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# Inclusionary housing – an analysis of a potential affordable housing tool in Cape Town, South Africa

Isabella Adler & Anna-Mona Jarallah

ROYAL INSTITUTE OF TECHNOLOGY

DEPARTMENT OF REAL ESTATE AND CONSTRUCTION MANAGEMENT



This study has been carried out within the framework of the Minor Field Studies Scholarship Program, MFS, which is funded by the Swedish International Development Cooperation Agency, Sida.

The MFS Scholarship Program offers Swedish university students an opportunity to carry out two months' field work, usually the student's final degree project, in a country in Africa, Asia or Latin America. The results of the work are presented in an MFS report which is also the student's Bachelor or Master of Science Thesis. Minor Field Studies are primarily conducted within subject areas of importance from a development perspective and in a country where Swedish international cooperation is ongoing.

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The International Relations Office at KTH the Royal Institute of Technology, Stockholm, Sweden, administers the MFS Program within engineering and applied natural sciences.

Katie Zmijewski  
Program Officer  
MFS Program, KTH International Relations Office

## Master of Science thesis

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Authors	Isabella Adler & Anna-Mona Jarallah
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### Abstract

Cape Town is a city with a complex housing problem due to the apartheid planning and the design of the current housing programs. Apartheid planning has segregated the city, leading to a more divided and spread out city. With the current affordable housing programs, most houses are being built in poorly located areas, resulting in inhabitants feeling more separated and isolated from the city center. To develop a more integrated society, the concept of *Inclusionary housing* has had a growing appeal in South Africa.

The purpose of the study was to examine the concept of inclusionary housing and how it can be implemented in Cape Town to fight segregation and housing inequalities. Interviews were conducted with various stakeholders from the private sector, public sector, NGO's and academics with the aim to provide their perspectives on inclusionary housing and to answer the question if inclusionary housing is the right tool to help Cape Town become a more integrated city. A closer investigation was made on a specific development project in Sea Point where an inclusionary housing pilot project was going to be implemented.

The majority of stakeholders agree that getting an inclusionary housing policy in place in Cape Town is a step in the right direction towards a more integrated and affordable city.

## **Acknowledgement**

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Firstly, we would like to thank our supervisors Mats Wilhelmsson at KTH Royal Institute of Technology and Mikael Samuelsson at the University of Cape Town Graduate School of Business for all the assistance and input during the research project in Spring 2020. We would also like to thank the Swedish International Development Cooperation Agency, Sida, which through the Minor Field study scholarship made it possible for us to travel to Cape Town, South Africa. Lastly, we would like to thank all interviewees who have contributed to knowledge and meaningful conclusions in the thesis.

Stockholm 2020-06-05

Isabella Adler and Anna-Mona Jarallah

## Examensarbete

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Titel	Inclusionary housing- en analys av ett potentiellt bostadspolitiskt medel i Kapstaden, Sydafrika.
Författare	Isabella Adler & Anna-Mona Jarallah
Institution	Institutionen för Fastigheter och Byggnad
Examensarbete Master nivå	TRITA-ABE-MBT-20541
Handledare	Mats Wilhelmsson
Nyckelord	Inclusionary housing, Prisvärt hushåll, Kapstaden, Segregation, Social och ekonomisk integration

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### Sammanfattning

Kapstaden har ett mycket komplicerat bostadsproblem på grund av det tidigare apartheidsystemet samt utformningen av de nuvarande bostadsprogrammen för låginkomsttagare. Apartheidsystemet har lett till en uppdelad och segregerad stad. Med de nuvarande bostadsprogrammen byggs de flesta bostäder i sämre belägna områden, vilket leder till att invånarna känner sig mer separerade och isolerade från stadens centrum. För att utveckla ett mer integrerat samhälle har konceptet *Inclusionary housing* fått en växande uppmärksamhet i Sydafrika.

Syftet med denna studie var att undersöka konceptet inclusionary housing och besvara frågan hur det kan implementeras i Kapstaden för att bekämpa segregering och den rådande bostadsbristen. Intervjuer genomfördes med olika intressenter från den privata sektorn, den offentliga sektorn, icke-statliga organisationer och akademiker med syftet att ge sina perspektiv på inclusionary housing samt besvara frågan om inclusionary housing är det rätta verktyget för att hjälpa Kapstaden att bli en mer integrerad stad. En närmare undersökning gjordes av ett specifikt bostadsprojekt i Sea Point där inclusionary housing skulle implementeras.

Majoriteten av intressenterna är överens om att ett implementerade av en inclusionary housing policy i Kapstaden är ett steg i rätt riktning mot en mer integrerad och prisvärd stad med avseende på boende.

## **Förord**

Det här examensarbetet är skrivet för Institutionen Fastigheter och byggande på Kungliga Tekniska Högskolan i Stockholm.

Först och främst skulle vill vi tacka våra handledare Mats Wilhelmsson på Kungliga Tekniska Högskolan och Mikael Samuelsson på the University of Cape Town för all handledning och råd under den akademiska uppsatsens arbetsgång under våren 2020. Vi skulle även vilja tacka Styrelsen för internationellt utvecklingssamarbete, Sida, som genom Minor Field Study stipendiet gjorde det möjligt för oss att resa till Kapstaden, Sydafrika. Till sist vill vi tacka alla intervjupersoner som har bidragit till kunskap och meningsfulla slutsatser i rapporten.

Stockholm 2020-06-05

Isabella Adler & Anna-Mona Jarallah

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# 1 Introduction

## 1.1 Background

Cape Town, a city of approx. 4.6 million people (World Population Review, 2020), is a strongly polarized city as a result of the history of apartheid (Turok, 2001). The city has a large housing problem, both due to a housing backlog and the lack of affordable housing (McGaffin, 2018). The broad income inequalities have led to segregation among the citizens and divided them across the city according to their ability to buy homes in different quality neighborhoods. Centuries of social divisions in Cape Town have led to sources of economic opportunities, such as basic infrastructure, reliable public transportation, safe neighborhoods, well-paid jobs, good schools and hospitals, being concentrated in affluent suburbs or in downtown, where low- and middle-income residents cannot afford to live (Lincoln Institute of Land Policy, 2019).

Several policies and programs have been introduced to create more affordable housing for low-income households. Thus, this has not led to a more integrated society due to the affordable housing being built in low-income communities, leading to inhabitants feeling more separated and isolated from the center of the city (SAPOA, 2018). To develop a more integrated society, the concept of *Inclusionary housing* has had a growing appeal in South Africa.

Previous studies have been made regarding the concept of inclusionary housing in South Africa. However, one can see there is an absence of studies involving different stakeholders' view on inclusionary housing and how it could be implemented in Cape Town. Therefore, the aim of this study is to examine the current housing situation in Cape Town and get stakeholders' different perspectives on how inclusionary housing could be implemented in Cape Town in order to achieve a more integrated and affordable city.

## 1.2 Purpose

The purpose of the study is to examine the concept of inclusionary housing and how it can be implemented in Cape Town to fight segregation and housing inequalities. As stakeholders from different sectors will be interviewed the study will identify how an inclusionary housing policy could be implemented and how to tackle the affordability problem. Hopefully, the findings can contribute to possible changes in the regulations policies that eventually can make affordable housing available to all citizens.

The study is a part of the Degree program in Civil Engineering and Urban Management at KTH Royal Institute of Technology, and will result in a master thesis in the field of Real Estate Economics.

## 1.3 Delimitations

The study will focus on the possible implementation of an inclusionary housing policy in Cape Town, South Africa and how it could help the city to become more integrated. As there are many aspects of segregation, this paper will specifically focus on *residential segregation* in terms of *race* and *income*.

Further, a development project including inclusionary housing that was planned in Sea Point will be evaluated. The stakeholders interviewed in this study will be used as a sample representing the public sector, private sector, non-governmental organizations (NGO's) and academics.

## **1.4 Research questions**

- *What are the different stakeholders' view on inclusionary housing?*
- *Is inclusionary housing the right tool to help Cape Town become more integrated?*

## **1.5 Disposition**

### ***Chapter 1 Introduction***

The first chapter provides an introduction to the master thesis, including a background regarding inclusionary housing and why it has to be implemented in Cape Town. Then the purpose, delimitations and the research questions are further presented.

### ***Chapter 2 Method***

The second chapter describes the research strategy of the work as well as describing how the literature review, the case study and the interviews in Cape town were conducted. Lastly, research ethics is also discussed.

### ***Chapter 3 Theoretical background***

The third chapter is dedicated to the theoretical background regarding segregation, neighborhood choice, affordable housing and an introduction to the concept of inclusionary housing.

### ***Chapter 4 Literature review***

The fourth chapter discusses previous academic research on inclusionary housing around the world as well as in South Africa.

### ***Chapter 5 Case study***

The fifth chapter provides a description of the case study, including a background about the history of spatial segregation in Cape Town and the current affordable housing situation. The development project is also described.

### ***Chapter 6 Results and analysis***

The sixth chapter presents the results of the conducted interviews with the stakeholders in Cape Town and an analysis is made based on outcome of the interviews, theoretical background and literature review.

### ***Chapter 8 Conclusion and further studies***

The final chapter of the master thesis presents the main findings of the study together with suggestions on further research.

## 2 Method

### 2.1 Research design

The method chosen for this study is of a qualitative approach, which is preferred since the study is of an interpretative nature. A qualitative research strategy contributes to high validity due to the theoretical framework visualized in the data collection. The work is expressed in a natural language, uses small samples and is focused on particular individuals, events, and contexts (Gerring, 2017). Gerring (2017, p. 31) states that *“If the work is qualitative, the inference is based on bits and pieces of non-comparable observations that address different aspects of a problem and are traditionally analyzed in an informal fashion.”* Data collection of a qualitative study is of a non-standardized form, meaning that questions and procedures can be changed and emerge in a natural way during the research process (Saunders et al., 2016). The qualitative research design can be divided into two different forms; a mono-method qualitative study, using a single data collection technique and analytical procedure, or a multi-method qualitative study where one uses several data collection techniques and analytical procedures. The form used in this study will be of the multi-method qualitative form since an analysis of both written sources and interviews will be conducted. The study can be seen as an interview-based case study.

### 2.2 Literature review

The literature sources used in this study have been checked to be up-to-date and expertise-based to give a broad theoretical background to the research and to ensure what has already been treated in the research area. The literature review included reading international scientific articles, books, government and municipal reports as well as previous university theses connected to theory regarding segregation, affordable housing and inclusionary housing in South Africa as well as around the world.

### 2.3 Case study

The master thesis was based on evaluating particularly Cape Town as a segregated city and as a potential for an inclusionary housing tool. In Cape Town, the study was conducted with the help of Professor Mikael Samuelsson at the University of Cape Town Graduate School of Business and with online assistance from Professor Mats Wilhelmsson at the Royal Institute of Technology in Stockholm.

A closer investigation was made on a specific development project in Sea Point where an inclusionary housing pilot project was going to be implemented. The aim of evaluating the pilot project in the study was to illustrate a practical example and gain deeper understanding on how inclusionary housing could possibly be used and implemented in Cape Town.

The advantages with conducting a case study includes that it has the ability to produce intense and in-depth research. It can identify and answer the questions about *what* and *why* it is happening, and possibly give an understanding of the effects from the situation and implications for actions (Saunders et al., 2016). Therefore, to conduct an interview based case study is the most suitable research strategy to answer our research questions.

## **2.4 Interviews**

### **2.4.1 Interview technique**

According to Saunders et al. (2016) high reliability during a research study can be achieved by conducting the interviews with at least two researchers within the project. This can contribute to that the results, analysis and conclusions are evaluated and interpreted similarly and have been agreed upon the researchers' perception.

Semi-structured interviews were supposed to be conducted in Cape Town with different stakeholders. Due to the circumstances regarding Covid-19, interviews were held via the electronic tools Skype and Zoom. Nine semi-structured interviews were successfully held among the requested. These interviews provided information on the various stakeholders' view on inclusionary housing and how it can be implemented in Cape Town.

When using semi-structured interviews the researcher decides upon a theme and key questions that should be covered during the interview. However, the use of them and what questions will be asked may vary interview to interview (Saunders et. al., 2016). The order of the questions may also vary and questions can be added (Eriksson & Kovalainen, 2008). Since the interviewees will be stakeholders from different sectors, their opinions and views will most likely differ and therefore the interviews will possibly go down different paths. Hence, the semi-structured interview technique is preferable since it allows the interviewer to ask other questions than the questions prepared. This method is seen as a unique method among the different interview methods since it gives a high degree of relevance for the topic while remaining responsive to the interviewee (Bartholomew, Henderson, & Marcia, 2000 cited in McIntosh & Morse, 2015).

Hanna (2012) discusses the advantages and challenges with using electronic tools such as Skype. There are a lot of practical benefits when using electronic tools. It is easier to set up an interview since there is no travel time for the participants and researchers as well as the freedom to shift the interview at the last minute. Further, it allows both the interviewer and interviewees to stay in a familiar setting, for example in their home, without imposing on each other's personal space which can make the interview situation more relaxed. Additionally, one can easily record both the visual and audio interaction directly through the electronic tool which makes it much easier for the researcher at the transcription stage. However, one must bear in mind that some technical difficulties can occur such as problems with bad internet connection and that the camera or sound is not working properly.

