grow the business over time. They must also be able to afford the high rentals in a shopping centre.

Table 8.5: Factors that impact negatively on local businesses

GENERAL NEGATIVE FACTORS	FACTORS THAT PREVENT BUSINESSES FROM RELOCATING TO FORMAL RETAIL CENTRES
• Increased levels of competition from formal retail centres, as well as increased numbers of smaller businesses / traders opening up in the area • Locations that are not visible and accessible • Physical business facilities that aren't up to standard • Crime and theft • Lack of business management and general business skills • Lack of funding and knowledge to reinvest in the business • Lack of business support programmes which provide training and skills to local businesses • Lack of product / business recognition • Lack of product branding and marketing to give the business a competitive edge • High running costs	• Lack of customers • Lack of business funding • Lack of product recognition • The informal nature of the business • High rentals in the retail centre • Limited potential for business growth • Poor business performance • Lack of business education • Inability to compete with national retail stores that are tenants in the centre

Table 8.5 summarises some of the negative factors that affect local businesses, and also lists the specific obstacles which stop them from relocating to formal retail centres.

> Effective support measures that can develop local businesses must form part of a continuous development programme run by the municipality. A single, once-off project won't achieve this goal.

Providing support for local businesses

Municipalities can reduce the negative impact of new retail centres on local businesses by helping them to address the challenges listed in Table 8.5, and also by helping to empower those businesses so that they can benefit from the new developments.

Two measures that can support local businesses, and thereby contribute to employment creation in the area, are:

- Introducing them to alternative business models that may be better suited to their particular businesses.
- Accommodating small, medium and micro enterprises (SMMEs) near to formal retail centres.

Local (SMME) businesses need specific inputs:

- Funding
- Business facilities (premises, equipment, etc.)
- Business management and skills training
- Business development support
- Financial systems.

Different spheres of government, business development service providers and small businesses/ SMMEs themselves are the suppliers of these inputs. Table 8.6 lists some initiatives to provide the inputs that local businesses need. The table also indicates which of these initiatives are directly within local government control.

Case study

Temporary Occupation Licences in Kenya[5]

Temporary Occupation Licences were introduced by Nairobi City Council to promote efficient use of idle public land in strategic locations, e.g. street intersections, road reserves in high-density neighbourhoods and open land on the urban fringe. The licences enable the local authority to allocate land for a productive use without giving up long-term control, since each licence is renewable annually and the licensee is only allowed to build semi-permanent structures. Since the licensee has to pay an annual land rent, municipal revenues are also increased by this system.

Table 8.6: Initiatives for local business support and development

INITIATIVES	DESCRIPTION
Compile and regularly update SMME database	• Compile an SMME database for the township/rural area. • Classify SMMEs according to a business sophistication measure. • Develop an SMME economic performance monitoring system. • Monitor the performance of the SMMEs regularly and provide feedback via information sessions.
Establish an SMME forum	• Establish an SMME forum to enable networking, information sharing, linkages to big businesses.
Establish a one- stop information centre	A one-stop information centre should be linked to: • the municipal LED desk and forum • SMME business development services • SMME capacity-building and skills development services. This enables easy access to information, advice, and market and government procurement opportunities.
Develop a local business support centre and business hives	• Develop a local business support centre or satellite of existing centres. • Develop an SMME hive, with an emphasis on retail and service industries. • Integrate both facilities into one building.

Capacity-building and skills development programmes	• Conduct a skills audit of SMMEs in the locality to identify skills gaps.
	• Develop and implement skills and capacity development programmes based on needs identified in the audit.
	• Implement the following generic capacity-building programmes:
	  ◦ entrepreneurship
	  ◦ small business management
	  ◦ financial management
	  ◦ marketing, pricing and promotion
	  ◦ human resources management
	  ◦ tendering and procurement processes
	  ◦ various technical skills

Provide regular information to SMMEs on the economic environment	• Communicate the following information to SMMEs on a regular basis – through the forum, public information sessions or workshops:
	  ◦ declining economic sectors
	  ◦ growing sectors
	  ◦ stable sectors
	  ◦ sectors with investment potential
	  ◦ new SMME opportunities

Offer SMME business development and support	• The Small Enterprise Development Agency (SEDA) should establish a presence within the local area.
	• Hold information sessions in townships and market the various business development support services and role-players:
	  ◦ national support institutions (e.g. the Department of Trade and Industry (the dti), SEDA, the Industrial Development Corporation (IDC))
	  ◦ national finance institutions (e.g. commercial banks, Umsobomvu Youth Fund)
	  ◦ national business networks (e.g. the South African Chamber of Business (SACOB), National Business Initiative (NBI))
	  ◦ training providers, agencies and courses (e.g. online training courses, business courses, distance education)
	• Assist local SMMEs to apply for financial support.
	• Local municipalities should revise their procurement policies to favour local SMMEs.
	• Organise and sponsor SMME Entrepreneur of the Year Awards.
	• Conduct SMME awareness campaigns within the area.

Table 8.6: Initiatives for local business support and development continued

INITIATIVES	DESCRIPTION
Provision of accessible and affordable business premises	• Delineate an SMME zone within the township. • Provide a range of business facilities at affordable rentals – business premises, offices, market stalls, etc. • These facilities should be serviced with water and electricity. Formal business premises should be serviced by telecommunications. • Informal trade facilities can include a basic trading area (2 m^2 for R68 per month, sharing water, storage and shelter), trading pods (6 m^2 for R130 per month, sharing electricity, water and storage) and kiosks (25 m^2 for R188 per month, sharing water, electricity, storage and a roof).
Formalisation of SMMEs	• Focus on SMMEs that are the best prepared to become formal businesses, in terms of business and marketing plans, keeping monthly accounts, etc. • Aim business development support services towards these types of businesses. • This will enable increased employment creation within township areas.

Take home points

- Retail markets in second economy areas are active. Developing retail centres in these areas can have positive impacts on poorer households, by bringing them closer to economic opportunities and providing jobs.
- Municipalities can encourage the development of retail centres in township areas by helping centre developers to access serviced, zoned land, and by supporting local businesses so that they can benefit from the introduction of these centres into their area.
- Local government's emphasis should be on using the presence of these centres to stimulate other local development and investment in the node.
- Municipalities must avoid creating additional financial and procedural burdens for retail centre developers wanting to invest in these areas.
- Shopping centres can have a positive effect in township areas, because they are anchors for the development of economic nodes in these areas. But they can also have a negative effect on the small enterprises that already exist there. Municipalities can maximise the advantages and minimise the negative effects of a new retail centre by gaining a thorough understanding of the retail market in the township where the centre is being built, and undertaking actions to support local business and engage and inform the community about the development.

