

INFRASTRUCTURE *Dialogues*

Spatial Transformation and the Inclusive Economy: a focus on inner-city housing 11 April 2019

1. Introduction

The physical form of South Africa's cities and towns is profoundly bad on economic, social and ecological grounds, and spatial transformation is essential for creating a productive, equitable and healthier society. Over the past 25 years, steps have been taken to transform apartheid city spatial form, but have been overshadowed by development patterns that serve to reinforce the status quo.

The 50th Infrastructure Dialogue focused on inner-city housing, which is an important component of spatial transformation and provides a lens to view the broader picture about developing inclusivity and participation in South Africa's economy. Everyone agrees with the need to deal with the perversity of South Africa's spatial patterns, but the issue is how and what can organisations do to make our cities more sustainable, resilience, equitable and inclusive.

The Infrastructure Dialogues are hosted jointly by the [Development Bank of Southern Africa](#) (DBSA), the [South African Cities Network](#) (SACN), the [National Business Institute](#) (NBI) the [Performance Monitoring and Evaluation Department in the Presidency](#), and the [Department of Economic Development](#), with the [Engineering News](#) as media partner. The goal is always to use shared information and facilitated discussion to achieve an improved climate for policy and decision-making, and strengthened cooperation within the infrastructure sector. In particular, the dialogues seek to draw out lessons and ideas that role-players in the infrastructure sector can take forward and apply to improve performance, against the backdrop of pursuing inclusive economic growth.

2. Programme and Panellists

Dr Zwelakhe Tshandu of the DBSA welcomed the audience to the 50th Infrastructure Dialogue and introduced the partners. He highlighted the longevity of the Infrastructure Dialogues' platform, which has been in existence for a decade. The facilitator, **Richard Goode** of the DBSA, introduced **Paul Jackson**, who has been TUHF's CEO since its inception in 2003 and has been involved in development finance since 1987. Prior to being appointed as CEO at TUHF, Paul was senior operations manager at the Johannesburg Housing Company, general manager for the Transitional National Development Trust (TNDT) and divisional manager for Southern Africa at the DBSA. While he was at the TNDT, the company was awarded first prize by the JSE/Deloitte & Touche for corporate governance with a special acknowledgement for excellent achievement. Paul has held board directorships on the Mvula Trust, Alexander Social Housing Company, Brickfields Housing Company, Johannesburg Social Housing Company and the Centre for Affordable Housing Finance.

3. TUHF's Approach to Inner-City Housing

The housing debate often revolves around statistics about the need for housing, e.g. the backlog of five million housing opportunities. While the need is real, this approach tends to view housing as a form of welfare and as a cost – rather than a benefit – to the national economy. TUHF's view is that housing investment is a net contributor to the economy. Where others see declining areas, TUHF sees thriving property markets.

TUHF operates in a strong niche market, that of low-to-moderate-income housing in cities in decline. It provides access to finance for entrepreneurs to purchase, and subsequently convert or refurbish buildings in the inner cities of South Africa. About two-thirds (64%) of its clients are previously disadvantaged individuals. The rents received by TUHF's entrepreneurs are between R1500 and R6000 per month.

An important distinction is that TUHF is not a housing finance company but an SME financing company with a housing outcome. As a mortgage bank, TUHF is an invested stakeholder – if the inner cities fail, then the company fails. TUHF also has shareholders, which include the Public Investment Corporation, Future Growth and the National Housing Financing Corporation, and they require hard returns. The company has both commercial (60%) and developmental (40%) objectives, and its founding objectives are urban regeneration, black economic empowerment, and low-income housing delivery.

TUHF has been in business for about 16 years and is present in all major metros, with offices Gauteng, Western Cape, KwaZulu-Natal, Free State and Eastern Cape. It currently finances nearly 35 000 units and has a loan book of over R3-billion, whose performance is comparable with any of the commercial banks. For TUHF, inner cities are good places for investing for three main reasons:

- Inner cities are multi-sector economies. Therefore, people who are invest in downtown housing derive their rental from diverse sectors. For instance, in Braamfontein can be found the offices of mining, manufacturing, financial services companies (including the head offices of at least three major banks), government offices and Wits University. It is also home to the largest transport hub in Africa.
- Urbanisation is real and continuing. Nearly two-thirds (63%) of South Africans already live in cities, and this is expected to rise to 71% by 2030.
- Energy price trends will continue to rise. This will mean transport and time become more important – people want to live close to work opportunities.
- Inner cities provide access to technology and other infrastructure, e.g. education, social, health infrastructure). Such access is increasingly important for ensuring equitable and inclusive cities.