### **2.4.2 Interview participants**

Interviews were conducted with various stakeholders from the private sector, public sector, NGO's and academics with the aim to provide their different perspectives on inclusionary housing and to answer the question if it is the right tool to help Cape Town become a more integrated city.

In this report, the private sector is represented by the developer FWJK, the South African Property Owners Association (SAPOA), Multi QS and the town planning consultancy firm Nigel Burls & Associates. The two last mentioned have also been involved in work with the public sector. However, in this report they are representing the private sector. A researcher at

the Urban Real Estate Research Institute at the University of Cape Town represents the perspective of academics. The Secretary-General at the Good party in Cape Town represents the public sector. As a complement to the previous stakeholders the Development Action Group (DAG) and Ndifuna Ukwazi were interviewed representing the perspective from the NGO's.

### **2.4.3 Ethics**

The aim of the study is not to make any political statement or provoke any part involved. Since different stakeholders will be interviewed it is important to stay objective throughout the study. Personal opinions will not take any part in the master thesis, only facts related to the research questions and the current housing situation in Cape Town. According to Saunders et al. (2016) participant validation is achieved when the interviewees have the opportunity to take part in the research study to confirm the accuracy before it is published. Since a qualitative method is used in this study, recordings will be carefully analyzed and safely stored with encryption.

## 3 Theoretical background

### 3.1 Segregation

#### 3.1.1 Concept of residential segregation

Majority of papers see segregation as a residential separation of groups from a wider population within cities (Leal, 2012). Massey & Denton (1998, p. 282) define residential segregation as “*the degree to which two or more groups live separately from one another, in different parts of the urban environment*”. Residential segregation leads to a situation where a certain group is concentrated in neighborhoods with a higher amount of jobs, better public services and infrastructure and lower crime rates while another group is concentrated in areas with the opposite; areas with fewer jobs, poor public services and infrastructure and higher crime rates (Massey & Denton, 1998 through Condron et al., 2012).

Residential segregation can occur by income and ethnic inequalities of residents (Intrator et al., 2016). *Racial segregation* can be defined as physical and social isolation of specific races and minorities in homogenous and disadvantaged neighborhoods (Quane and Wilson, 2012). Reardon & Bischoff (2011) highlight the strong correlation between income and racial segregation. Racial segregation has the capacity to produce a certain level of income segregation even though no within race income segregation occurs. By definition, *income segregation* implies that on average, low-income households live in communities with low-income levels while high-income communities are occupied by high-income households (Reardon & Bischoff, 2011). Reardon & Bischoff (2011, p.1093) describe income segregation as “*the uneven geographic distribution of income groups within a certain area*”. According to Reardon & Bischoff (2011) income segregation may particularly be characterized by the *spatial segregation of poverty* (i.e. the extent to which the lowest-income households are isolated from middle- and upper-income households) and/or the *spatial segregation of affluence* (i.e. the extent to which the highest-income households are isolated from middle- and lower-income households). Income segregation can also occur due to spatial differences in land prices which are generating homogenous communities (Hardman & Ioannides, 2004).

#### 3.1.2 Neighborhood choice

Clark & Ledwith (2007) state that there is substantial literature regarding a household's neighborhood choice. Most researchers agree that it is based on a complex interaction of income, socioeconomic status and preferences. Reardon & Bischoff (2011) and Clark & Ledwith (2007) argue that the neighborhood choice is based on households' preferences such as neighborhood amenities (hospitals, schools, kindergartens etc.) and their ability to pay for housing. When a household is choosing a house or an apartment, it is choosing more than just a residence (O'Sullivan, 2012). It is also choosing a set of local public goods as well as neighbors who provide opportunities and interactions. O'Sullivan (2012) has adapted *The Neighborhood choice model* of Becker and Murphy (2000) regarding neighborhood choice and segregation due to income and race. The following model assumes that there is a competitive market for housing in each neighborhood, meaning that a house is sold to the highest bidder regardless of the neighbors wishes. This model highlights the importance of a tool like inclusionary housing to break segregation and foster greater socioeconomic integration.

### 3.1.2.1 Neighborhood choice model - Income segregation

This model considers a city with two different neighborhoods; A and B, and two different income groups; a high-income group and low-income group, each with 100 households. An assumption is that the positive externalities increase with household income, i.e. the attractiveness of a neighborhood will increase with the number of high-income households. The only differences between the two areas are the income mix and therefore the resulting neighborhood externalities.

In this model the equilibrium point requires all households, both high- and low-income, to pay the same rent. In all scenarios, both curves show the rent premiums for the two income groups. They are positively sloped because of the assumption that high-income households generate positive externalities.

From the model, O'Sullivan developed three possible scenarios leading to different outcomes:

- Segregation equilibrium is unstable (segregation)
- Segregation equilibrium is stable (integration)
- Mixed neighborhood equilibrium

### 3.1.2.2 Segregation equilibrium unstable (segregation)

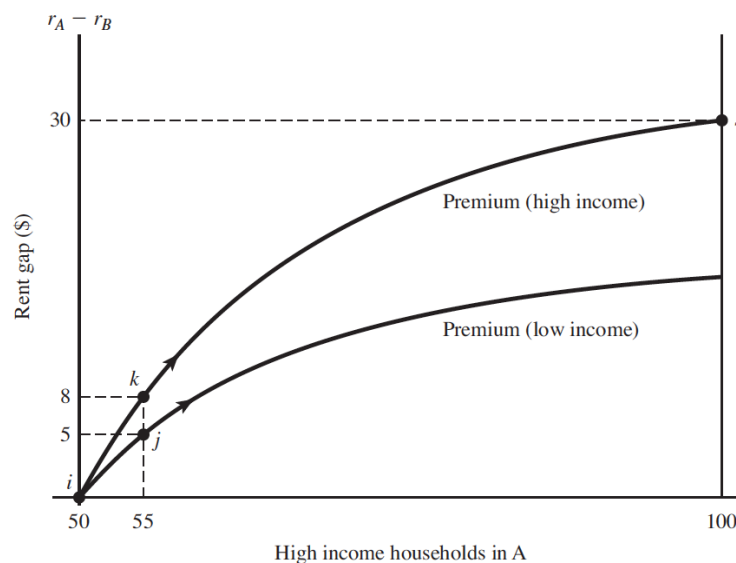


Figure 1: Segregation (O'Sullivan, 2012, Fig. 8-2, p. 209)

In this scenario, the horizontal axis measures *the number of high-income households in neighborhood A*, and the vertical axis measures *the difference in land rent between the two neighborhoods*. The assumption is that high-income households generate positive externalities, meaning that the rent premium is always positive. The larger number of high-income households, the larger premium.

Point *k* and *j* show that high-income households are willing to pay \$8 more to live in neighborhood A rather than B and points respectively that low-income households are willing

to pay \$5 more to live in neighborhood A. Point  $i$  shows where the two neighborhoods are identical, i.e. the equilibrium. Point  $s$  shows where all high-income households are in neighborhood A, i.e. income segregation.

In this scenario, the equilibrium point is unstable, due to a small change in the population will result in a new equilibrium. Since the high-income curve is above the low-income curve, the high-income households will outbid the low-income households and will continue to increase at the expense of the low-income households. Segregation will happen since the high-income households have a steeper premium curve which is a reflection of the benefits of living close to high-income neighbors.

### 3.1.2.3 Segregation equilibrium is stable (integration)

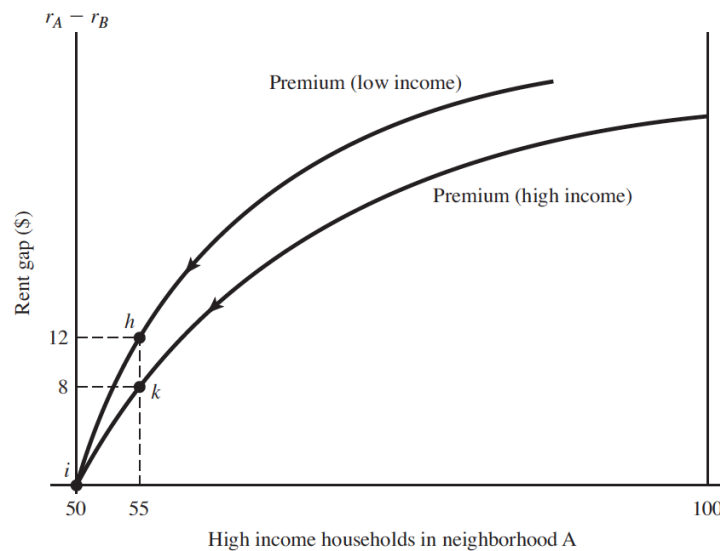


Figure 2: Integration (O'Sullivan, 2012, Fig. 8-3, p. 211)

In this scenario, the low-income households have a steeper premium curve. The equilibrium point  $i$  is stable since low-income households are willing to pay more than high-income households to live in a neighborhood with more high-income households. Any deviation from the equilibrium will be self-correcting, and low-income households will outbid the high-income households so that the low-income households will increase to the expense of the high-income households. This scenario will lead to integration.

### 3.1.2.4 Neighborhood choice model - Racial segregation

The neighborhood choice model can also be applied to racial segregation. When the premium curve for white household's general preferences is laying above the premium curve for black households, the equilibrium point is unstable, leading to racial segregation since the white curve is above the black curve. The white households will outbid the black households and will continue to increase at the expense of the black households.

To reach a stable equilibrium and racial integration, the premium curve for black households needs to be steeper than the curve for white households at the origin. In this case, the black households would outbid the white households. The deviation from the equilibrium would be



self-correcting since if the white population would increase above a certain amount, the black households would outbid the white households for the limited number of places in the neighborhood.

### 3.2 Affordable housing

The definition of the term *affordable housing* varies across countries around the world, but the definitions do have some common ground. Affordable housing is in general described as housing, in different tenure forms, that is accessible in price to low- and moderate-income households through subsidizations, regulations or other arrangements. What differs is how countries identify the low- and moderate-income groups (Lawson & Milligan, 2007). Milligan & Gilmour (2012, p.58) defines affordable housing as “*housing that is provided at a rent or purchase price that does not exceed a designated standard of affordability.*” With affordability Milligan and Gilmour refers to “*measuring whether housing costs exceed a fixed proportion of household income and/or whether household income is sufficient to meet other basic living costs after allowing for housing costs.*”

One of the biggest challenges in both developed and developing countries is to be able to meet the growing demand for affordable housing (Milligan & Gilmour, 2012). Over the past few decades, the affordable housing stock has gradually decreased in many countries for the majority of low-, very low- and extremely low-income renters as well as for some low-income homeowners (Anacker, 2019). Furthermore, the need for affordable housing has increased, since house prices have risen faster than the income of many low-income households (Milligan & Gilmour, 2012). In many countries, as well as in South Africa, there is evidence of a sizable gap between the prices in the housing market and the indicative prices that are considered affordable for lower-income households. Hence, the public’s awareness of affordable housing has increased and different affordable housing strategies have emerged that try to engage actors and institutions across both the public- and private sector as well as the non-profit sector (Anacker, 2019; Milligan & Gilmour, 2012).

The underlying idea of affordable housing strategies is to “*promote, produce, and protect appropriate housing that is affordable to households who face problems obtaining or sustaining housing in the market*” (Milligan & Gilmour, 2012, p. 58). How this is achieved differs between countries due to underlying factors that have caused the shortage of affordable housing. The strategies can support and regulate either the *production* (supply side) or the *consumption* (demand side) with different types of subsidies. Demand side subsidies are directed to the household to increase its purchasing capacity whereas supply side subsidies, sometimes referred to as “bricks and mortar” subsidies, are directed to minimize the cost of providing housing (Yates & Milligan, 2012). These can further be divided into strategies targeting either renters or purchasers. Supply side strategies targeting renters usually try to reduce the rent charged for the households by subsidizing the construction, rehabilitation and operation of apartment buildings (Galster, 1997). A common form of supply side strategy targeting purchasers is to provide developers of public owned land for affordable housing at no cost or at below-market value (Yates & Milligan, 2012). Demand side strategies are mostly targeted towards renters and usually includes housing benefits, housing vouchers, housing certificate, rent or accommodation assistance, rent rebates, or rent supplements (Yates & Milligan, 2012). A typical demand side strategy would be subsidizing

tenant income to help them afford to rent in the private market (Milligan & Gilmour, 2012). An example of this is the “Section 8” vouchers that were introduced in the US in the 1970’s, where the federal funds met the gap between 30% of a household’s income and market rents. Some countries also have applied demand strategies targeting purchases, for example assisting low-income first time buyers to buy into homeownership with different types of subsidies.

Affordable housing has historically been a synonym to public housing (i.e. government subsidies housing), but the definition has shifted towards housing that are offered by a range of different stakeholders in the housing market (Faulkner, 2019). A general movement from direct provision of affordable housing by public agencies to approaches involving the private sector and non-profit organization can be seen around the world (Milligan & Gilmour, 2012). The affordable housing strategies can also be designed to achieve further complementary goals, such as increased social mix in more affluent neighborhoods. An example of this is *inclusionary housing* which will be described in the next section.