- **For more on mechanisms for incentivising development, see Chapter 9.**
- **For more on land use management capacity, see Chapter 3.**
- **For more on land release, see Chapter 4.**

NOTES

1 This chapter is based on the report, Impact of township shopping centres: market research findings and recommendations prepared by Demacon for Urban LandMark, July 2010.
2 TTRI (2009) Township renewal sourcebook. Johannesburg: South African Cities Network.
3 Rogerson, C. (2011) Tracking local economic development policy and practice in South Africa, 1994-2009. Urban Forum. Online First, 9 March 2011.
4 As at 2009-2010.
5 Adapted from UN-Habitat (2004) Urban land for all (p. 16). Nairobi: United Nations Human Settlements Programme.


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VALUE CAPTURE FROM TRANSPORT NODES

Facts and figures

- Transport infrastructure investment in South Africa p130

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Case study

- An example of value capture: Participación en Plusvalias: Colombia p135
- Learning from mixed housing programmes in other countries p138

Things to consider

- How ring-fencing is linked to poverty reduction p140

Relevant principles

- Give due regard to pro-poor objectives
- Recognise that inaction also has an impact
- Balance pro-poor objectives with growth and revenue aims
- Prioritise the coordination and alignment of internal players within the municipality
- Acknowledge local government's room to manoeuvre

Interventions beyond the control of local government

- Transport agencies' involvement in precinct planning processes p142
- Options to introduce new tax incentives p142

It is a mistake to believe that economic development depends on the existing market conditions in a society. Markets can be 'created' or made more effective by public investments (such as infrastructure) that help to create future asset value in a city or region.

For example, municipalities are responsible for the provision of bulk infrastructure and public transport. This role gives them an opportunity to influence private sector development in a particular direction, by providing the kind of infrastructure that will encourage private investors to bring new economic activities and projects into the municipality.

Public infrastructure is used throughout the world as a tool to encourage private investment, alongside other tools such as fiscal, financial and regulatory incentives.

This chapter looks at the example of transport infrastructure, particularly public transport interchanges.[1] Transport infra-structure of this kind can positively impact on urban development, promote poverty reduction and increase land prices.

In its roles as a land use manager and tax collector, the municipality is then also able to earn back some of that infrastructure value through various tax and regulatory mechanisms.

This chapter offers municipalities practical recommendations for capturing the value gained from transport interchanges, which they can then use to assist in the reduction of poverty.[2]

HOW TRANSPORT INFRASTRUCTURE IMPACTS ON THE POOR AND PROMOTES DEVELOPMENT

Fast, efficient transportation systems help to promote the movement of large numbers of people between the places they live, work, and play. Many South African cities lack modern mass transit systems for transporting commuters, who rely on increasingly gridlocked roads.

Partly as a result of this weakness in the public transport system, South Africans spend (on average) a relatively high share of their income on transport. Low-income workers, especially, use a huge proportion of their income for transport, as well as losing out on many opportunities to improve their economic situation.

South Africa made massive investments in public transport infrastructure as part of the preparations for the FIFA World Cup in 2010. This kind of transport infrastructure can play a significant role in urban land markets, in urban regeneration, and in economic upliftment. Businesses, tourists and residents want access to clean, efficient,

Facts and figures: Transport infrastructure investment in South Africa

South Africa spent about 2% of GDP on infrastructure (including transportation) during the period 1990–2005, compared with 5–10% on average in other countries, according to the World Bank and the South African Reserve Bank. The 2010 FIFA World Cup has had a major impact on infrastructure spending, which has increased dramatically since 2005. Leading up to the World Cup, South Africa massively stepped up its investment in rail, road and air transport infrastructure, including new highways, Metrorail, the Bus Rapid Transit (BRT) system and the Gautrain Rapid Rail Link.

The official line...
Meeting the legislative mandate for municipalities to play a proactive role in providing urban passenger transport

The 1996 White Paper on National Transport Policy envisages a system that will '[p]rovide safe, reliable, effective, efficient, and fully integrated transport operations and infrastructure which will best meet the needs of freight and passenger customers at improving levels of service and costs in a fashion which supports government strategies for economic and social development whilst being environmentally and economically sustainable.' All subsequent policy and legislation, including the Moving South Africa Action Agenda (1999), National Land Transport Transition Act (2000), Public Transport Strategy and Action Plan (2007) and National Land Transport Act (2009), has indicated that public transport and non-motorised transport modes should be prioritised, and should be complemented by travel-demand management strategies such as the promotion of public transport-orientated land use patterns, tough road space management and other measures to disincentivise private car usage.

The first National Household Travel Survey in 2003 found that 69% of households living in the six metropolitan areas included public transport users and that 76% of these households have incomes of less than R3 000 a month. It also found that 35% of commuters earning less than R3 000 a month were spending more than 10% of their disposable income on public transport. The 10% benchmark was identified as the maximum threshold in the 1996 White Paper on National Transport Policy (ranging from 9% at the R3 000 level to 35% for those earning less than R500).

The Public Transport Strategy of 2007 has two thrusts: accelerated modal upgrading, which includes the various initiatives underway to improve bus, taxi and rail service delivery in the short to medium term, and Integrated Rapid Public Transport Networks, which focus on developing 'catalytic integrated rapid rail and road corridors'. The NLTA enacted in 2009 is intended to 'consolidate land transport functions and locate them in the appropriate sphere of government.' It:

- Creates a National Public Transport Regulator and Provincial Regulatory Entities
- Empowers the Minister or MEC to assign functions to the appropriate lower sphere
- Requires the production of a National and Provincial Land Transport Strategic Framework.

The NLTA specifies that ultimately 'the planning, implementation and management of modally integrated public transport networks and travel corridors for transport' must be performed by municipalities.

These are promising developments that address some of the institutional weaknesses of earlier legislation. However, the provision of infrastructure and local transport services remains a complex terrain populated by agencies from all three spheres of government, state-owned enterprises, private sector operators and informal operators. This range of stakeholders must be taken into account when planning. Integrated transport planning is also a technically demanding exercise which is often poorly incorporated into the wider process of integrated planning, and many municipalities lack the capacity required to successfully integrate various processes of land management and development. This chapter suggests such connections and tools for municipal planners.

rapid transit, and having transit stations in particular areas can attract and concentrate development in these areas – and thereby turn them into nodal areas (see Chapter 8 for a discussion of nodal areas). Land values near to major transport arteries tend to increase, because investors and developers recognise that improved accessibility in these areas creates more opportunities for new development there.