“Commercially viable and sustainable businesses can be created around developing housing solutions that work in the reality of South Africa's society.”

4. Massive-Small is the Answer

The massive-small concept means building (for example) 10 000 x 20-unit projects instead of 5 x 5000-unit projects, or 2 x 10 000-unit projects. It means supporting hundreds of ordinary people with local knowledge and entrepreneurial ability rather than a few large companies. TUHF's clients include ex-housekeepers, janitors, cops, teachers, as well as property managers. They are male and female, old and young, black and white. Their housing projects are all in-city and vary from 2 units to 60 units and up to 435 units – about 70–80% of the 35 000 units are new houses, i.e. conversion of a light industrial building or an office block into residential accommodation, with some new builds. What they all have in common is local knowledge and skills to develop a local opportunity.

What massive-small brings is:

- Inclusive growth. The housing supplied is also a business, as the property developer either rents or builds the housing for sale.
- Cost effectiveness. TUHF-financed projects received no subsidy from government, whereas RDP housing costs the public purse about R350 000 per housing opportunity.
- Urban land reform. The TUHF-financed projects are changing the complexion of ownership in cities.
- Economic multiplier and fiscal contribution. The Brickfields project was cited as an example of how the economic multiplier of construction and fiscal contribution of residents can far exceed the value of a grant. The Johannesburg Housing Company received a grant and subsidy from Government for the Brickfields project, which had an initial return of 10%. However, once VAT, property taxes and utility payments were taken into account, the return on investment to government is closer to 33%.

Many countries in Africa have shown interest in this massive-small approach. In Nairobi, the private sector property developers are actively applying this approach.

“We need to focus policy on thousands, tens of thousands of projects run by ordinary South Africans, within inner city areas, using their substantial local knowledge [...] and their substantial entrepreneurial ability to bring about a housing business that contributes to the fiscus, the local economy and to themselves and their families.”

5. Challenges to Developing Inclusive Cities

All agreed on the need to develop inner cities, and the massive-small approach adopted by TUHF provides a way of contributing to the country's inclusive growth and transformation of cities. However, various challenges need to be overcome.

5.1 Gap in the financing system

There is a gap in the financing system for channelling finance to the segment of the market served by TUHF (among others). Developers of affordable housing and social housing, as well as smaller property developers working in the inner cities, need access to finance. The issue is where will this finance come from. The DBSA loaned R200-million to TUHF at the start, but the bank has since withdrawn from this market segment, although it continues to finance student housing.

The need is not for subsidies or grants, but for market-related capital, as any model has to be replicable and sustainable. The housing finance continuum goes from micro-finance to housing loans, to housing entrepreneurs. The micro-finance space in South Africa is world-class – loans are available from Cashbuild or Builder’s Warehouse (for example) for buying materials (e.g. for building a shack). Housing loans are available from many organisations, which are a big contributor to housing development. What is missing is finance for housing entrepreneurs. Until recently the Gauteng Partnership Fund, an agency of the Department of Human Settlements was very supportive of small projects. However, they have been directed to shift their attention to megaprojects, thereby cutting off finance to TUHF’s small developers.

5.3 Policy contradictions

The policy calls for densification and massive-small backyard units, but in practice housing developments being built are mega projects and on the periphery of cities. Despite these policy imperatives to stop urban sprawl, South Africa has an unfortunate tendency towards promoting mega housing projects such as Cosmo City or Savannah City. The problem with mega housing projects is that (i) they occur on the periphery of towns and cities – Savannah City is halfway to Sasolburg, while Cosmo City is out on the West Rand; (ii) they require huge public subsidies, (iii) if they fail, the costs involved are enormous. Cosmo City may have added 10 000 housing units, but TUHF’s clients are responsible for triple the number of units (35 000) without one rand of subsidy.

Another contradiction raised was in the City of Joburg, where the local government is no longer selling problem downtown buildings but is offering them on long-term leases. But it’s hard to mortgage a lease, and so mortgage financiers are unable to participate. While the release of problem buildings is a step in the right direction, the process does take too long – for instance it took more than 18 months to allocate three buildings of the 12 buildings that were released under the previous administration.