### **3.3 Inclusionary housing**

*Inclusionary housing*, further referred to as IH, is a type of affordable housing policy that requires developers to build affordable housing units as a part of development projects in more attractive market areas (Klug et al., 2013). IH is sometimes referred to as *inclusionary zoning*, since it can be implemented through an area’s zoning code (Jacobus, 2015). Jacobus (2015, 2015, p. 7) refers IH to “*a range of local policies that tap the economic gains from rising real estate values to create affordable housing—tying the creation of homes for low- or moderate-income households to the construction of market rate residential or commercial development.*” The concept has its origins in the United States, where it evolved under the 1970’s as a civil rights movement to address the problem with racial segregation (Klug et al., 2013). Compared to other affordable housing strategies, the aim of an IH policy is not only to increase the supply of affordable housing, and instead to also encourage greater social and economic integration (Calavita et al., 1997; Wiener & Barton, 2014).

IH policies have widely been used around the world in different types of forms. An example of an IH policy is to require a certain percentage, usually 10-20%, in new development projects to be affordable to residents with low- or middle-incomes (Calavita and Mallach, 2010). To be able to do so, different incentives can be offered to the developer such as tax abatements, parking reductions and the right to build at higher densities (Jacobus, 2015; Klug et al., 2013). Many policies recognize that it might not always be feasible to build affordable units on-site, and therefore gives the developer the options to build the units off-site or paying fees in lieu.

The policies can have different approaches and are most commonly divided into *mandatory* or *voluntary approaches*. A mandatory approach to IH requires the developer to set aside a percentage of affordable units in every new development project in a city or country, while a voluntary approach requires affordable units only when developers choose to use the incentives offered (Jacobus, 2015; Schuetz & Meltzer, 2012). The mandatory policies might as well offer the developers incentives, but the developer has no choice about whether to provide the units. Some policies are of a *targeted approach*, and are only applied on specific

neighborhoods, where zoning has been changed to encourage higher-density development (Jacobus, 2015).

IH can be seen as a land value sharing tool. Land value sharing acknowledges that the value of privately owned land increases as a result of public investments such as infrastructure, changes in land use or broader changes in a community. As a result, the private landowners can benefit from this increase in value although no personal investments by the landowner has been made. IH, in this aspect is *“a mechanism to share the value for land owners created by changes in land use, for public good purposes – in this case the development of affordable housing”* (City of Cape Town, 2018, p.2)

IH is a controversial topic which holds both supporters and critics. Many developers and economists believe that IH results in additional costs in new residential development, leading to limitation of supply and instead higher housing prices. On the contrary, supporters argue that IH can be effective in developing below-market rate units in geographically spread patterns, that would not have been produced otherwise, as well as not needing direct public subsidies that other affordable housing programs require (Schuetz et al., 2011).

## **4 Literature review**

### **4.1 Inclusionary housing around the world**

IH policies can be found in many different countries around the world. The majority of the policies can be seen in more developed countries such as the United States, Canada and across Europe (Klug et al., 2013). The policies are still quite rare in developing countries, but can be found in countries like India, Malaysia, Turkey, Brazil and Colombia. In this section, IH policies from the United States, Canada and South Africa will be introduced and evaluated.

#### **4.1.1 Inclusionary housing in the United States**

IH policies have been widely used in the United States. It has shown to be an effective tool in local jurisdictions to ensure new developmental projects being balanced with affordable units for low- and middle-income households (Wiener & Barton., 2014). In the United States, land use decisions are very decentralized, which has led to IH policies mostly being introduced at the local government level. There have been some attempts at state level to make IH policies mandatory in all cities and counties, but have failed due to opposition. According to a study conducted by Calavita et al. (1997) the most substantial and long-term effects have been seen in California and New Jersey, where 65% of all IH programs in the United States can be found (Jacobus, 2015). This section will focus on the policies implemented in the state of California and is based on a study conducted by Wiener & Barton (2014).

More than 25% of California's local governments have adopted an IH policy (Wiener & Barton., 2014). Without the IH programs, 29 000 affordable units would not have been built. The policies usually work with a mix of rental and home-ownership units and target 10-15 % affordability. Most programs define "affordable" as a payment not consuming more than 30% of a household's monthly income and targets households below the Area Median Income (AMI) at low- (51-80 % of AMI), very low- (31-50% of AMI) and sometimes extremely low-income levels (0-30% of AMI). Some programs are also targeting first-time buyers that might have a monthly income above the AMI, but are not able to purchase a median priced home in expensive markets. To get developers to build the units for very low-income households, some jurisdictions incentivize the developers to do so by letting them build fewer units, since building these units will leave the developers with more subsidized rents.

General elements of the policies usually include the following options for a private developer to build affordable housing at the same site as the open market units:

- Partner up with a NGO that agrees to build the units
- Build the affordable units off-site or convert existing units under certain conditions
- Dedicate the land to the local government that will accommodate the units
- Pay an in-lieu fee to the local government that will be used for affordable housing
- Build more affordable units than required in a developmental project to not be needing to build as many in another project

The programs usually include the following financial incentives to reduce the developer's costs:

- Direct subsidies
- Density bonuses
- Design and parking concessions
- Fee waivers
- Reductions or deferrals
- Expedited processing

In California, the earliest policies did not include restrictions upon selling, leading to the first home owner of the affordable units being able to sell the unit to whomever, whenever and decide at what price. As this was not a good strategy, many jurisdictions nowadays instead impose restrictions. Most jurisdictions have set a specific amount of years that the unit should stay affordable. Some also work with *subsidy retention*, which limits the sales price so that it remains affordable to the targeted income group. Other work with *subsidy recapture*, which let owners sell their unit at market price, but the seller then needs to share a portion of the equity upon sale depending on the amount of years the unit was owned.

Wiener & Barton (2014) discusses the limitations with the IH policies in California and the United States. Because of the decentralized power and local government not wanting to intervene too much in the housing market, the United States could never be able to implement mandatory IH policies either at national-, state- or even local level. Due to lack of mandatory policy, 73% of the jurisdictions in California have not adopted an IH policy.

#### **4.1.2 Inclusionary housing in Canada**

In Canada, the driving force to implement IH has been the lack of funding options in the wake of social housing devolution (Mah & Hackworth, 2011). The different local authorities are responsible for the policies, meaning that cities have different approaches to IH. In the following section the IH policies of Montreal and Vancouver will be discussed.

Montreal has an IH strategy that is of a voluntary, incentive based approach, since Quebec law does not permit the municipalities to have a mandatory approach. However, there is currently a draft of a law making it mandatory (City of Montreal, 2019). In 2005, *The strategy for the Inclusion of Affordable housing in New Residential Projects* was introduced, and aimed for 30% of all new residential housing to be affordable (City of Montreal, 2005). The strategy is mostly focused on bigger developmental projects with at least 200 units and has mainly been implemented on public or municipality owned land and in areas where major zoning change or master plan amendment is required (Mah & Hackworth, 2011). The policy both includes rental as well as homeownership units. For the rental units, the developers get concessions from the city. For the homeownership units, no subsidies are provided. To meet the affordability requirements, the homeownership units must be smaller and be located within the same building as the open market units. The City also has a specific program to help first time buyers to access the affordable units. However, there is no control on the resale price and the long-term affordability is not protected.

Vancouver holds the most formal form of an IH policy in Canada, where 20% of new major development projects need to be affordable units and with at least 50% of these being targeted to families. However, the developer is not obligated to build these units and instead obligated to set aside land for this purpose (Mah & Hackworth, 2011). The policy has not been very successful. Since it is funding based, affordable units have not been able to be built in some cases where limited or no funding existed.

Mah & Hackworth (2011) discusses the difficulties with the voluntary approach to an IH policy and how local planners can encourage developers to participate in a program that is not mandatory. In Montreal, there are big differences between the boroughs to what extent the policy is used. Some boroughs have almost made it mandatory, while some have decided not to implement the strategy and therefore do not provide enough to compensate for the expensive land, leading the developers not to be able to set aside units for affordable units. Another problem is that some boroughs do not have developmental projects bigger than 200 units meaning that the policy cannot be used. Mah & Hackworth (2011) also identifies two key elements for a voluntary strategy to be successful: the role of the local planners as well as the presence of local activist groups is crucial for the success of IH. In Montreal, the presence of local activist groups is bigger compared to British Columbia and Vancouver where these groups are not as powerful and active. Because of this, setting aside affordable units in Vancouver is a part of “doing business” since it would not be socially acceptable if the developers did not do so.

#### **4.1.3 Inclusionary housing in South Africa**

IH policies have been a hot topic in South Africa for quite a long time (Klug et al., 2013). It started in 2004 when policy makers introduced IH as a part of a national housing plan (Lincoln Institute of Land Policy, 2019). In 2007, a draft for a national policy regarding IH was made. The policy was set to have both a more voluntary pro-active deal driven component as well as a mandatory incentive based component (Klug et al, 2013). Incentives would have included tax credits, land, fast-tracking of approvals, density bonuses, bulk and link infrastructure. The policy had a target of 10-30% affordable units in new developments, but also allowed for off-site provision and payment in-lieu of units. The policy also included measures to control resale so that the units would stay affordable. Some of the reasons for implementing a national mandatory based policy, instead of letting local authorities decide upon implementing deal driven policies, was to minimize the risk of developers shifting to other localities to escape the policy, minimize confusion in the market place and to minimize the risk of corruption (Department of Housing, 2007). However, the policy never became official legislation, due to various reasons such as concerns over the government’s capacity to implement a policy as well as the policy not being thought through (Klug et al., 2013).

Since the 2007 policy, no more attempts have been made to introduce a national policy. However, on a local level, some progress has been made. This could partly be due to the National Spatial and Land Use Management Act, SPLUMA, that was introduced in 2013 (Lincoln Institute of Land Policy, 2019). The framework introduced some major changes to the local governments, requiring the local governments to make planning decisions that consider the principle of spatial justice and the need for inclusionary development (City of Cape Town, 2018).

#### **4.1.4 Inclusionary housing policy in Johannesburg**

On 21 Feb 2019, the City of Johannesburg approved its new IH policy (City of Johannesburg, 2019). According to the City of Johannesburg, it will serve as one of many tools to address the housing inequalities for low-income households in Johannesburg due to the former spatial apartheid design. It will increase the supply for low-income housing in well-located areas close to jobs and amenities and promote a mix of different income groups. It will also serve as a mechanism for land value capture in favor of the city and its residents, i.e. an increase in the value should not only favor the property owner. Furthermore, the City of Johannesburg aims for a strong partnership with the private sector.

The policy includes both a mandatory and voluntary part. IH is mandatory for any development that includes 20 dwellings units or more. A minimum of 30% of the total units must be for IH, depending on the option and incentives the developer chooses. Incentives include increase in Floor Area Ratio equal to the total % of IH (max 50% increase), increase in density to accommodate the extra units and parking reductions. For development projects with less than 20 dwelling units, IH is voluntary. In this case the developer can still benefit from the incentives and options if certain criteria are met.

The IH requirements and incentives are applicable anywhere in Johannesburg. However, the IH units must be built on the same site as the development project or if township establishment; in the same township as the market units are being provided. The policy is intended for dwelling units, which could be both rental and ownership, and the conditions for the units will be in place in perpetuity or until revoked by the City Council.

## 5 Case study: South Africa, Cape Town

### 5.1 Spatial segregation in Cape Town

In 1948, the National Party of South Africa implemented a system of legally enforced racial segregation referred to as *apartheid* (Lemon, 2012). Apartheid was defined as “*A system of institutionalized racial segregation and discrimination for the purpose of establishing and maintaining domination by one racial group of persons over another racial group of persons and systematically oppressing them*” and means “*State of being apart*” (Battersby, 2020, p.159).

Spatial segregation and other discriminatory laws were formed through racial zoning to separate the four racial groups - Whites, Black African, Colored and Indian. (Lemon, 2012). However, in practice the four groups were usually separated into two groups; whites and others. The system was used at three different spatial scales; at the microscale (i.e. “pretty apartheid”) regarding facilities and amenities such as public transports, restaurants and beaches, at the mesoscale regarding homes and business activity and at macroscale with the attempted concentration of the African population in specific designated areas referred to as “homelands” or bantustans”. According to Western (2002) approximately 200,000 out of 1 million, majority colored residents, were expelled from their former homes and lands by the government, and ghettos started rising. Lemon (2012) states that people were forced to move to specific designated areas based on their race. The result was 1,300 divided group areas at the end of 1984. In fact, 87% of land in these designated areas were allocated to white residents. District Six, inner-city of Cape Town, was one of the designated areas reserved for white residents. The racial zoning in the 1960's removed 60,000 inhabitants of color from District Six to rural areas referred to as townships (Lincoln Institute of Land Policy, 2019). During apartheid, non-white people were denied basic rights. For example, they were forbidden to travel without permission and were not allowed to own land, except in specific areas, followed by outlawed interracial marriages, voting rights and reserved employments for white residents (Battersby, 2020; Western, 2002). The apartheid-system existed until the beginning of the 1990's and was abolished by a new constitution 1994 due to an anti-apartheid movement, internal political activism and economic crisis (Battersby, 2020).