WHAT IS TRANSIT-ORIENTED DEVELOPMENT AND WHAT ARE ITS BENEFITS?

Local planning and economic development agencies in many countries have started to promote the concept of transit-oriented development (TOD), because there are many positive spin-offs from transport infrastructure investment.

There are four major types of transport interchange which have significant regional impact and can be used to spur development. They are:

- Road interchanges
- Rail stations
- Airports
- Other public transport facilities, including taxi ranks and Bus Rapid Transit (BRT).

The mix of jobs and housing in an area helps to reduce transport and opportunity costs for poor people, thereby raising living standards. Economically, transit access spurs demand for new development, enhancing the marketability of transit-oriented locations. This enhanced market value is particularly powerful in low-income communities and areas that otherwise lack market access.

TOD uses public mass transit to stimulate and support mixed use private and public sector development. In TOD, property development tends to happen closer to public transit nodes than in other parts of the city, and on a larger scale. TOD helps to increase people's use of public transport, which in turn reduces private car use. This benefits the city as a whole, because it reduces the negative impacts of urban sprawl. These impacts can include:

- Inefficient use of land
- Higher use of productive farmland for housing
- More traffic and congestion
- Higher levels of carbon output and global warming
- Higher costs of travel in terms of time and money
- Higher traffic accident rates and related deaths
- Lower productivity
- Higher levels of air and water pollution
- Lower disposable incomes, because so much money must be spent on transport
- Higher operating or running costs for municipal services, and thus less municipal funds available to supply under-served areas, etc.

From a planning perspective, transit-oriented development promotes the development of 'compact, walkable' mixed use communities around transit stations as a way to reduce people's dependence on cars and improve the quality of life in cities.

A local government perspective on transit-oriented development

From the perspective of local government, TOD can help poor people to gain access to urban land markets by generating revenue for municipalities – this revenue can then be used to cross-subsidise services for the poor. TOD also promotes more efficient land use and creates economic opportunities for the poor.

The main benefits of TOD are:

- **Increased use of public transport:** TOD can dramatically increase people's willingness to use public transport. This form of development puts more housing and jobs, and thus more potential commuters, within walking distance of a bus, train or taxi station. Mixed use development also helps to generate demand for public transport, since people are living and/or working near stations and interchanges. By creating markets for public transportation, TOD in turn generates revenues to transit agencies which can then be used to help cross-subsidise services for the poor.

- **Cross-subsidisation of public transport and other infrastructure:** Often, municipalities encourage TOD at prime locations in affluent communities, because increased use of public transport in these areas generates revenues which will help to cross-subsidise provision of public transport to poorer communities where people commute to work. Revenue that comes to the municipality from these TODs is also used to help subsidise the actual development cost of capital infrastructure, including transportation infrastructure itself. Over the longer term, the increased land value generated by higher-density development at TODs also helps to increase the revenue stream to local governments, which in turn cross-subsidises service delivery to poorer areas.

- **Promotion of mixed use developments:** Municipalities can also use TOD to establish mixed use, mixed income communities in a city and improve the residents' quality of life. Policies that allow for higher-density development at TODs increase the opportunities for developers to finance mixed income and affordable housing, since the cost of such housing can be spread over a larger number of units located at one site.
  Many municipalities now require developers to incorporate affordable housing units into their projects (for example through inclusionary zoning policies – discussed below). This is much easier to finance in high-density developments, and where there is demand for residential units which are sold at market prices (such as at a transit hub). However, this kind of cross-subsidy only works where there is sufficient demand for market-rate housing.

WHAT ARE VALUE CREATION AND VALUE CAPTURE?

Transport infrastructure has important benefits which create value for individuals, businesses and the community. Those benefits include:

- Access to economic opportunity, by linking jobs to housing and increasing people's social mobility
- Reduction in opportunity costs, thereby increasing disposable income for the individual and the household
- Improved cost efficiencies for local businesses which spur economic development.

> Value creation happens when the introduction of infrastructure in a certain place results in the land close to this infrastructure increasing in value.

Many of the benefits of public transport are concentrated at nodes or interchanges, where traffic, exposure, networks, and passenger loads are at their maximum levels. Individuals and private investors are attracted to locate their businesses at interchanges, because these are places where they will have greater access and exposure to the consumers who are their target market. Even at the most basic level, individual traders will choose to do business at interchanges where they stand a better chance of making sales. For example, informal traders will base themselves at the intersection of two roads, a taxi rank or a train station.

Value creation

Because so many businesses of all kinds want to locate themselves at transport interchanges, the demand for land, and therefore the value of the land, is higher at these places than elsewhere in the area. This process is called value creation. This higher-yielding use can result in a higher residual value – this is the amount of money the developer has available to pay for the land itself, while still ensuring that the project is financially viable and turns a profit. But the infrastructure will only lead to higher values if the 'economics' or demand on the land around the infrastructure changes – for example, more shoppers pass through the area, they spend more money, higher-income groups are attracted to the area, more people want to live there.

It is important to note that value creation is not guaranteed. New infrastructure can result in value loss if the infrastructure introduces negative qualities into the area, such as increased noise, congestion and crime. Municipalities need to create suitable development conditions for value creation as part of the infrastructure provision process, such as simple ownership patterns with one, or only a few, owners of land, and development rights that will encourage the kinds of development that create value for the area.

Value capture

Value capture is a public financing technique that 'captures' a part or all of the increases in private land values that result from new public investment, by imposing a tax on the land.

Value capture instruments can be direct or indirect:

- **Direct value capture**: There are many tax and regulatory instruments that municipalities can use to directly capture value from transport interchanges. As shown in Table 9.1, these instruments include:
  - Development charges
  - Betterment taxes
  - Business improvement districts
  - Land value increment taxes.
- **Indirect value capture**: The increase in land value that happens near a transport interchange can be captured and transferred to other parts of the municipality, using indirect methods. These indirect methods include cross-subsidies of:
  - Transport
  - Infrastructure
  - Housing
  - Services.

Poorer individuals and communities can also accumulate wealth through property ownership in or near a transport interchange. However, property ownership near a transport interchange also comes with risks, including the possibility that the value of the property will drop. This can happen if, for example, there is an increase in noise, pollution, and crime in the area around the interchange, which can make a property there less desirable and therefore less valuable.