5.2 Lack of research

South Africa has insufficient research into housing and urban development issues, mainly because there is no research agenda at national level. The only evidence is backward-looking and anecdotal. The national Department of Human Settlements should fund a national research agenda that includes the universities and research institutions in order to understand what is needed, i.e. the price and income elasticity of demand for housing, the demographics, the life cycle movements and the housing requirements of urban dwellers (especially the youth).

The lack of research at a granular level can lead to sweeping policy statements that do not reflect the complexity of inner-city experiences. For example, inner cities are home to many foreign nationals that contribute significantly to the local economy, while not all “hijacked” buildings are hijacked by criminal elements; in some cases, they are a symptom of popular boycotts. Research is needed to understand the different elements and their socio-economic contributions to inner-city life.

5.2 Public sector locks out the formal sector

Local government's delays in approving plans and zonings has led to a situation in many cities where entrepreneurs in the backyard accommodation market, completely disregard building and zoning regulations. A typical example was given from Cosmo City, where TUHF was working on a backyard rental programme with a local entrepreneur. After over a year of interacting with local government, the zoning and plan approval etc. were still not sorted out. When TUHF returned to Cosmo City, they found that the entrepreneur had simply gone ahead and built 24 units without worrying about plan approval, zoning, boundary lines, health and safety requirements, or building code requirements.

In effect, the private sector, which must conform to property regulations, is locked out of the informal market. City regulations need to be established that can work with these developments, as once built, it is virtually impossible for cities to reverse and demolish the structures.

“You can get a micro-loan or a personal loan for housing purposes from any one of a number of organisations”

6. Research and Political Will are Required

A common thread to emerge from the discussions was the need for research and political will.

Research is critical

There is a fundamental lack of understanding of demographics, and the lifecycle movement and requirements of people living in urban spaces. The national Department of Human Settlements should be financing research into housing and urban development issues, bringing in research institutions and universities. It is important to know where young people go in cities, how price sensitive the demand for housing is, what the demand is for different types of housing, and the fiscal effect of different housing approaches. Such research will guide policy and practices.

Political will

Cities are taking actions to make cities more inclusive, but much depends on political will. Ekurhuleni is looking at introducing township establishment for open spaces in the inner city. This would be cheaper than establishing in a new area because the infrastructure is already there. The City of Joburg has an inclusionary housing policy that seeks to direct the provision of new housing to well-located areas, such as those close to jobs, schools and public transport, that low-income and lower-middle-income households might otherwise be excluded from. It incentivises private developers to dedicate a minimum of 30% of their total units to inclusionary housing when building 20 or more dwelling units – a voluntary option is available for developments with fewer than 20 units. The City of Cape Town decided to facilitate inner-city development by making parcels of land available and calling for proposals. However, this had huge political connotations, as the City said that the land would be made available at a small percentage of the market value. Despite the good intentions, the developments are unlikely to process without sufficiently strong political will.

7. Conclusion

The 50th Infrastructure Dialogue's topic was inner-city housing, as a component of spatial transformation. TUHF's approach formed the basis of the discussion. TUHF views housing as a contributor to the economy, not a form of welfare. Its focus is on financing entrepreneurs who wish to purchase and subsequently convert or refurbish buildings in the inner cities of South Africa. Most of the buildings are transformed from office or light industrial use to residential use. TUHF believes that sustainable businesses can be created around developing housing solutions in inner cities, through the massive-small approach.

The massive-small approach is about building many smaller developments in the inner cities, rather than mega developments on the periphery of cities. It is a form of urban land reform, as it changes the complexion of ownership in cities, and is cost effective. In a low-growth economy, what is required is the broad scale escalation of investment activity. Such an approach can unleash significant multiplier effects in the housing sector, improve the efficiency of markets and complement the government-funded RDP programmes. While all agreed that inclusionary housing is necessary, certain gaps were identified. They include the lack of financing available for developers of affordable and social housing, the lack of research at a granular level of lifecycle movements of people living in cities and the lack of regulations governing backyard developments. These challenges will need to be overcome and mixed-use/mixed-use development promoted in order for South Africa to spatially transform its cities into inclusive, equitable, sustainable and resilient urban spaces.

“The massive-small approach has wide applicability in an economy that is in a low-growth phase.”

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Dialogue in Pictures

Picture below: 50th Infrastructure Dialogue speakers
From left to right: Paul Jackson, Richard Goode



Pictures below: 50th Infrastructure Dialogue – Dialogue participants
listening, speaking and participating