Although the apartheid system is not in place anymore, it has left traces in the social tapestry of Cape Town. The following figures show the patterns of racial and income segregation in Cape Town. According to Lincoln Institute of Land Policy (2019) most non-white residents live in the Cape Flats, which is an expansive area southeast of the CBD. The area includes many of the city's townships. Below, the racial map supports the statement and shows that the majority of Black African population and colored residents live in for example Khayelitsha, Nyanga and Mitchells Plain. Lincoln Institute of Land Policy (2019) states further that the white population, consisting only 15% of the total population in Cape Town, lives along the Atlantic Seaboard, in the City Bowl and in the northeastern and southwestern suburbs of the city. The racial map also supports the second statement and illustrates the majority of white residents in Cape Town's inner-city, Sea Point, V&A Waterfront, Foreshore, Clifton and Hout Bay to mention a few.



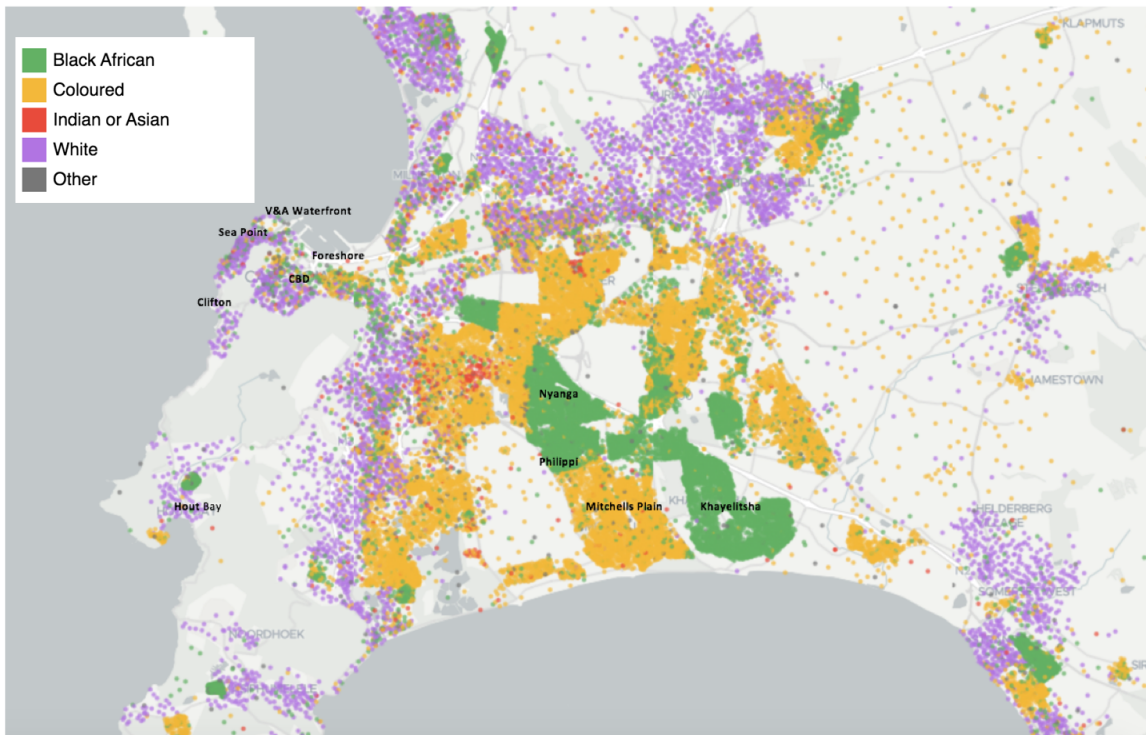


Figure 3: Race map Cape Town. One dot in the map represents 50 households in Cape Town. (Frith, 2011. Modified. Population data from Census 2011 Statistics South Africa.)

As illustrated in the income map below, the lowest income levels are mostly located around Black African and colored residential areas for example Khayelitsha, Philippi and Nyanga whereas majority high-income levels are located around white residential areas for example Sea Point, CBD and Clifton.

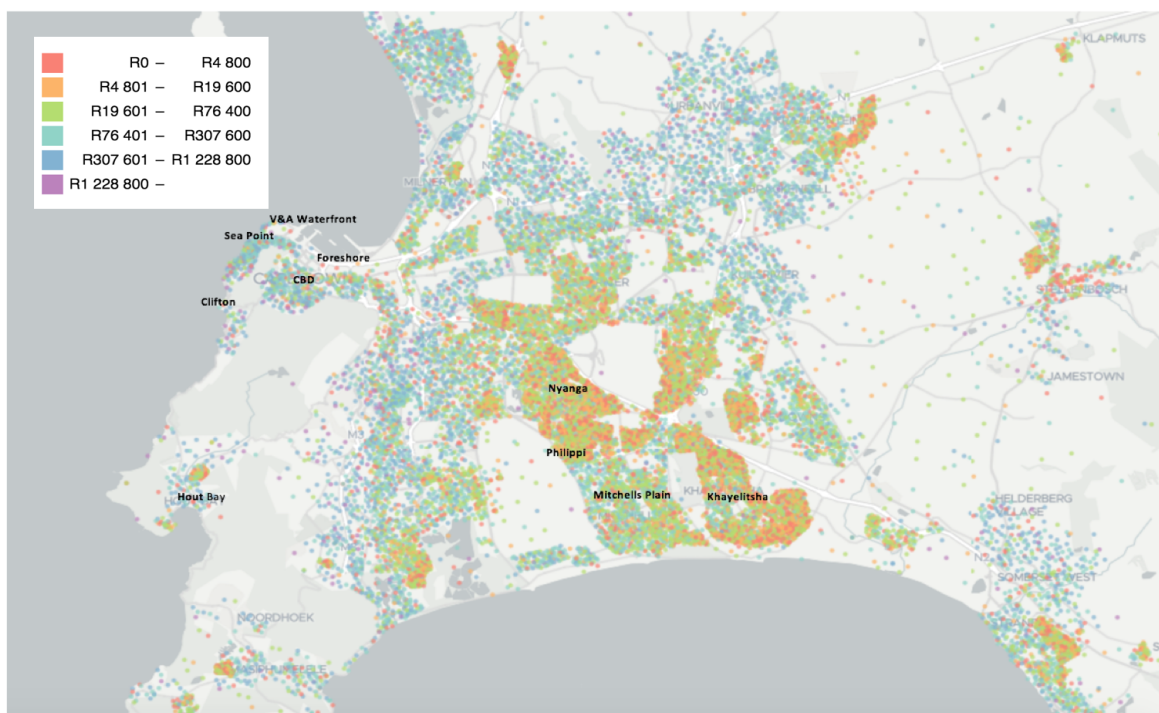


Figure 4: Income map Cape Town. One dot in the map represents 25 households in Cape Town. (Frith, 2011. Modified. Population data from Census 2011 Statistics South Africa)

## 5.2 Housing situation in Cape Town

Cape Town has a big and very complex housing problem. Thus, it can be defined by three factors:

1. The housing backlog in the supply of units being built.
2. Houses are built at densities that are too low to be able to create the needed thresholds to support the city functions.
3. Many communities are located far away from accessing economic and social facilities (Massyn et al., (2015).

In 2018, 358,000 inhabitants registered their need for housing on the City of Cape Town's database (City of Cape Town, 2018). Out of the 1,2 million households in Cape Town, approximately 320,000 households were living under informal or over-crowded conditions (McGaffin, 2018). To cope with the current housing backlog, around 30,000 houses need to be supplied annually. As of today, only 8,000 – 10,000 houses are being built annually. Out of these, 4,000-5,000 are government subsidies leaving the rest to be sold at market price.

### 5.2.1 Current housing programs in Cape Town

To understand the housing situation in Cape Town, three of the major housing subsidy programs, *BNG*, *Social Housing* and *FLISP*, are introduced and explained in the following section. For all programs, certain criteria must be met (City of Cape Town, n.d);

- The applicant is a South African citizen or has permanent residency in South Africa
- The applicant is over the age of 18 and must be legally competent to sign a contract
- The applicant should not have received government subsidies before
- The applicant cannot own a property or previously owned a property
- The applicant is married or has financial dependents

Many of the current government subsidized housing is built far away from the city which aggravate the spatial apartheid divides even further. Most of Cape Town's jobs, schools, transportation and different amenities, i.e. sources of economic opportunity, are located in the CBD and in affluent suburbs, where most residents cannot afford to live. This leaves them forced to commute long distances from townships, that sometimes lack even basic sanitation and water (Lincoln Institute of Land Policy, 2019). Additionally, the National Treasury and National Department of Human Settlements have also expressed concerns over the government subsidies program not being financially sustainable in the long run.

#### 5.2.1.1 BNG Program

The Breaking New Ground program (BNG), formerly known as RDP, is a housing program that allocates free homeownership units for single households earning less than R3500 per month (City of Cape Town, nd).

The BNG and RDP program has been successful in delivering a large number of units. As of 2018, 110 000 units had been delivered in the city (McGaffin, 2018). However, the model has many weaknesses. According to McGaffin (2018), it is not addressing the housing problem for various reasons. Due to keeping the costs down, the subsidized units are standardized and

mostly located in poorer areas, which means that the employment and social facility needs of households are not met as well as not fostering economic integration. Furthermore, a lot of low-income households do not meet the BNG requirements regarding income, nationality and lack of dependents.

#### **5.2.1.2 Social Housing**

Social Housing (SH) is a subsidized rental housing program for households earning between R1500 - R7500 per month (City of Cape Town, n.d). The SH units are usually apartments built on city land in well-located areas in cooperation with social housing institutions (SHI), using a combination of different subsidies. The SHI's have been successful in getting rid of the negative perceptions associated with social rental housing (Massyn et al., 2015; McGaffin, 2018).

However, since the units are of high quality and in well-located areas, the SHI's are highly dependent on state subsidy to deliver those units (Massyn et al, 2015). According to McGaffin (2018) the financial and institutional design of the programme is unviable, which has undermined its ability to deliver housing at scale and led to a relatively low amount of units being produced in Cape Town over the years.

#### **5.2.1.3 FLISP**

The Finance Linked Individual Subsidy Program, or more commonly known as FLISP, is a housing subsidy program which assists first time home buyers to buy a home (Western Cape Government, n.d). The FLISP program is to serve the "*Gap market*", which refers to the households that earn too much to qualify for the government subsidy programs and too little to qualify for mortgage (Cirolia, 2016). Households with a monthly income between R3,501 and R22,000 are able to qualify for the program. The subsidy amount received varies between R27,960 – R121,626 depending on the applicant's income; the lower income, the larger subsidy (Western Cape Government, n.d; Centre for Affordable Housing Finance in Africa, 2019). The subsidy can either be used as a deposit, to increase the value of a house that the household can buy, or to reduce monthly bond payments (Centre for Affordable Housing Finance in Africa, 2019).

According to McGaffin (2018) the program has had a very little impact, due to administrative challenges, size of benefits received and the requirement for a household to qualify for a mortgage in the first place. The Centre for Affordable Housing Finance in Africa (2019) also illustrates the low impact of the program due to lack of affordable stock for households earning below R15,000 a month and inadequate awareness of the FLISP program. Between 2012 and October 2014, FLISP only resulted in 1,989 approvals (Cirolia, 2016).

#### **5.2.2 Housing prices and incomes in Cape Town**

According to the City of Cape Town (2019) only about one of four households in Cape Town can afford an entry level house of R600,000. To buy a house with the value of R600,000 one would need a monthly income of R20,000. Different surveys have shown that approximately 80% of the inhabitants of Cape Town have a monthly gross income of less than R20,000 (McGaffin, 2018). A household with a monthly income of R20,000, can afford to buy a house with a price of R500,000 or a monthly rental of about R5,000 a month. In 2019, the average selling price for a house in Cape Town was R930,000 (City of Cape Town, 2019). To afford

this, one would need a monthly income of R30,000, which only corresponds to 16% of the inhabitants in Cape Town. For a flat, the average selling price in 2019 was R675,000, which corresponds to a household with a monthly income of R54,000. Furthermore, calculations show that roughly 50-60% of the housing stock in the inner city is valued to above R500,000 (McGaffin, 2018). As reported by the Centre of Affordable Housing Finance in South Africa (2018), the number of affordable properties have effectively decreased, whereas the number of properties valued above R1.2 million have increased between the years 2000 to 2015. Hence, it can be seen that Cape Town suffers from a big housing affordability problem and that an IH policy is clearly needed.

### **5.2.3 Cost drivers**

The cause of the housing problem in Cape town is mainly twofold: apartheid planning and the design of the current affordable housing programs. Apartheid planning has segregated the city, leading to a more divided and spread out city, and with the current affordable housing programs, most houses are being built in poorly located areas (Massyn et al., 2015). As a result of this, very few affordable housing units are being built in the inner city.

Massyn et al. (2015) discuss the challenges with developing affordable housing in the inner-city and well-located areas of Cape Town. They present two conditions that have to be fulfilled in order to develop housing in the inner-city. Firstly, the value of the new built or redeveloped housing must be larger than the sum of the profits and the cost that is required to build and develop the housing. Secondly, the target group must contain a high percentage of low- and middle-income households of the housing. However, the challenge of these conditions is that households with low- or middle-incomes have a low demand for housing at market prices. Thus, this affects the final values of the units that are below the sum of the costs and profits from a development, which leads to less affordable housing produced in the inner-city of Cape Town. Development costs in the inner-city differs between R15,000-R20,000 per square meter. In order to deliver to an affordable price of maximum R500,000 the cost of producing the unit needs to be approximately R11,000 per square meter, which corresponds to a production cost that is below the current cost level of developments. To exceed the total costs of a development, a unit is required to be sold for minimum R800,000 which is 60 % above the affordable housing price of R500,000.