Municipalities can use a range of direct value capture mechanisms. The next section describes some of these mechanisms and gives examples of how they can be applied.

WHAT VALUE CAPTURE INSTRUMENTS CAN A MUNICIPALITY USE?

In practical terms, how does a municipality capture the value gained from transport interchanges to assist in the reduction of poverty? Table 9.1 lists various instruments to do this.

Case study

An example of value capture: Participación en Plusvalias in Colombia[3]

In Colombia the 'Participación en Plusvalias' ('Municipal Participation in Urban Land Value Increments') measure was enacted in 1997 through Law 388, which was aimed at recovering part of the increased land values resulting from the use of land use regulations. It applies in the following cases:

- Changing the designation of rural land into land for urban or suburban development
- Changing zoning or other land use regulations
- Changing regulations that permit greater building density.

The law allows for the increases in land value to be established by determining the square-metre value of the land before and after the public investment. A neutral, independent body called the Agustín Codazzi Geographic Institute was given the responsibility of conducting the valuations. Land owners/developers only have to pay the fee once the value increases of their land are realised, when the land is sold or developed. The law allows for the fees to be paid:

- In cash
- By transferring to a public sector body a part of the property that is of equivalent value to the fee
- By exchanging the land for urban land of equivalent value at other locations
- By making the public sector body a partner in the development, with an economic stake of equivalent value to the fee
- By providing needed infrastructure or open space of equivalent value to the fee
- By giving back a portion of the development rights created by the public investment that is equivalent in value to the fee.

The law also allows for government to offer various incentives to developers for actions which are in the public interest. For example, developers qualify for a 10% discount in fees if they give back a portion of the development rights created by the public investment which is equivalent in value. They qualify for a 5% deduction in fees if they transfer a portion of the property which is of equivalent value to a public body, or make the public body a partner in the development with an economic stake of equivalent value to the fee.

The law also places certain responsibilities on municipalities in terms of the use of the fees they collect in this way. Municipalities must use these fees to:

- Buy land for 'social interest' housing
- Provide infrastructure in areas where it is currently inadequate
- Expand the network of open spaces
- Finance mass transit
- Carry out large urban projects or urban renewal
- Cover costs of land expropriation for urban renewal
- Undertake preservation of historic buildings or sites.

Table 9.1: Value capture instruments

VALUE CAPTURE INSTRUMENTS	DEFINITION/DESCRIPTION	APPLICATION
Betterment tax or special assessment	A tax imposed by local governments to capture the increase in land value generated by private development that results from investment in infrastructure (including transport infrastructure). A betterment tax, benefit assessment, or special assessment indirectly obligates the owners and occupants to pay for a public service.	• It may involve the creation of special taxing districts to generate revenues in support of infrastructure improvements. • It is most effective in strong markets where there is a well established tax administration system. • It may be difficult to implement where valuation rolls are incomplete and where the costs of implementing the tax outweigh the benefits to taxpayers. • Affluent communities are more willing to pay this kind of tax. This can result in the concentration of infrastructure interventions in wealthier neighbourhoods.
Business improvement districts	An ad valorem tax or levy on property owners and/or businesses located within a specific area. The levy raises funds for the delivery of an added layer of service, above and beyond services provided normally within the city.	• This measure is often used to raise funds to deal with 'crime and grime' issues, for example by employing additional security and cleaning staff. • However, revenues from such levies are also sometimes used for infrastructure improvements, signage, landscaping, surveillance cameras, marketing, management, and other services that benefit the property owners, businesses and residents of the designated area.
Development impact fees	Once-off fees levied by municipalities on developers to help recover the cost of public infrastructure generated by projects that they develop.	• The developer is often required to supply infrastructure beyond their own development site, when their development impacts on regional infrastructure systems. • Such contributions may include payments for bulk water systems, road works and other public infrastructure.
Zoning tools	There are two available zoning tools: **Incentive zoning:** This tool rewards developers if they include certain public amenities in their development, or meet other public objectives. For example, incentive zoning can include density or floor-area bonuses, which allow a developer to build to greater densities so long as they include certain public amenities like parks and open space, that benefit the community at large. **Inclusionary zoning:** This tool requires housing developers to include a certain percentage of affordable units in their projects to create mixed income communities.	• The tools can be used to direct the location, type, and scale of development (so long as there is enough market demand to support the envisioned type and scale of uses). • **Density bonuses** use zoning to create special districts or 'overlay' zones (for example around a transit station) where higher densities are allowed. Higher-density allowances, particularly in a strong property market, create higher profit for developers (because land and development costs are spread over a larger number of units). These higher profits enable the developer to add and cross-subsidise affordable units. • Higher density is a benefit or incentive granted by the public sector. Therefore the public agency can also place conditions on the development (such as inclusionary housing) in exchange for the higher-density benefit. The developer works out the benefit through a cash flow analysis to see whether the density is high enough to cover the cost of the required affordable housing, and still make a profit. • Density bonuses only work as an incentive where there is a market for high-density development. Larger-scale and higher-density projects are more likely to have the ability to cross-subsidise and support affordable housing. • **Inclusionary zoning** is particularly relevant and successful in high-density and TOD projects, because the densities, mix of uses, and broad market appeal give developers opportunities for cross-subsidisation. • Density bonuses and inclusionary zoning are often used together in a 'carrot-and-stick' approach. If the municipality offers a 'carrot' (the density bonus), the developer is more likely to accept the 'stick' (requirements for affordable housing or public amenities in their development).

