Building Better Cities

A new approach to housing and urban development

Executive Summary

For many people, location trumps ownership. They would much rather rent a property in Orange Grove than own a house in Orange Farm. South Africa needs to think differently about housing and urban development.

The current policy has delivered millions of RDP units at a rate that experts agree is much better than public housing programmes in most other countries. However South Africa's approach of building RDP houses that are often far away from centres of economic activity, with limited access to decent schools and functional infrastructure, has reinforced apartheid spatial patterns and contributed to our shockingly high unemployment rate. Many poor people who live in these remote settlements cannot afford transport costs, evento search for jobs.

The commitment to providing a fully subsidised, free-standing house to all South Africans earning less than R3,500 per month, meant that government needed to access enormous amounts of undeveloped land for its RDP housing projects. Generally such land was located on the outskirts of a city or town. With population growth and rapid urbanisation, this is no longer a viable or affordable strategy.

Even under improved fiscal circumstances, the costs of a "greenfields" dominated approach is likely to bankrupt our cities. Urban sprawl, transport and environmental costs will be devastating to the financial viability of the cities, even before any additional investment in bulk infrastructure.

Harvard Professor Ricardo Hausmann has argued that in countries where the housing deficit is measured as one of housing units and not habitats, the solutions often do not solve the real problem. For him, "a house is an object; a habitat is a node in a multiplicity of overlapping networks" such as power, water, sanitation, roads, transport, labour markets, retail, entertainment, education, health, family, friends and security.

These networks make up all the benefits of agglomeration that make cities effective at generating opportunities for low-income households and individuals which in turn promotes local economic development and more inclusive growth.

Compare this to an approach that creates generally segregated poor neighbourhoods where mainly unemployed, unskilled people "live among themselves disconnected from others. All of which makes it harder for them to benefit from connected city economies."

It's time to think differently.

An enormous opportunity exists in the densification of existing suburbs using what has been called a 'massive small' approach[1]. This refers to a process whereby poor households and small private developers densify existing residential neighbourhoods by creating multi-unit rental dwellings and building additional low-cost rental accommodation in backyards. In so doing, these small developers provide rental and sectional-title housing closer to hubs of economic activity, while fostering local economic development through the use of small builders and other contractors. The 'massive small' approach to housing policy emphasises the formation of connected, dynamic neighbourhoods over housing units.

Already, this bottom-up, market-driven approach is gaining traction across South Africa's metros. It is clear that South Africans want to live in well-located parts of the cities, where jobs and economic opportunities are concentrated. They are prepared to substitute long and costly commutes and pay affordable rents for relatively small spaces, if that means the housing is well situated. To accommodate this demand, small-scale entrepreneurs are responding by developing relatively cheap (mainly) rental options in a dispersed way. Hillbrow, Yeoville, Orange Grove and Malvern in Johannesburg and Khayelitsha, Delft and Dunoon in Cape Town, all close to transport corridors, economic nodes and city centres with job opportunities, are some of the areas

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where these developments are taking place. There is a mushrooming process of homeowners, landlords, and small developers building properties close to urban economic opportunities, mainly to let.

The potential for growth in this approach is huge. There are currently four and a half million freestanding privately owned houses in urban residential areas across South Africa with tremendous potential for densification. If this became an increasingly prominent mode for producing new, low-cost housing options for the poor, we could reduce the demand for new land in the metros over the next 25 years by around 70%. At the same time, we would be creating more efficient, productive, and inclusive cities and providing vastly more opportunities to the poor in well-located areas.

Can the 'massive small' densification and expansion of habitats for poorer people be taken to scale? Many of these private, bottom-of-the-market developers finance their own construction using a second mortgage, savings, unsecured personal loans, or by turning to local informal lenders. Some new finance providers have emerged, including platforms such as iBuild, Indlu, uMaStandi and Bitprop, which provide creative, often risk-sharing lending solutions to developers whose assets and incomes disqualify them from the loan products offered by established banks. The pioneer in this field is the TUHF Group, which has been operating for 17 years within all eight metros. During this time, they have provided housing entrepreneurs with R4.7 billion in total funding. Moreover, the investments supported have contributed significantly to local economic development. It is vital that South Africa manages this phenomenon well. What the country needs are denser, vibrant, well-managed, low-income neighbourhoods and not inner city slums. To get there we need more financing that is easy to access, appropriate development control and urban management that is geared towards supporting these processes, and the removal of regulatory blockages that result in fewer and lower quality developments.

The challenge is that both municipalities and established banks are failing to tailor their regulations and services to the realities of 'massive small' developers. High compliance burdens, a lack of necessary long-term development finance, and inadequate infrastructure are combining to undermine the emergence of quality rental units at a larger scale.

CDE proposals

Metros should

- Become much more focussed on and empowered to manage this phenomenon well.
- Waive or reduce development contributions and fees so as to reduce the cost of such developments.
- Ensure that infrastructure is upgraded and affordable.
- Receive more financial support from national government to manage densification.

Regulation should

- Strike the appropriate balance between making compliance easy to achieve for developers while protecting tenants appropriately.

Funding should

- Not be directed towards individual households and developers in the form of subsidies
- Come from new institutions and established private funders in ways that will accelerate the 'massive small' approach.

To make this happen:
Metros need to strengthen their current policy position on densification and backyard renters. They should identify and focus on areas where residential densification will benefit home seekers and the city. They need to introduce appropriate, streamlined compliance requirements, expand infrastructure in areas that are targeted for these kinds of development, and strengthen their management capabilities.

National government needs to enable these developments. The state should consider introducing a national conditional grant for South African metros. This would fund free service connections, allow metros to waive bulk infrastructure contributions from developers, expand and upgrade bulk infrastructure, and offer development support to municipalities. Part of that support could be used to reconfigure planning and building compliance requirements.

Business, especially the **big banks**, also have a role to play. They can lend their voices in support of these developments and established banks should develop appropriately structured project and asset finance for 'massive small' housing projects. They could also provide more financing to support existing lenders like TUHF and others so that they can expand their lending at acceptable rates.

Concluding remarks

South Africa must move away from apartheid-style cities with the poorest people having to live far from economic opportunities. This is contributing to the scale of unemployment, preventing our cities from linking jobseekers and employers in an efficient way, and keeping many people mired in poverty or dependent on social transfers.

Densification is already happening within existing residential areas and the best thing to do is to enable this at much greater scale and in an optimal way. We must ensure that these areas develop into thriving, productive neighbourhoods rather than urban slums.

In the context of mass unemployment, extreme fiscal constraints, and the devastation wrought by the Covid-19 pandemic, government needs to 'ride this wave' and encourage and enable the private-led developments already taking place.

CDE believes that, while ownership is important and should always be an option, for many poorer people location trumps ownership. It is usually far better to rent a property in Orange Grove than to own a house in Orange Farm. Across the country, private entrepreneurs are providing relatively cheap housing options in well located neighbourhoods, through a multitude of small and medium scale projects. These housing options could be multiplied further, and at far better quality, if they were enabled by government, especially metropolitan government, and if they were able to gain better access to finance.

Read the full report available on CDE's website (www.cde.org.za)
Building Better Cities: A new approach to housing and urban development
This report is the result of a partnership involving Shisaka, TUHF and CDE