Massyn et al. (2015) identify cost drivers that can influence the different costs associated with a development, such as *land prices*, *densities*, *bulk requirements* and *parking ratios*. In order to deliver affordable housing in the inner-city and well-located areas, these cost drivers need to be taken into account in the policy planning. Affecting these cost drives could prove as important interventions that could stimulate the private developers' interest in producing affordable housing in well-located areas of the city.

### **5.2.4 Inclusionary housing in Cape Town**

As for now, there is no current IH policy in Cape Town. There have been some attempts to introduce this type of policy, but the policies have been poorly thought through without any further effect (McGaffin, 2018). In 2018, the City of Cape Town together with different stakeholders developed a concept document on possible mechanisms for IH in Cape Town. The following section describes the IH policy suggested by the City.

The City of Cape Town's proposed definition of IH is *"Inclusionary housing uses the City's development application process for new residential (and at times commercial developments) to incentivize the construction of housing units that are affordable to low-middle income households"* (City of Cape Town, 2018, p.4) The concept document largely proposes that *"if a developer applies for additional rights, and these are approved in terms of the relevant planning processes, then some of this additional value granted could possibly be required to be shared through inclusion of affordable housing"* (City of Cape Town, 2018, p.i) The suggested approach of the policy is a targeted approach; it should be mandatory in key areas of the city, possibly delineated by an overlay zone. In other areas of the city it would be voluntary. The affordable housing contribution should be negotiated on a case-by-case basis, based on a formula which takes into account the residual land value and development cost. The developers are supposed to choose from the following options:

- *On-site:* The developer should include affordable housing on the same site as the market related development. The tenure form of the IH units should be in line with the other units in the development.
- *Off-site:* affordable housing nearby the market related development or a suitably designated site. Tenure forms could be both rental and ownership.
- *Fees in lieu:* of one of the above options that then must be invested in social housing or other affordable developments.

The value of contribution should be based on a sliding scale: a lower contribution will be required for the on-site development of IH units than for the off-site developments. The highest contribution value should be given to the fees in lieu option. This will be done to incentive developers to build IH on-site.

Since affordability can be defined in many different ways, the concept document describes three different approaches to affordability thresholds:

- *Standard definition of affordability across the City*

Affordability is based on household income and housing product size and has the same definitions across the city. Target households with a monthly income of R20,000 and below. A household should not spend more than 30% of their income on housing, meaning that monthly rent should not exceed more than R6,000 and if homeownership, the unit should not exceed the selling price of R600,000.

- *Differentiated definition of affordability across the City (per sub-area)*

Affordability is defined differently across the sub-areas of the city and could be defined as a proportion of the sub-area median income and below or calculated based on average property value in the sub-area.

- *Location driven affordability*

Affordability is defined differently if the contribution is on-site or off-site. If the contribution is on-site, the differentiated definition described above could be used. If the contribution is off site or fees in lieu, the standard definition could be used.

Regarding the allocation process, the City suggests two different options. The first suggestion is that the City creates and monitors a pool of households that fulfils the requirements of IH. These households are then able to apply for renting or buying an IH unit. The second option is that if the contribution is on site, the developer manages the allocation process as a part of their normal sales and rental process.

The units should stay affordable in perpetuity. Rental units should be managed by a rental agency or a social housing institution. Annual increases in rental price should be aligned to increases in the social housing rental prices. Rental units are the preferred tenure form by the City due to its effectiveness in maintaining long-term affordability. For ownership units, title deed restrictions are suggested. An increase in value of the unit should be pegged to the Consumer Price Index (CPI) so that the home owners can benefit from the price appreciation as well as protecting against unaffordable price escalations.

The City believes that the most effective incentives are density bonuses and fast tracking of approval processes. Other incentives that could be offered include reducing parking requirements, comprehensive permit, bulk service contribution, decreasing connection time, bulk service infrastructure payment, reducing municipal rates, favorable lending rates and alternative development standards.

By 2021, the year of the local government election, the City of Cape Town should have a final draft of a policy for IH, and hopefully this one will have an effect on the social divisions in the city (City of Cape Town, 2019). It is not known if the policy will be a continuation of the concept document described above.

## **5.6 The Fulcrum project**

### **5.6.1 Background**

The Fulcrum project was a development project driven by HCI, Hosken Consolidated Investments<sup>1</sup>. Together with the developer Berman Brothers, they purchased a piece of land in the heart of Sea Point. The development would have included 24 IH units, 45-55 square meters, divided on 3 floors.

HCI and Berman Brothers approached Burls's firm Nigel Burls & Associates when they were discussing asking the City for additional development rights. To be able to secure the rights for the project, the developer was advised to include IH. HCI was very receptive to the idea. Berman Brothers could also see the value in it as long as it was financially viable for them. When Burls showed that they would get a return on their investment, they were happy to get on board.

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<sup>1</sup> The following section is based on the interview conducted with Nigel Burls as well as documents provided by Burls.

Burls spent 18 months negotiating with the different parties on how to form the IH part of the project, discussing for example tenure forms, selection criteria and how to manage the units in perpetuity. They all made it very clear that it should not be seen as an “afterthought”. It had to be designed as a part of the project from the start, not as an add-on. Furthermore, the individuals who were secured the right to the unit, must have full access to the whole facility and not be excluded; they had to be treated the same way as the person living in the penthouse at the top. This became a marketing nightmare; how could you sell a R20 million penthouse when you are selling an IH unit at the bottom? According to Burls, this is where the mind shift must happen. They got around it and the marketing people felt comfortable that at the end of the day there were enough people in Cape Town who would spend R20 million on an apartment, and they were not going to lose their investment because there was somebody at the bottom in an inclusionary unit.

### **5.6.2 Purpose**

The purpose for the IH component in the project was aimed to improve the socio-economic situation of the households during the lease period of the unit. The idea was by minimizing the time and money associated with traveling to and from work, these savings would leave the households in a much better economic state when moving out from the unit. Sea Point, which is one of the wealthier areas of Cape Town, draws in a significant number of people who work in the area from other parts of the city. IH would therefore suit perfectly in that area.

### **5.6.3 Target market and selection criteria**

The IH units were broadly going to be targeted to people in the upper GAP market, including for example nurses, teachers, police officers, shop managers, firefighters and government officials. In numbers, the income range was set at a monthly household income of R15,000-R20,000.

Burls and the shareholders put up a range of selection criteria. The mechanism to choose was going to be a lottery. If the household fulfilled the criteria, the household would be able to put his or her name into the lottery. The selection criteria included that the individual had to be employed in the area and come from a previous disadvantaged background. The individual would be favored if employed by the government or local government. For example, a fireman, police or a nurse working in the local government would be more likely to be accepted in the lottery system than a bank clerk, even if they earned the same amount of money.

Burls believes that the target group and the selection criteria that were chosen in the project were fair to the households. They tried to limit the criteria to get into the lottery pool and address the people that were most deserving in that area of an IH unit. He states that the lottery system was the only way that they could see it being fair and simple.

### **5.6.4 Tenure Form**

Burls and the shareholders had discussion regarding if the IH units would be ownership or rental and later decided upon the rental option.

HCI had a social arm which made it natural for them to manage the IH units. They created a special purpose vehicle that would own the units. The reason they did so was because the

units were supposed to be sectional title schemes. If there are sectional titles, the person who owns the IH unit must have a reasonably strong say in the Body Corporate to protect the rights of the tenants that are renting. That is where the legal side of it became very complicated. The household living in the penthouse at the top of the development cannot have more to say in the Body Corporate than the household living in the IH unit. Therefore, a special purpose vehicle was needed, that was legally powerful to withstand the pressure from the balance of the Body Corporate and to look after the tenants in the IH units.

Burls argues that if there was a social housing entity in Cape Town that looked after and managed the IH units everything would be much simpler.

#### **5.6.5 Rental price and price adjustment**

In the Fulcrum project, the goal was that no more than 25-30% of a household's monthly income would be spent on rental, equating to a monthly rent of approximately R5,000 for a studio. According to Burls, the reason it was reasonably high was because they took one of the single biggest cost elements, public transport, out of the household income. As mentioned earlier, providing IH close to where people work will lead to a lot more disposable income available. The rent level would escalate annually at the rate of inflation or the CPI (consumer price index) provided that the income stream into the IH unit was escalating in the same fashion. If a household got a 10% increase every year because of the increase in CPI, then the unit rent would go up by 10%.

#### **5.6.7 Completion**

The Fulcrum project was never completed. The Municipal Planning Tribunal approved the project, however the project ended up with appeals from inhabitants in Sea Point and was not granted the additional development rights. The project got over 350 physical objections and over a 1000 online, with a lot of objections based on race indirectly. Most of them used height, traffic and light as reasons to object. However, Park-Ross argues that these reasons are often used by NIMBYs as a way of blocking racially inclusive developments. According to Burls, there was not a single sustainable objection put forward by anybody. Therefore, the Municipal Planning Tribunal approved the development.

Ndifuna Ukwazi also attended the Municipal Planning Tribunal meeting. They did not agree on the financial numbers that were put on the table and pushed for a more meaningful contribution in terms of affordability and the number of units. Overall, they agreed on that the project was something good. Burls and the shareholders really thought they would win the appeal. What happened next was that the Appeal Body, consisting of the Mayoral Committee, made the decision to not grant the project the additional development rights. The official version was that the level of density of the project was not appropriate for the area which had the consequence of taking away the IH units. Burls believes that the project was turned down because of the elections that were coming up. The politicians could not afford to be seen to support IH in an area like Sea Point, they would lose votes.

Park-Ross thinks that the City made the wrong decision to not grant the project the additional rights. If the project had gone ahead, it would have meant that the city would have gotten more units in general as well as more affordable housing.



**5.6.7.1 Do you think anything should have been done differently in the project?**

Burls does not believe anything should have been done differently in the Fulcrum project except that he would have liked to build more IH units. A good lesson learned from the project was that since they were insistent on the design of the IH being a component from the start, not an afterthought, it worked extremely well. From a physical development point of view, it would have worked beautifully. No difference was made between the IH households and the other households.

## 6 Results and analysis of interviews

### 6.1 Definitions

#### 6.1.1 Definition of Affordable housing

When it comes to defining affordable housing, many stakeholders agree that it is a broad definition. According to Herron<sup>2</sup>, the definition of affordable housing is the subject of a huge debate amongst everybody who is grappling with the question of affordability in the South African context and maybe even other parts of the world; *What is affordability and how should it be defined?* This is something that both Matiashe<sup>3</sup>, McGaffin<sup>4</sup> as well as the Development consultant<sup>5</sup> agree upon. According to McGaffin, everyone has a different idea what it actually means depending on where you are in the city. The Development consultant also states that what is counted as affordable housing is very different in South Africa compared to for example Sweden and the United States.

Park-Ross<sup>6</sup> defines affordable housing in relation to the reality of people's income and argues that it should be tied to what people actually earn. Ndfikuna Ukwazi works with the City of Cape Town's definition of affordable housing, targeting households earning R3,500 - 18,000 per month. However, the difficulty with defining that in numbers in the South African context is that the total median income of a South African is R13,546 per year, which is very low. Therefore, it is a big disjuncture between what South Africans are earning and the definition that the City uses. A way of getting around that is that Ndfikuna Ukwazi pushes for the lowest earners in that category to be prioritized.

Nicks<sup>7</sup> believes affordable housing refers to all the housing groups that are covered by the government's various housing subsidy instruments. If there is a housing subsidy, it is affordable.

From a Development consultant's perspective, affordable housing is associated with housing that is built as cheap as possible in townships across Cape Town, to make housing affordable for people that could not necessarily afford it. The Development consultant argues that in its current form, it is not really working in South Africa, since it is mass produced in townships. The only thing it does is *"taking a household out of a shed and putting the household into a building"*.

McGaffin instead takes the approach of what affordable housing is not. A household can afford a particular amount of the income being spent towards housing. However, housing is

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<sup>2</sup> Herron, Brett; GOOD Party. Interview 2020-03-27

<sup>3</sup> Matiashe, Willard; Development Action Group. Interview 2020-03-23

<sup>4</sup> McGaffin, Robert; Urban Real Estate Institute. Interview 2020-03-19

<sup>5</sup> Development Consultant; Anonymous. Interview 2020-04-08

<sup>6</sup> Parkross, Robyn; Ndfikuna Ukwazi. Interview 2020-03-25

<sup>7</sup> Nicks, Simon; South African Property Owners Association SAPOA. Interview 2020-03-25

not affordable when that percentage of income cannot buy, rent or access housing that is available on the open market in particular locations.

The households that should be targeted through affordable housing varies between households with a monthly income of R3,500 up to R25,000. However, most stakeholders agree that affordable housing should target households with a monthly income below R20,000.