Table 9.1: Value capture instruments continued

VALUE CAPTURE INSTRUMENTS	DEFINITION/DESCRIPTION	APPLICATION
Joint development agreements (JDA)	A type of public-private partnership where public and private organisations contribute to the costs of a transport facility, and share the revenues that come from commercial developments that take advantage of that facility.	• The features of a joint development project often depend on the specific conditions in the place where the project will be situated. These are complex projects, with a high degree of community involvement. • A community-based organisation (CBO) may be formed to represent home owners and residents in the development area who have a financial interest in the project. This CBO would form a partnership,called a JDA, with government for the development of land around the private sector project. • CBOs that are part of a JDA often offer benefits to the private developer, by helping to assemble properties for the redevelopment. The assembly process is very valuable to developers, who otherwise must use time and money to buy and assemble land parcels, often through separate negotiations with a number of small property owners. • The CBO and the public agencies which own the infrastructure are able to find and partner with a developer. Profits from the development are then shared between the CBO, public agencies and the private sector body involved in the project. The CBO can also introduce requirements for development such as inclusion of affordable housing and/or locally-based retail tenants.
Land value increment taxes	A type of property taxation system in which the property rate is raised or lowered, based on the change in total assessed value of the property after the instalment of public infrastructure.	• These taxes are an instrument to capture value at specific sites in the municipality. They work by ring-fencing the tax revenue that comes to the municipality from the increased value of land after public interventions, for example provision of transport infrastructure and other services. These taxes are then allocated to special projects or programmes.
Land banking and leaseholds	An instrument which local or provincial government uses to buy land around the planned transport interchange and hold it for sale once the infrastructure has been developed. The government then benefits from the increased land value, which is captured and ring-fenced for poverty alleviation projects such as housing, infrastructure services, etc.	• Most often, local government buys or otherwise acquires land located near or within TOD hubs. The area is then re-zoned for higher density and TOD. The municipality often keeps full control of the land,and sells leasehold rights for private development there. • The municipality can often capture an increase in the value of land through income from leasing it, at a value linked to its development value or the commercial revenue that will be received by private developers. Leasing, as opposed to outright sale of land, gives the municipality more freedom and flexibility to direct development in the interests of the broader public over the long term. • Another advantage of this instrument is that revenue from land banking and leaseholds doesn't have to be directly linked to specific transport infrastructure or service delivery, as is the case with a betterment tax or tax increment financing. • A disadvantage of this mechanism is the possibility that income received by the municipality from land banking and leaseholds can be redirected to the general municipal fund for all purposes, unless there is a policy to control use of this income.

Table 9.1: Value capture instruments continued

VALUE CAPTURE INSTRUMENTS	DEFINITION/DESCRIPTION	APPLICATION
Air rights	Air rights are designated to allow for development above public infrastructure and facilities such as railway or mass transit stations, highways, and other facilities.	• In some cases, air rights granted by public authorities have come with stipulations and requirements for the provision of public amenities, infrastructure, affordable housing, and other public benefits. • This instrument has been used in South Africa (e.g. for a shopping centre built over a railway and a convenience store and petrol stations built over a highway).
Tax increment financing (TIF)	This instrument works on the principle that public infrastructure will increase the value of property around the infrastructure, and this will increase income from taxes on the property. This additional tax income can then be 'captured' within a specific part of the city, and used to pay the interest on money the municipality has had to borrow to pay for the infrastructure within that area.	• TIF can be used to pay for transport and other infrastructure, and landscaping around the infrastructure. TIF is usually used to encourage private sector investment in under-developed or downgraded areas. • Municipal governments use TIF to encourage private investment in an area, by financing improvements in the area based on the future income that they will receive from the private development. • TIF districts are established in different locations and circumstances, not just at transport interchanges. However, transport-related projects and interchanges are a very common location for these financing districts.

Case study

Learning from mixed housing programmes in other countries[4]

International experience is that the most effective programmes are those that **mix regulation and incentives**, and **emphasise flexibility** with regard to the nature of the mix. This flexibility allows a programme to be most responsive to the specific area and project where it is being implemented.

Including incentives in the programme is vital, because regulation imposes additional costs on the project and so developers need to have some way to offset the resultant extra costs that emerge.

For example, in Ireland, as part of the overall reform of the country's planning laws, inclusionary housing (usually 20% of the land area of the development) was included as a requirement of all developments over a certain threshold. The cost of this inclusionary housing is carried by both the developer and the municipality, with the developer's contribution linked to the gain in value that results in planning permission (in other words, value capture) and the remainder of the cost covered by a subsidy from government.

USING VALUE CAPTURE INSTRUMENTS

Experience shows that creating a transport interchange on a site may increase the value of the site, depending on the type and scale of the infrastructure provision; the development context; and the extent to which the new infrastructure changes the economic situation in the area around it. The value can increase by anything from 22% to 180%.[5]

Table 9.1 listed a variety of instruments for capturing this value for the benefit of the broader public. These are flexible tools which can be used for different purposes and in different combinations:

- Many of the value capture instruments are aimed at providing infrastructure, including transport, to reduce sprawl, regenerate derelict neighbourhoods, or provide affordable housing.
- In some cases, value capture instruments generate income directly for use in service delivery to low-income communities, through JDAs and partnerships with CBOs.
- Many of the instruments are used in a variety of locations and not just for transport interchanges. These instruments work together to create and capture value for public purposes. For example, zoning may require the inclusion of affordable housing, but density bonuses and TIF help to create incentives for private developers to implement inclusionary zoning policies.

Municipalities can be guided by the following steps when they choose and implement one or more value capture instruments:

1. **Be clear about the municipality's poverty reduction objectives for that particular site.**
   Different sites will have different populations, economic conditions and social dynamics. Therefore different poverty reduction strategies will be relevant and effective in different contexts. For example, the best way to achieve poverty reduction in a particular area may be through job creation, support to entrepreneurs, job training, or the construction of affordable housing.

2. **Choose a value capture mechanism that will promote the municipality's poverty reduction objectives, and be suitable for the site.**
   Different value capture instruments are best for achieving different poverty reduction strategies. For example, if there is a serious lack of affordable housing near to a proposed transport interchange, the municipality can consider using inclusionary housing as a way to force developers to increase the supply of affordable housing in the area. But inclusionary housing will only be an effective instruments if there is also demand for market-rate housing units within the area surrounding this site. The inclusionary housing tool is most effective in high-density or high-value locations, where the profits are big enough to allow developers to cross-subsidise the affordable units.
   In another situation, the municipality may want to build a road interchange next to a low-income neighbourhood on the outskirts of the city, where rising unemployment and a lack of economic opportunities for residents are the key issues. In this situation, the main advantage from the proposed transport interchange may be the indirect benefit of attracting businesses to the area that will employ local residents. In this case, the poverty reduction objective for the project would be to maximise employment creation at this interchange, and at the same time ensure that local residents get a fair share of the jobs and entrepreneurial opportunities that may be created by new developments.

3. **Do not try to combine too many policy objectives in one project.**
   It is important that as the planning and implementation processes for a project unfold, the project is not overloaded with many different policy objectives which may be in conflict with each other. When this happens, the result is often that none of the policy objectives are achieved because the municipality, and other role-players in the project, have been trying to do too much. The key is to choose one policy objective, and not try and make a project fulfil every need. For example, if the aim of the chosen value capture instrument is to create revenue to pay for the infrastructure, then it may undermine this objective if the developer is also burdened with heavy inclusionary housing obligations.