### **6.1.2 Definition of Inclusionary housing and the Gap market**

Park-Ross, McGaffin and Matiashe state that IH is a mechanism to secure well-located affordable housing, which differentiates it from other housing programs in South Africa. McGaffin continues with that IH is cross-subsidized or financed through the value of higher end units in that development or the precinct that the development is taking place in. Park-Ross and Herron argue that IH is a mechanism to recapture value that is basically secured by the private sector through planning processes and approvals for the public good in the form of affordable housing.

The Development consultant highlights how the apartheid system in South Africa has resulted in low-income earners living far out from the city. In his opinion, IH is bringing those people back into the areas where they came from and give everyone a similar chance in life. As a complement to the previous perspectives Van Zyl argues that there is no single definition of IH. Also, he highlights that IH would be defined differently based on the segment and the location.

Nicks, Burls<sup>8</sup>, Matiashe and Herron argue that there is an affordable housing gap in South Africa. Nicks believes that people are becoming more affluent but there is still a gap between the advanced mortgage finance and the top end of public sector housing. Nicks, Burls, Matiashe and Herron refers to the *gap market*, which includes everyone below what the banks normally bond, down to a person who would automatically be excluded from the government subsidized housing programs because their level of income is above the maximum threshold of the government subsidized housing. According to Matiashe this would count to people earning between R10,000-R20,000 a month whereas Herron refers to the households earning between R15,000-R25,000 a month. Nicks discusses the *income distribution curve*, stating that there are less people earning a lot of money and there a lot of people earning little amount of money in Cape Town. As one goes down the income groups, more and more people are falling into that group. The gap market is a big group with a lot of people working mainly in the public sector, such as policemen, nurses, teachers but also some in the private sector, including for example middle managers.

## **6.2 Advantages and challenges**

### **6.2.1 What advantages and challenges do you see with inclusionary housing?**

#### **6.2.1.1 Public sector perspective**

According to Burls, there are mostly advantages for the public sector to be involved in IH. Burls and Park-Ross state that it is the public sector's responsibility to regulate the private sector to secure IH units from the private sector. Burls argues that as long as there is a

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<sup>8</sup> Burls, Nigel; Nigel Burls & Associates. Interview 2020-04-14

housing component in the public sector, they need to be seen regulating IH. Otherwise there is a whole sector of society that is “missing the boat”; they cannot benefit from social housing and they cannot benefit from finances housing. It is the job of the public sector to make sure that this vulnerable group in the housing market is properly addressed, something that Herron agrees upon. Secondly, the public sector, as mentioned before, employs a great number of people who would be able to qualify for IH. Thirdly, it makes sense for the local authorities to accommodate those people in a manner that does not drain or put strain on the network, whether it is the physical services or the transport network. Park-Ross agrees with the latter, meaning that having an equal city is an advantage to the public sector because many of the challenges relate to for example the unequal distribution of infrastructure.

In Herron’s opinion, another advantage for the public sector is that it can start addressing the legacy of apartheid spatial planning, which has not yet been overcome in South Africa, and build an integrated and more efficient urban form. IH can help with integration across race groups and overcome the stubborn legacy of apartheid. Furthermore, it is also a very important complement to the current affordable housing programs, since the public sector itself is not able to deliver adequately in terms of numbers.

While Burls and Herron mostly discuss the advantages associated with IH, Park-Ross and Matiashe argue that there are a lot of challenges for the public sector regarding IH as well, mainly in terms of this being a new mechanism in Cape Town, the complexity of it, lack of capacity and political leadership. Thus, introducing a whole new tool will be complicated, but as stated by Park-Ross it is 100% necessary to implement it. Another challenge according to Park-Ross is that the City specifically has a very compliance orientated bureaucracy that is very risk averse; averse to innovation and averse to a kind of trial and error process. Not being risk averse is what is needed with IH, because as much as it is a tool that works in lots of different places, it will play out differently in Cape Town. That kind of responsiveness is hard to come by in the City of Cape Town context.

#### **6.2.1.2 Private sector perspective**

Williams-Jones<sup>9</sup>, who is a developer himself, does not see any advantages with IH at the moment. Herron believes that from the private sector perspective, the big challenge is getting property developers and property owners on board. As stated by Burls, there are a lot less advantages for the private sector to be involved in IH. With IH, a developer does not make an enormous amount of money. To get developers involved in the delivery of IH, one must make it financially acceptable for the developer to be involved. Money can be made if it is done in the right way. A developer is seeking land where money can be made, which is usually the cheapest land that is located far away. That is why land provision by local authorities into the private sector is of utmost importance, to allow the developer to deliver. The Development consultant agrees and states that the private sector will become much more engaged if it makes financial sense. At the end of the day, the developer is in it to make money and profit.

Park-Ross highlights the challenge of social resistance from different stakeholders in a project, specifically investors. Ndifuna Ukwazi and DAG have done a lot of work to create

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<sup>9</sup> Williams-Jones, Dave; developer FWJK. Interview 2020-04-01

consensus around the need for IH with private developers and other actors. However, when it comes to investors, they have not been able to touch them. A lot of developers that they have been talking to are interested in IH, but their investors would never put their money behind an IH project for various reasons. Thus, the social resistance playing out in the different role players is a big challenge for the developer, even if they are convinced by the idea of IH. Van Zyl believes there is an incredible need for affordable housing. The market is there but there are no fundamental structures put in place for anybody to even consider providing it. As an investor, one has no security, there is no policy, no guidelines and no vision.

At the moment, one of the major challenges for the private sector is that there is no clear policy framework. Herron, Park-Ross, Matiashe and Nicks all point at the importance of policy certainty for developers. Williams-Jones says that he as a developer would love to be involved in IH as long as the City comes up with a policy. As it is for now, there is a lot of uncertainty, and developers are stuck between a lack of policy and activist organizations and public lawyers who are objecting to development applications based on the fact that they are not including affordable housing. The developers are then finding their developments delayed, and the delay is costing them money. Van Zyl sees this as an active disincentive, the neighbors are not wanting this, which allows them to object to an appeal and drag out the process. If the City was serious about IH, they would proactively zone areas or give integrated zoning without the developer having to apply for it. By saving time and delays, the private developers will be able to save costs. According to McGaffin, for every additional year that one puts into a project, the affordability is reduced by about 15%. If one was able to reduce the development time by two years, the affordability would be improved by 30% and the development starts to access a lot more units.

As Herron understands it from engaging with private developers, is that the landowner who sells a property to the private developer is already factoring in that the land will be granted additional development rights in the selling price. However, the piece of land or property may be zoned for a less intense development since the developer might not be granted those additional rights. The land owner and the developer “take a gamble” that the City will grant additional development rights that will make a high end or a development profitable. Hence, if an IH policy is introduced post that transaction, then the burden falls entirely on the private developer, and they have very often not factored in the fact that they must contribute to affordable housing.

By giving policy certainty, these problems can be solved. As stated by Herron, when a policy is implemented, one needs to identify the implementation date. This has to be done so that the land owner and the property developer are both sharing the obligation, and there can be no argument that the price of the development has already been factored into the land sale. The big challenge is to draw the line in the sand and say, *from this day onwards, an inclusionary housing policy will apply*. Park-Ross also believes that many of these challenges can be overcome when a policy is in place, although it depends on how well the policy is administered. According to Burls, the private sector could see IH as an enormous advantage if in the development realm, developers are provided with certain guarantees, which would make it more effective and financially stable for the developer. Herron also believes that IH is an opportunity to create more demand, especially if the City of Cape Town leverages public

land, which could stimulate a sagging private sector and stimulate the construction sector. Furthermore, Park-Ross also argues that there might be potential for developers to use IH for PR in some kind of way appealing to people who want to live in inclusive developments.

### **6.2.2 What are the challenges with implementing affordable housing in higher-income areas?**

McGaffin, Van Zyl, Burls and the Development consultant believe that a big part of the problem with implementing IH in higher-income areas is the *availability* and *cost of land*. According to McGaffin, in certain parts of the city, the land prices are substantially higher in higher-income areas than in lower-income areas. In that sense, it makes it only feasible to build middle- and high-income housing in those locations. In contrast to the land prices, the construction costs are the same across the city. For example, the price of a brick is the same no matter where you build in the city: in a lower-income area or in a higher-income area. Van Zyl argues that to provide affordable housing right now, one can literally just provide a 6-7 square meter unit, because the pro rata cost is too high. McGaffin and the Development consultant believe that one way to overcome the challenge with high land cost and availability is to put out more public land into the market which could bring down the land prices. According to the Development consultant, there is a lot of public land along the Atlantic Seaboard, CBD and Foreshore that the government could make available.

According to Burls, the biggest problem in implementing IH in a higher-income area is that the difference between the highest bracket of IH and the lowest rental in those areas is not met. Burls gives an example; an individual in an IH unit who falls into the IH income bracket, gets promoted and falls outside the IH income bracket. His children are at school in Sea Point because they have been there for five years. How do you say to that person that he must leave the IH unit? In a higher-income area, there is often no other place for him to go. The underlying problem to this is that the land prices are too high, and that is why the government needs to step in.

Another big challenge that McGaffin, Nicks, Herron, Park-Ross, Matiashe and Williams-Jones mention is the *community resistance* and *nimbyism syndrome* (*Not In My Backyard*), people who are fearful of what affordable housing means, how it will be included, and what the impact will be on their property values and the neighborhood. As stated by McGaffin, middle- and higher-income areas often have a lot more objections regarding affordable housing developments. Households living in these areas have the financial means to challenge big developments and often end up in court. As mentioned in the previous section, the development process gets delayed, which costs the developer more money. Nicks also discusses how the design of affordable housing units is linked to nimbyism. People in higher-income areas often have a bad image of affordable housing and its lack of design, and are scared to have these put into the landscape. Nicks points out that this does not have to be the case, that good design can be obtained in affordable units without being too expensive. Park-Ross gives examples of situations she has come across in her work, where developers are saying *we could never build a building with working class people in it, because who would want to live there* or real estate agents saying *we would never be able to sell an apartment to a rich family who would have to live next door to a working-class family*. Park-Ross argues that this kind of normalized racism and classism can only be disrupted by making these changes.

Herron agrees by stating that one way to overcome this challenge, is to start to implement and demonstrate that there is nothing to fear with IH. Williams-Jones means that there will be resistance to IH until it is a part of the landscape.

## **6.3 Design of inclusionary housing policies**

### **6.3.1 Lessons learned from South African policies**

Lessons have been learned from both the attempt to a national policy as well as the policy currently implemented in Johannesburg. Burls argues that the key reason why the national policy never became legislated was because it was trying to achieve *one size fits all*. Matiashe also highlights the importance of not using borrowed ideas from different contexts. The national policy was based on a Canadian case study saying that 20% of new development should be dedicated to affordable housing. Canada ended up with the 20% target due to the country's demographics, where 20% of the population was considered in need of affordable housing. In South Africa, it is the opposite; 80% of the total population is in need of affordable housing.

Regarding the Johannesburg policy, all stakeholders agree that something similar should not be implemented in Cape Town. Nicks argues that the policy is not financially viable for private developers since it targets low-income households down at the BNG-level. According to Burls, the policy has failed since the incentives did not match the delivery. The developers use the incentives as much as they can and deliver in terms of the policy in either size or cost. The policy allows a developer to build a 10-square meter unit and call it an IH unit because the cost per square meter is the same as the cost of building a 500-square meter house next door. Because it is 10 square meters, it falls within the cost parameters of being classified as an IH unit. The policy also failed because they never made the units affordable in perpetuity. Therefore, developers have been able to round trip it. Developers have set up independent companies to buy the IH units from the beneficiaries and sell them back to the developer. As a result, the IH units are taken out from the IH market and back in the normal housing market as a normal unit in a couple of months. Furthermore, developers are allowed to sell more than one IH unit to a single buyer. Since the units are not required to stay affordable in perpetuity, there are no regulations saying that a person cannot buy 10 IH units and make it into a 100-square meter apartment.

Park-Ross argues that she does not want to see those kinds of micro units in Cape Town since it is unrealistic to have South African families living together in small units. Burls believe that 40-45 square meters is an acceptable size for a unit to accommodate a family in Cape Town.

Herron argues that despite that the policy has many weaknesses, it is still a good first legislated step that could put pressure on other local authorities to implement a policy.

### **6.3.2 Program structure**

#### **6.3.2.1 Mandatory versus Voluntary approach**

The opinion regarding a mandatory or local approach to a policy differs between the stakeholders. Most stakeholders argue for a mandatory approach, including Burls, the Development consultant, Park-Ross, Nicks and Herron, whereas McGaffin and Williams-Jones advocate for a voluntary approach. Van Zyl believes the policy should have both a

mandatory and voluntary component. Matiashe believes that the voluntary approach is the most pragmatic option in the interim phase as the policy development process in Cape Town takes shape. However, a long-term policy would have to be based on either a mandatory or incentive based approach.

Park-Ross advocates for a mandatory policy with specific criteria. She believes that the most effective IH strategy would involve *inclusionary housing overlay zones*, to make it clear where IH is triggered. The idea would be if the developer falls into a specific area and conducts a specific type of development, then it should be mandatory to contribute to affordable housing. As Park-Ross argues for a mandatory approach, she still believes there should be some flexibility. The developer should be able to choose between three alternatives including an *on-site*, *off-site* and *fees in lieu option*. However, Park-Ross believes that the on-site option is the most effective form of IH since it achieves the goal of integrating within a building and within an area. Therefore, an option could be that the alternatives are weighted, i.e. it might be slightly more expensive to do a financial contribution than an on-site contribution. This would be a way of incentivizing the developer to contribute on-site, but still offer flexibility. The described approach with the different option goes hand in hand with the policy draft for IH in Cape Town that Herron developed. However, Herron argues that a mandatory policy should kick in when a developer asks for additional development rights or when leveraging public land, which the Development consultant agrees upon. If a developer wants to carry out a more densified or intensified development than what was planned from the beginning, the developer should be forced to include a large portion of that additional benefit for IH. Nicks argues that a policy must be mandatory, since nothing gets done properly when things are voluntary. Herron means that the policy must be mandatory because that provides policy certainty; the developer, the market and the public knows what the outcome is going to be. However, Nicks believes that the policy makers will advocate for a voluntary approach. In his opinion, the South African public sector does not like mandatory targets, since it takes away room for negotiations.

McGaffin and Matiashe discuss the challenges with a mandatory policy. Matiashe does not think a mandatory approach would work due to different legal challenges that Cape Town would have to confront, since it could be seen as something similar to infringing existing private land use rights. McGaffin argues that a mandatory approach is too blunt. Since no one can be forced to make an investment, he argues that if a mandatory policy is put in place in Cape Town, developers and investors that do not want to engage with IH, will just move their projects elsewhere. Therefore, McGaffin promotes a voluntary policy where each project or site is assessed individually. However, McGaffin means that there are challenges with a voluntary approach as well. The first challenge is that it requires additional resources and capabilities. Authorities need to understand property economics and feasibility, which is not always the case. The second challenge is corruption, since there are more people making decisions. Therefore, a good system is required to make a voluntary policy work.

Williams-Jones argues for a voluntary approach where the developer can decide to provide IH units or pay a fee. Van Zyl takes a similar approach, however he believes a policy should have a mandatory component as well. It should be voluntary in the risk-taking phase, but the further one moves down the food chain, the more mandatory it becomes.



### 6.3.2.2 National versus Local approach

The interviewees answered differently regarding the question if a policy should be locally or nationally implemented. Williams-Jones and Herron argue for a national policy, while McGaffin, Burls and the Development consultant believe in a local policy implementation. Park-Ross, Nicks, Matiashe, Van Zyl believe a policy should have national principles, but with local guidelines and regulations.

Williams-Jones argues that a national policy would be much simpler for developers working in different cities around South Africa; applying different rules and regulations will not work. Herron believes it would be ideal with a national policy since there has been so little action on local level. However, the reality is that the national government seems to shy away from a national policy implementation. In the absence of a national policy, he believes that the national or provincial parliaments should give guidance on how local governments in their province could implement IH.

Park-Ross, Nicks, Matiashe, Van Zyl agree with the latter. They believe that the principles should be set at national level, but with local guidelines and regulations. Park-Ross argues that it would be most useful to have a national directive telling which cities should implement an IH policy to hold cities to account and puts pressure on them to do it. However, the policy itself must be generated at a local level where people understand the externalities of the specific city. Nicks also emphasizes on the importance of local guidelines and points out how the Western Cape's demography, income structures, land prices are very different to other parts of South Africa.

On the contrary, Burls and McGaffin argue that a policy should be only local, almost on a project by project basis. That is why Burls has a problem with finding a universal policy that suits all parties. He does believe that there are some universal principles, but to turn those principles into a policy that works on every project will be impossible. However, there should be a set of principles, which is then imposed on a project, and let the project respond to it. Burls calls it a *bottom up approach*.

According to McGaffin, IH works when you have a strong property market, which South Africa does not have. Problems occur when there is a national policy legislation applied across the country. The Development consultant agrees upon that; however, his argument is that there are inner conflicts between the local and national government. Besides that, McGaffin highlights the risk that developers will move to other market areas where a policy is not implemented. However, if the voluntary approach is done in a sophisticated manner, which considers the viability of the project, developers are less likely to do so. According to McGaffin, it is difficult for a Cape Town developer to move and do a development in for example Johannesburg and further argues that developers are generally local.

### 6.3.3 Incentives

Van Zyl states that the private sector is needed in the delivery of IH, since it can deliver exponentially quicker and at substantially better price than the government can. Van Zyl, Burls and Williams-Jones argue that incentives are needed that will make the "playing field" easier for the developers, and that there must be some economic benefit in it to make IH attractive for the developer.

All stakeholders except Park-Ross agree upon that there are no existing incentives for a developer to adopt an IH project at the moment. Park-Ross argues that the additional development rights that are granted a developer for free can be seen as a type of incentive, although developers see that as something normal and expected. The developer applies for these additional rights during the planning process, and either gets them granted or not. However, the problem with additional rights, as mentioned earlier by Herron, is that they are usually factored in the selling price by the landowner, which then, if the developer is not granted those rights, might not make the development financially profitable for the developer. Therefore, a policy needs to be put in place. In that case, additional rights could incentivize a developer to build IH units. Herron, Burls and McGaffin argue that the City should not give away additional development rights without requiring anything in return. McGaffin and Williams-Jones believe that the best approach is that if a developer asks for additional development rights, the developer must either provide IH or pay an amount of money into a fund. The money will later be used to provide affordable housing in publicly owned areas.

The incentive that most stakeholders mention, including McGaffin, Burls, Matiashe, Herron, Van Zyl and Park-Ross, is around *speeding up the planning application processes*, which currently are very long and inefficient. A solution to this could be that developments including IH get *fast tracked in terms of approvals*. If a developer can save years of the application process, it could really make a difference in the cost category. Those cost savings could then be used to put into IH.

Both Park-Ross and Herron mention *density bonuses* as a key incentive. According to Park-Ross, this type of incentive would suit perfectly in Cape Town, especially because one of the city's main issues is urban sprawl, low density and how that also impacts the viability of the transport system. An example of this could be if a developer decides to do a specific project in a specific area, there should be a default density bonus option where the developer can unlock an amount of extra density in return for developing affordable housing units.

Herron also mentions other incentives that could be important, such as *access to public land at discounts* in return for contribution to affordable housing, which is an incentive that Williams-Jones agrees upon, *contributions to bulk infrastructure* and *proactive zoning*, so that the zoning or the development rights are already in place in IH precincts. Burls and Herron also argue for a *reduction in development contributions or development fees* for the provision of IH.

From engaging with private developers, Matiashe argues that the number one incentive would be *reduction in parking ratios*, because that would create space for more units.

#### **6.3.4 Target groups and selection criteria**

Park-Ross and the Development consultant believe that IH units should target households earning R3,500-R18,000 per month respectively R10,000-R15,000 per month. However, Park-Ross states that IH units need to be provided to people that will benefit the most from them, as why she advocates for households in the lower-income range. On the contrary, Williams-Jones and Matiashe point out that the lower-income range is already provided by

the state. Williams-Jones argues that forcing private developers to build IH is not right. However, Van Zyl believes that a person being given an IH opportunity should not be limited from having other housing subsidies.

McGaffin argues that there are two issues with targeting the lowest income households. The first issue is that there are a lot of middle-income households that cannot afford to live in those areas; for example newly graduated students who are working in the city center but cannot afford to live there. McGaffin believes that they also play a huge role in the overall economy and functioning in the city, and should therefore be included in the target group. The second issue when targeting the lower end is that it makes projects less viable. He continues with that countries that have used IH policies that have looked at a median income in an area and then targeting the percentage below that median income is far more realistic and likely to be implemented than those targeting the lower end of the market.

Nicks, Park-Ross, Herron, Burls, Matiashe, Van Zyl, Williams-Jones and McGaffin believe that IH should target the households in the gap market. Those people are crucial to an active economy but cannot afford to live in the more well-located areas which make them a perfect target group for IH. Van Zyl also argues that IH is not charity, it is business, since the economy needs those people to be a part. Matiashe believes that if one is focusing on the gap market as the target group, more IH units will be produced.

Herron also suggests the gap market along with the previous stakeholders. However, he is not convinced that other income groups should not be included too. He thinks that the target group depends on how and where the product is developed. Herron means that if the product arises out of a private developer acquiring additional development rights on his privately-owned land, then it is appropriate to target the gap market. However, if it is public owned land, then it is appropriate for the private sector to develop a mixed-income development where the Social housing or FLISP income band is included (i.e. households with a monthly income between R1,500 - R15,000).

Burls has a slightly different approach. He believes that depending on the area, one should target different income bands in the IH range. Hence, one should target a higher-income band in the IH band if you are in a higher-income area. Depending on the area that the IH is provided within and the income band in the area, the selection criteria would be moderated.

Park-Ross, Herron and McGaffin all agree that the selection criteria contributes to another complexity into this IH subject. Herron believes that the beneficiary allocation policy in Cape Town used for FLISP, BNG- and Social housing could be a good starting point when deciding upon the selection criteria. Park-Ross, Herron and Matiashe all believe that the starting point would be that people should *meet a certain income*. Van Zyl also agrees upon that and adds that *tax registration* and *education* should be considered in the selection criteria. However, Park-Ross and the Development consultant state the selection criteria should be based on *race*, due to South Africa's history of racial exclusion. People that are excluded from well-located areas must be given the primary opportunity to be included. In some cases, developers have pushed for criteria regarding people working in that specific area. Park-Ross believes that it is some complicated criteria because of the reality that many people do not have the opportunity to access jobs in well-located areas. Having criteria based on this,

immediately disqualifies them from accessing housing in that area.

### **6.3.5 Tenure form**

Burls, Herron, Van Zyl, McGaffin and the Development Consultant all agree that the most suitable tenure form is rental, whereas Nicks and Matiashe believe ownership units would be more suitable for IH. Park-Ross and Williams-Jones advocates for a mix of rental and ownership.

Park-Ross argues that a rental model similar to the one used in the Social housing program in South Africa could be used. Burls states that the rental option is the most suitable tenure form for IH since ownership is very difficult and complex. Burls, McGaffin Herron and the Development consultant believe that rental is an easier option for the unit to stay affordable in perpetuity. Furthermore, the rental units can be owned and managed by a Body Corporate or a Social housing company which makes it easier. McGaffin argues that ownership units will cause sale restrictions that might distort the competing market. On the contrary, Nicks and Matiashe argue that ownership is a much better wealth betting mechanism. If Cape Town is serious about economic development and uplifting, they would look at the ownership option, since the rental option does not help the individual to build equity. Burls does not agree with the previous stakeholders' statement and believes the rental option can help the individual to build equity. As mentioned earlier in section 5.6 (The Fulcrum project), by minimizing the time and money associated with traveling to and from work, the individual will have a lot more disposable income available which can help the household to build equity.

### **6.3.6 Price adjustment and exchange of ownership**

Matiashe, Park-Ross and Herron suggest that *title deed restrictions* could be used for the ownership units, which would limit the price escalation per year and keep the unit in the affordability range. McGaffin also argues that there should be a restriction saying one can only sell the property to someone who is eligible in that space.

Herron, Nicks and Park-Ross argue that in the market where the IH units are sold, the units should be regulated so that they stay affordable; in perpetuity according to Park-Ross or for a reasonably long period of time according to Herron and Nicks. Herron and Nicks suggest 20 respectively 10 years. However, if the policy wants to assist households getting into the property market and to move upward, both Herron, Nicks and Matiashe think that there is a need for a system where households can derive the benefit from the appreciation of the value. Matiashe believes the most appropriate mechanism for ownership units would be a program that allowed the individuals to sell the unit at a fixed price considering the equity that the individual has built over time. It would not be market rate based, but should provide some sort of an incentive for them to move up the property ladder rather than staying there. Herron suggests that the price should appreciate slightly above inflation. In that sense, it remains affordable and in line with how the market has been appreciated in that specific neighborhood. When it comes to rental, the individual living in the unit might end up staying there for the rest of their life; there is no upward mobility.

### **6.3.7 Alternative approaches**

A lot of the IH policies are trying to solve the affordable housing problem with new developments, which might be the most expensive product to choose from according to

McGaffin. Both McGaffin and the Development consultant believe that an alternative approach could involve existing properties in areas with lower densities. McGaffin states that there are about 400,000 existing properties in Cape Town, many in well-located areas. If one takes advantage of the existing housing stock that the land has already been paid for, the developer does not have to buy the land or acquire the land, and the infrastructure capacity is also already in there. McGaffin and the Development consultant highlight that these parameters have a lot more impact on the affordability than the strategy of IH since one can build a development for half of the price compared to a new development project. By adding stories on existing lower density buildings, McGaffin believes that one gets integration straight away because now the areas are getting tenants all coming into the existing suburbs and both income and racial integration are present. Also, what is achieved through redevelopment is higher densities across the whole city, which makes the public transport and all services a lot more efficient and viable.

In contrast, Nicks and Van Zyl argue that a redevelopment approach is more complex than the new development approach. However, Nicks believe that in some cases it can be more cost effective. He believes that one should look at each project individually and evaluate the cost structures. Van Zyl believes that the redevelopment approach could be a good strategy since it would make sense to redevelop existing buildings in Cape Town. If the City was serious about densification, they would make it easier for developers to go with the redevelopment approach.