4. **Use both carrots and sticks to impact on developers' choices.**
   The best municipal strategies for poverty reduction rely on a combination of 'carrots and

sticks' to attract private investment and at the same time ensure that the new development meets the community's standards and needs for housing and economic growth. Incentives offered to private investors can be linked to regulatory or other requirements.

However, when a municipality uses the provision of new infrastructure as an incentive to attract investment, it must take care not to use policies that place too many limits on how much the private sector can benefit from this infrastructure. The developers must be able to see clearly that the benefits they will get from the new infrastructure (such as a new transport interchange) will be in balance with the costs they will incur because of the higher regulatory requirements (such as inclusionary housing).

Municipalities also need to ensure that they treat all private investors equally and fairly, so that potential investors will be prepared to accept the policy.

Things to consider: How ring-fencing is linked to poverty reduction

Municipalities sometimes have two goals that they want to achieve with the same value capture instrument: receiving tax revenue and promoting redistribution. But the first goal doesn't always lead to the second. In a municipality where there is a highly uneven distribution of wealth, and scarce funds to finance public works, it is usually easier to get tax income by allocating public works in high-income areas where more tax can be collected. Even with the use of a value capture instrument, when the decision about where to locate the development continues to improve wealthier areas of the city, the whole process works against the interests of the poor.

> Whether or not a specific value capture instrument can achieve redistribution in an area depends on how the municipality chooses to use the instrument.

In an ideal situation, the tax revenues that come from infrastructure investment within a particular part of the municipality are ring-fenced for specific uses which benefit that area. In almost all cases, these tax revenues go to the municipality, which has the most direct control over zoning, land use, development regulation and local economic development. However value capture is not always explicitly directed to 'poverty reduction'. Often it is used to finance infrastructure; this infrastructure then attracts private investors to the area. But many examples of value capture are aimed at urban regeneration and, at least indirectly, these measures improve conditions in low-income areas.

For municipalities to ring-fence tax revenues and make best use of them, the municipalities themselves must be able to define and use the tax income for the public purposes that are most relevant in their situations. This may require a change in national government policies to give municipalities control over the tax income. Many of the value capture instruments only work if the funds 'captured' are ring-fenced at a municipal level, and this is difficult in the current policy environment.[6]

LIMITATIONS ON MUNICIPAL USE OF VALUE CAPTURE INSTRUMENTS

At present, two forms of value capture are used in South Africa:

- City Improvement Districts (CIDS): CIDs are a form of self-imposed betterment tax used to improve local conditions within a specified district.
- Developer contributions: This is a form of impact fee that is applied specifically to funding of new infrastructure.

South African municipalities are generally not allowed to design other forms of value capture or financial incentives at the local level, unless they have approval from National Treasury.

Opportunities such as ring-fencing the increase in property tax revenues, providing tax abatements, and funding through tax increment financing are re-stricted by national legislation, or by processes that require national government intervention or enabling actions.

Even where national government has enabled incentives, the designation of districts can usually only be done by National Treasury. National Treasury has policies guiding development of several types of local economic development zones that offer certain (often limited) financial incentives:

- Industrial Development Zones (IDZ) offer only VAT benefits for corporations that locate investments in these designated zones (usually located at ports or major industrial sites).
- Urban Development Zones (UDZ) offer the Accelerated Depreciation Allowance incentive for development within the larger city centres.

> There is a need to explore opportunities for municipalities to experiment with incentive zones or districts where resources and investment can be directed to support economic development and poverty reduction.

Under current government policies, there are few zones or districts in South Africa defined and controlled by municipalities that offer a mix of incentives appropriate to development and poverty reduction within a specific area, except for CIDS.

The result is that there is little opportunity for local municipalities to set up their own specific incentives or special taxing districts. This dependency on national policy limits opportunities for local governments to experiment. It also means that it is hard for municipalities to take advantage of their tax base and encourage the types of development for which each municipality is particularly competitive.

Municipalities do have more control at present over regulatory mechanisms such as zoning. For example, there are opportunities for municipal governments to implement policies such as inclusionary zoning, which requires private developers to include affordable housing within their developments in order to create mixed income housing communities.

Interventions beyond the control of local government

Changing the legislative and policy environment to address these limitations on the municipality's ability to use value capture instruments may be a longer-term solution. In the short term, municipalities can take a number of steps to work with other role-players to open up opportunities for capturing value from public infrastructure investment.

Areas where municipalities can work with other agencies and spheres of government to facilitate and promote the use of value capture instruments include the following:

- Local governments can require precinct planning at all mass transit stations (for example, Metrorail or Gautrain) and major highway interchanges. This planning should incorporate an assessment of market/development potentials, indicative residual land value or Net Operating Income (NOI), broad area plans, marketing and development strategies, developer engagement and community benefits strategies.
- Transport agencies should participate as full partners in the precinct planning processes (instead of establishing processes independent from the municipal governments). This planning should be extended beyond the immediate site to include surrounding potential development and impact areas.
- Transport agencies must examine the development potentials around their interchanges and include this information in their projections and modelling of transport ridership (this can be integrated with the master planning process). At present, modelling does not take into account future development potential around stations, which is key to expanding ridership and increasing income to be used for the expansion of transport access.
- Local government can propose to National Treasury that it should make more options available to municipalities to experiment with tax incentives, and with financial incentives such as direct investment, loans and financing for economic development, including development associated with transport interchanges.

Take home points

- Transport interchanges are a form of incentive which stimulates development, spurring the private market and creating value that might not otherwise exist at a particular location.
- Where the public sector has created an asset or helped to stimulate and support a market (through the development of public infrastructure), there is opportunity for capturing value from such investment. Municipalities must recognise the power of public infrastructure itself as an incentive to development, and capture that value using existing regulatory processes and tax mechanisms.
- The value that is captured from the introduction of infrastructure (such as transport interchanges) can be used for poverty reduction and development.
- There are a number of value capture instruments – different tax and regulatory mechanisms – which can be used alone or in various combinations, depending on what is appropriate at a particular site. A municipality needs to choose the value capture instrument which makes the most sense in terms of the poverty reduction goals in a particular area, for example job creation, SMME development, affordable housing, etc.

- **For more on nodal development, see Chapter 8.**
- **For more on other tax instruments related to residential development, see Chapters 3 and 7.**

NOTES

1 This chapter is based on the report, Value capture from transit-oriented development and other transportation interchanges, prepared for Urban LandMark by African Development Economic Consultants (ADEC) with BKS Engineers, November 2010.

2 The recommendations are based on various analyses that examined the increase in land value that can be expected due to the development of transport interchanges, along with an assessment of best practices in capturing this increase for public good. ADEC conducted an analysis of three case studies: a highway interchange along the planned PWV9 near Diepsloot in Midrand; a BRT station site near Mooki and Magoye Streets in Soweto; and a commuter rail (PRASA) station site in Chris Hani, Khayelitsha. Their methodology enabled them to translate development potential around these three transport interchanges into a residual land value. The land values for each site were then compared with existing values at the sites, the potential future value at the sites if there were no transport interchange, and the value of land at comparable sites. The approach allowed them to illustrate the differential or 'premiums' achieved from access to transport nodes or infrastructure.

3 Adapted from Doebele, W. (1998) The Recovery of 'Socially Created' Land Values in Colombia. Land Lines 10(4): 5–7. Cambridge, Massachusetts: Lincoln Institute of Land Policy; Jaramillo, S. (2000) The Betterment Levy and Participation in Land Value Increments: The Colombian Experience. Cambridge, Massachusetts: Lincoln Institute of Land Policy.

4 Malach, A. (2010) Inclusionary Housing and the goal of social inclusion: policy choices in cross-national perspective. Paper presented at Comparative Housing Research – Approaches and Policy Challenges in a New International Era. TU Delft, the Netherlands, 24–25 March 2010.

5 These are estimates based on three case studies undertaken for the ADEC research. See note 2 above.

6 Adapted from Furtado, F. (2000) Rethinking Value Capture Policies for Latin America. Land Lines 12(3): 8–10. Cambridge, Massachusetts: Lincoln Institute of Land Policy.

CONCLUSION

The way that municipalities carry out their assigned functions related to the governance of urban land can have a tremendous impact on the ability of the poor to access land and housing in cities. The chapters in this guide have provided practical tools for municipal officials who are involved in the daily work related to the management of land, property and the built environment. These tools are intended to help officials to do their work in a way that takes into account the needs of poor people, and the potential impact which government interventions can have on their livelihood and opportunities.

Municipalities have a choice. They can simply focus on compliance with the bare minimum set out in the law, interpreting rules as neutrally as possible. While such an approach may appear both efficient and fair it neglects local government's Constitutional mandate to be developmental and pro-poor. What the municipality sees as 'neutral actions' may actually have a negative impact on the lives of the poor, if these actions fail to take advantage of opportunities that exist to use municipal powers to create enabling environments for development and expand oppor-tunities for the poor. Even when they are not providing direct relief to the poor, municipal governments can take steps to provide incentives (direct or indirect) in the urban land and property markets so that the outcomes benefit poorer communities.

> Municipalities have a choice to use either *compliance-driven* or *pro-poor* approaches in carrying out their urban land governance functions.

The alternative choice for municipalities is therefore to take a more proactive and pro-poor approach to carrying out their urban land governance functions. This approach involves actively seeking out opportunities to use the legislative, regulatory and fiscal tools that are available to local government to promote local economic development, affordable housing and accessible public transport. This is the approach which is supported by this guide.

A proactive pro-poor approach to urban land governance needs the active involvement and coordination of different departments within the municipality (including engineering, town planning, finance, legal services, and housing), as well as coordination with other spheres of government. Officials who work in silos will fail to see, understand and adapt to the range of connections between sectors involved in urban land and housing, and this lack of coordination will iead to a decrease in the efficiency and effectiveness of any intervention by the municipality. To help municipalities strengthen their capacity to coordinate their efforts across departments and government spheres, this guide has provided officials with some practical tools for working together. It is hoped that cross-disciplinary teams within the municipality can use the guide to stimulate and enable joint planning and action as they respond to the settlement needs in the city. The chapters of this guide have addressed key topics in urban land governance, including land release, property rates, land use management, and informal settlements. However, this is not a comprehensive manual covering all relevant aspects of urban land and property issues. For example, the chapters have focused mainly on residential land use, but the governance of non-residential land is also an essential aspect of development for poor households.

APPLYING THE PRINCIPLES

The Introduction to this guide lays out thirteen core principles which should steer local government interventions to make urban land and property markets work better for the poor.

The first three principles focus on how important it is for local government to incorporate pro-poor aims and objectives into its planning, together with aims related to increasing revenue and economic development. These principles were discussed in some detail in Chapter 8 on the development of shopping centres in township areas and Chapter 9 on transport infrastructure. Although the municipality is interacting with private sector developers in these situations, and is often trying to maximise its revenue, there are also opportunities here to reduce the financial burden on poor households and to capture value, which can be used for poverty reduction and extending urban infrastructure. For example, Chapter 4 on land release gave practical examples of how municipalities can find the best way to include affordable housing opportunities in the release of state land for human settlements, while still ensuring that the private developer is able to make a profit.

Principles 4–6 relate to the impact of government interventions in the land and property market. To ensure that state interventions do not have a negative impact on poor households, it is very important that municipal officials first understand this market (the people and institutions involved in it, and the way the market can change). Understanding of the market protects municipalities from carrying out programmes which create market distortions. With a good understanding of urban land and property markets, municipal interventions in land and property can help to create an enabling environment for development, and increase the affordability and quality of housing products available to the poor.

Principles to guide local government interventions in urban land governance

1. Give due regard to pro-poor objectives.
2. Recognise that inaction also has an impact.
3. Balance pro-poor objectives with growth and revenue aims.
4. Know the market.
5. Adopt an enabling role.
6. Manage direct interventions to minimise market distortions.
7. Recognise the diversity of role-players.
8. Partnerships are essential.
9. Accept incrementalism.
10. Acknowledge and build on existing innovative and resourceful solutions of the poor.
11. Prioritise the coordination and alignment of internal players within the municipality.
12. Acknowledge local government’s room to manoeuvre.
13. Build institutional capacity.

The chapters on land use, land release, informal settlements and small-scale private rental all highlighted how important it is for municipalities to understand the market, and gave good examples of how failing to do so can have negative impacts on the poor. For example, Chapter 6 on small-scale rental described situations where government programmes to directly intervene by subsidising backyard shack upgrades can have the effect of displacing current tenants who cannot afford the increased rentals. Chapter 3 on land use gave examples of how the municipality can take on an enabling role in the property market by setting up sound land use application management processes, electronic application tracking systems, and GIS databases.

The chapters on the management of informal settlements and the development of shopping centres in township areas (Chapters 5 and 8) are good illustrations of the power of partnerships in service delivery (principles 7 and 8). The planning and design of new shopping malls in township areas must be a participatory process which includes informal traders operating in the area and community groups representing local residents and consumers. The successful management of informal settlements depends on partnerships with existing social networks and community structures.

Unless the municipality takes the time to learn about, acknowledge and incorporate the different interests and incentives in these areas, the success of its interventions will most likely be undermined. The government's ability to respond effectively and in a sustainable way to the very big urban housing backlog depends on how it works with the other role-players in the market. The key message of these chapters is that partnerships are essential – with the provincial and national spheres of government, as well as with the private sector and local communities.

Partnerships are also an essential tool for the municipality when it tries to find effective solutions to problems using its own limited resources.

The ninth principle relates to the importance of starting with small but concrete steps which make real improvements in the lives of poor people; and then building on these solutions through a structured participatory process. The chapters on small-scale private rental and informal settlements describe situations where poor households are using survivalist strategies to generate income and find adequate shelter. Individuals and communities of residents of informal settlements and backyarders often show great resourcefulness and creativity in meeting their basic needs and addressing neighbourhood issues, with minimal or no government aid. Government interventions must therefore be designed to work with, and reinforce, these solutions already being created and implemented by poor households.

The final set of principles refers to ways in which a municipality must organise itself and find resources to effectively adopt a proactive, pro-poor approach to urban land governance.

One of the key messages of Chapter 9 was that a municipality must be clear about its objectives, and make sure that all departments within the municipality share these objectives, before it interacts with partners. For example, revenue generation and transport planning objectives may compete for priority in the design of a transport interchange. Therefore, before deciding on which is the appropriate value capture mechanism, municipal officials from the finance, transport and town planning departments must discuss and agree on their main intentions for the project. Otherwise their dealings with private sector partners will be confused and ineffective.

Chapter 7 provided another example of a pro-poor approach, in which property rates can be designed to provide direct tax relief to poor households, that will only work if there is good inter-departmental coordination and shared objectives in the municipality.

In this case the finance department needs to balance its revenue requirements with social relief aims. The residential exclusion threshold should therefore be set so that it supports the municipality's free basic services policy and housing programme.

At the same time that they work to balance competing policy objectives, municipal officials must recognise their limited room for manoeuvre in the current legislative and policy environment (principle 12). For example, Chapter 9 discussed how the existing legislative and fiscal framework gives local government limited space to use certain value capture mechanisms.

An essential part of the processes and options described in all the chapters of this guide was raised at the beginning of Chapter 3, which discussed the steps that must be taken to improve the institutional capacity of municipalities for effective land use management (principle 13). This is fundamental to the sustained success of any municipal intervention (direct or indirect) in urban land markets.

LOCAL GOVERNMENT'S ROOM TO MANOEUVRE

It is important that municipalities strive to hold on to these principles as they deal with the complex realities of policy implementation. More often than not, government is not starting on an intervention with a clean slate, but must work with what is already on the ground, and with programmes which are already in place. In such cases, it is important to keep the principles in mind and to be committed to their progressive fulfilment. The guide offers suggestions for how municipal officials can take action to implement these principles in new programmes, and begin to move toward these principles in current, ongoing programmes.

This guide has been designed to address the concerns of local government officials, and has aimed to provide them with practical tools which can be immediately implemented. However it is important to note that urban land governance is not just the domain of local government. Some actions are fully within the policy and legislative space available to local government, but other actions will require the municipality to engage with and/or lobby other spheres of government. Ultimately, effective management of urban land depends upon broader partnerships with the private sector, community groups and other spheres of government.

GLOSSARY

cross-subsidy	Charging higher prices to one group of consumers in order to subsidize lower prices for another group.
end-user finance	A loan provided to enable a buyer to purchase a house or other property or goods.
gap market	The 'gap' market typically refers to those who earn too much to qualify for a government-subsidised house (over R3 500/month) and too little to qualify for a loan from a commercial bank. The top threshold for the 'gap' market varies from R7 000 to up to R12 000/month, depending on different views and interpretations.
holding costs	Money spent to keep and maintain a piece of property. Costs may include property rates, cleaning, or security.
moral hazard	This is an economic term to refer to a situation where an individual is not fully responsible for the consequences of an action (for example, they are not the owner of a property) and therefore tend to take greater risk than they would if they were fully exposed to the risk.
net present value	Present value is the value on a given date of a future payment or series of future payments, discounted to reflect the impact of inflation and other factors such as investment risk. Net present value is therefore the difference between the present value of cash inflows and the present value of cash outflows. It is used in capital budgeting to analyze the profitability of an investment or project.
opportunity cost	The cost of an alternative that must be forgone in order to pursue a certain action. For example, if a person has to spend a long time travelling, then this is less time they can spend at work earning money. Or if an investor spends money on a property, the true cost of the property is the price paid for the property plus the opportunity cost of not being able to use those funds for another purpose.
paper yields	Return on investment.
regressive	A tax is called regressive if it puts a greater burden (as a percentage of total income) on the poor than the rich.
revenue foregone	Taxes that are not collected because of rebates, exemptions and exclusions.
transaction costs	The cost incurred by making an economic exchange. For example, when an individual purchases a property, there are various transaction costs, such as conveyancing fees and transfer fees.
value capture	A type of public financing where increases in private land values generated by public investments are all or partly recovered by the public sector.
value creation	Occurs when the introduction of infrastructure in a certain place results in the land close to this infrastructure increasing in value.


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ACRONYMS

BNG	Breaking New Ground
BRT	Bus Rapid Transit
CBD	Central Business District
CID	City Improvement District
CBO	community-based organisation
CPI	Consumer Price Index
DCOG	Department of Cooperative Governance
DFA	Development Facilitation Act
DTI	Department of Trade and Industry
EIA	Environmental Impact Assessment
FBS	free basic services
GLA	gross lettable area
HMF	housing microfinance
IDC	Industrial Development Corporation
IDZ	industrial development zone
JDA	Joint Development Agreement
LAA	Land Availability Agreement
LED	local economic development
LFTEA	Less Formal Township Establishment Act
MFMA	Municipal Finance Management Act
MPRA	Municipal Property Rates Act
NBI	National Business Initiative
NGO	non-governmental organisation
NHSS	National Housing Subsidy Scheme
NOI	Net Operating Income
SACOB	South African Chamber of Business
SARS	South African Revenue Service
SASSA	South African Social Security Agency
SEDA	Small Enterprise Development Agency
SMMEs	Small, medium and micro enterprises
TIF	tax increment financing
TOD	transit-oriented development
TPS	town planning scheme
UDZ	urban development zone

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