Williams-Jones states upon the previous stakeholders that his company tends to favor new development because they are professional fee driven developers. Williams-Jones concludes that most buildings in the city center are not built to their full potential which requires demolishing the building and developing it from scratch. However, they are not averse to converting old office blocks into residential apartments if the circumstances are right.

#### **6.3.8 Overall structure recommendations**

Below, some overall recommendations regarding the structure and design of the policy from the different stakeholders are listed:

- Park-Ross argues that the policy needs to have a clear methodology on how the contribution is calculated and be transparent so that developers understand it. It also needs clear guidelines on income bands, selection criteria and mechanism for ensuring affordability in perpetuity.
- Burls and Nicks emphasizes on the importance of a policy being simple rather than complex. Burls means that everyone is trying to make almost a book that deals with every single circumstance, which will not work. Nicks argues that it could be as simple as 1 page.
- Williams-Jones points out the importance of a policy being specific.
- Matiashe points out the importance of standardizing the practice.

- Nicks pushes for the need of a practical policy that is done in a way that can crowd in the private sector.

## **6.4 Stakeholder engagement and collaboration**

### **6.4.1 Public sector**

At the moment, Herron does not believe that the City is dealing with the housing affordability problem in a cohesive, comprehensive or intelligent way. If the City is dealing with it, they are dealing with it in a reactionary ad hoc way and when they are compelled to do so. Herron left his position in the city's cabinet as the Mayoral Committee Member for Transport and Urban Development in November 2018. During his time in the cabinet, he initiated and created a platform for dialogue between different stakeholders such as the private sector, housing activists, DAG, public lawyer, town and spatial planners, city officials and international experts such as the Lincoln Institute of Land Policy to develop an IH policy. They were all engaged in dialogue over a long period of time and Herron believes that they found common ground quite quickly. He believes that the significant stakeholders were engaged, except the Neighborhood Residential Associations that were absent. Hence, there is a policy framework that Herron left behind. However, the current political leadership does not seem to want to engage with it. Herron sees that there is a lack of commitment to actually do something with it, since he left a policy that was ready to go to the public for comment.

As stated earlier, the policy will go public in 2021. Herron, Nicks and Burls do not believe it is a coincidence that the policy will go public the same year as the election. Nicks suspects that the City Council will be very careful with letting out a policy since they believe it might impact on the voter basis. Herron believes they are just *kicking the can down the road* - they are not dealing with it, they are just delaying dealing with it. Unless they are rewriting it, which Herron does not believe is the case.

### **6.4.2 Private sector**

Both SAPOA, the Western Cape Property Development Forum and the developer FWJK have been involved in the discussions regarding a policy. Both Nicks and Williams-Jones believe that the private sector has been sufficiently involved in the IH debate. As Herron also stated earlier, Williams-Jones believes that the stakeholders to a great degree found common ground and that they all push for a policy to be put in place by the local government. However, according to Van Zyl, there is a fight in the City regarding who controls the drafting of the policy. Some of the officials that are tasked with the research regarding the policy have been talking to the private sector, but in terms of decisions being made, he believes that most of the officials find the private sector irrelevant. Therefore, they are starting to develop an adverse relationship. Nicks, who was involved in the dialogues, has not heard anything from the City in nine months. As Herron, he is not sure what is happening at the moment and what the next step is. Burls believes that one of the reasons why it has taken so long is that the City is starting to understand the problems of trying to make a policy universal. He believes that instead of focusing on the details, the principles have to be set, and get the developers to respond to that.

Since IH is seen as a politically loaded issue, Nicks and the Development consultant argue

that a long-term team that is going to endure beyond elections should be implemented for adopting an IH policy. It has to shift from a short-term approach to a long-term approach. The Development consultant argues that the local government should create a tribunal that consists of people from the public, town planners, architects and developers to mention a few, which together comes up with a policy that is sustainable and is not corrupt, and make sure that it is actually going to work. Once it is done, the Municipal Planning Tribunal is going to make sure that it works in the future.

#### **6.4.3 NGOs and activist groups**

Generally, both Park-Ross and Matiashe state that activists and community civil society organizations have a large influence and play a massive role in getting policies in place in Cape Town. This is something McGaffin, Van Zyl, Burls, Williams-Jones, Herron and the Development consultant agree upon. Herron, Van Zyl and McGaffin give credit to the activist organizations for putting the affordable housing conversation on the table; there would not have been any discussions otherwise. Herron believes that activist organizations have demonstrated the failure of government to address integration and inclusion through an affordable housing instrument. Further, activist organizations have also created space for the government to move into the IH policy making realm. Park-Ross believes that activist organizations and NGOs are essential and valuable for the IH work, even though the City does not see it in that way. Park-Ross has experienced that the objection strategy used by Ndifuna Ukwazi is very successful in terms of getting people engaged with IH, even without a policy in place.

Ndifuna Ukwazi and DAG have been collaborating to a high degree and have put a lot of effort in understanding both the private and public sector. DAG has hosted a series of dialogues, as a powerful way to put together different stakeholders such as the public sector, private sector and civil society to make the parties speak to each other. However, Park-Ross argues that the City is not collaborating enough, and are in some ways behind civil society. According to Park-Ross, as the IH process has gone on, the City has become more closed off. She would like to know if the City is sticking to the draft and the time frames but they are not open to having a dialogue.

McGaffin, Williams-Jones and the Development consultant argue that activists can have a both positive and a negative role. McGaffin and Van Zyl think that generally housing activist groups come from a background where they do not always understand the economics and the finance of a development. As a result, their thinking and demands can be quite unrealistic and idealistic. McGaffin, Burls and Herron agree upon that the activist groups have their objection strategy to force people to have the conversation in every single housing development that is going on in Cape Town. The objections lead to a prolonged process, which is costing the private developer uncertainty, creating risk and further financial costs. However, by putting IH on the table, the private sector has been pushed to realize that they need to engage with the subject in a way that the government would not have been able to do on their own.

## 6.5 Future outlook

### 6.5.1 How could a city like Cape Town become more integrated?

Park-Ross states that it is essential to disrupt the segregation of races and classes by area. The barriers, including infrastructure, maintain the current segregation. Therefore, an undeniably crucial part of integration is to bring the poor working class of color back into well-located areas. She argues that until these well-located areas are kind of disrupted in the way that they operate; the city will not be able to achieve integration. Herron's perspective regarding integration in Cape Town is similar to Park-Ross's approach. Herron adds upon the previous arguments that the current housing program is chasing scale rather than location. As a result, large numbers of basic housing are delivered on peripheral land. According to Herron, what needs to be done is to look at location, using the phrase *where people live matters*. The location of public land close to CBD that provides employment, services, access, amenities etc. can help the city to become more integrated through leveraging that land for affordable housing products.

McGaffin has a different approach from the previous mentioned and believes that there are two approaches for Cape Town to become more integrated. Firstly, more supply of housing is needed into the market across the subsection; not only for lower-income households but for all income groups. He argues that a substantial amount of housing has already been built in the middle- and higher-income levels over the last five years in Cape Town. As a result, a decline in house prices has been seen. Therefore, if more supply is put into all submarkets, prices will go down which will make housing more affordable to a wider group of people. Secondly, it is about increased density in the city; the higher density the lower is the unit cost since fixed costs get divided by more units. In addition, the land costs allocated to each unit decrease with higher density. McGaffin concludes that increasing density also offers a wider range of choice in a particular area, for example providing a variety of sizes from the units. Furthermore, McGaffin states that a greater level of integration in terms of income and race has been seen in those parts of the city that have higher density.

Nicks argues that when improvements in people's disposable income can be seen that make people able to demand houses in more upmarket parts of the city, integration can be seen. He states that this is already happening quite successfully among the middle-income group in Cape Town. However, in the poorest and wealthier parts of the community it is not.

Van Zyl states that it is a two-way integration, poorer communities into richer communities and the other way around. The most important tool for successful integration is having a long term economic vision. The second tool he promotes is equal to Park-Ross's approach; investing in infrastructure that builds up physical linkages and breaks down the boundaries. The third tool is relocation to poorer communities of certain government institutions. If this is done, the poorer areas become a part of one's perception and reference element. Van Zyl believes that very few of Cape Town's inhabitants actually move across all metropolitan areas. For Van Zyl, the breaking down of mental boundaries is as important as breaking down the physical boundary towards an integrated city. He means that Cape Town cannot have a housing debate, social or affordable accommodation debate, unless there is a macroeconomic and infrastructure debate.



### **6.5.2 Do you think that inclusionary housing is a tool that could help the city to become more integrated?**

Park-Ross, Williams-Jones and the Development consultant believe that IH is the most appropriate tool to help the city become more integrated. Park-Ross states that unlike most of the housing programs that get implemented in Cape Town that reinforce the spatial apartheid structure of the city, IH has the ability to do two things at once. First of all, it builds affordable units but at the same time it stimulates racial and class integration into buildings as well as areas.

Park-Ross, Van Zyl, Herron, Burls and Matiashe state that IH is one of many tools to help the city become more integrated and address the affordable housing crisis. Thus, it should not be treated in isolation. Matiashe does not see the IH tool as a silver bullet for the housing crisis in Cape Town. However, the tool needs to be considered to contribute to the supply of the much-needed affordable housing. By doing so, there are better chances of reducing the inequity that the country inherited from the past.

According to the Development consultant, the problem with IH is that nobody knows how to implement it in the city. However, he still believes that Cape Town is a perfect model for IH due to the city's very defined differences. High-income earners are living in the City bowl, the Atlantic seaboard, northern and southern suburbs, and among all those peripheries there are low-income earners living in the townships.

Theoretically IH can be implemented in Cape Town. Should it be done, McGaffin doubts. What IH is trying to achieve is correct but it is not an effective tool to address the affordable housing problem. McGaffin gives us a scenario;

Let us assume that Cape Town is building 1000 new houses a year in the upper bracket and from that a percentage, often 20%, of those need to be IH on the additional rights. According to McGaffin the number of 20% is not reasonable. He asks, why not 10%, 40% or 51%? 20% out of 1000 houses is only 200 houses across the whole city, not particularly in well-located areas. In order to work in a direction of affordability it requires to produce nearly 40 000-50 000 units a year in Cape Town. The upside is only 200 houses a year and the downside is potentially far worse in terms of its consequences. Therefore, McGaffin does not think IH is a particularly good strategy that could help the city become more integrated.

Herron agrees upon McGaffin's argument that the contribution is obviously not significant, given that it is a percentage of what the private developers are delivering. However, Herron believes it will start to break down exclusion, although the scale is not large. Even though it might only be 200-300 units a year, it is still almost 5-10% of what the City is currently delivering in terms of housing. In terms of social housing, it is probably more than what is being delivered annually in the social housing product. Park-Ross adds that the value of IH may be more in the symbolic and social impact, forcing people to imagine a more integrated and inclusive city. Therefore, the value cannot be measured by the numbers of units alone.

### **6.5.3 How do you think the distribution and extent of inclusionary housing will look like in Cape Town in 15 years?**

When asking the stakeholders how IH in Cape Town will look like in 15 years, the answers

vary. Park-Ross believes the future of IH will depend on how the City of Cape Town will act and what they will do next with the upcoming policy. If the City can develop an effective policy that is well-implemented, then Park-Ross believes that positive outcomes in terms of IH can be seen. Williams-Jones agrees, and believes that if a policy is in place, IH will be big in Cape Town. McGaffin and Herron believe that there will be a policy in place. Thus, McGaffin believes it will take a while to figure out how it will be constructed. He believes developers will accept it and use it. However, they will pass the costs to the higher end users. When the market is hot and can absorb that, it works. If it is not, the projects will be stopped since they cannot pass on the additional costs on the higher end users. The policy will be implemented but will not provide a lot of housing. McGaffin states that there could be far better ways of dealing with affordable housing than through IH. The City should look at other strategies to deal with the affordable housing crisis. On the contrary, Herron has a bit more positive approach to the future of IH. When a policy is in place, Herron believes we will start to see some integration, but it will be a long road. He also believes that a policy will be a kind of spearhead that will break barriers for other housing projects in creating a more integrated urban form. If a policy is not in place, he believes Cape Town will be in a very difficult space, where there is constant conflict around affordable housing and IH.

In contrast, Nicks and Van Zyl do not believe there will be much change. Looking back 15 years, no bigger changes have been made. Therefore, they do not believe anything will change in the upcoming 15 years.

The Development consultant is hoping that a policy is in place in 15 years, however he does not think that it is going to happen anytime soon because there are too many unanswered questions of how it is going to work. If a policy is in place, he hopes that it could help in minimizing the big disparity between the rich and poor and make South Africa a less racially divided country.

## 7 Conclusion & further studies

### 7.1 Conclusion

There is no doubt that an affordable housing crisis currently exists in Cape Town and there is a major need for integration in the city. Although the apartheid system is abolished, the current government housing programs are not helping with solving the segregation issue. Therefore the majority of stakeholders agree that getting an IH policy in place in Cape Town is a step in the right direction towards a more integrated and affordable city. However, it should be implemented together with other affordable housing strategies and not be treated in isolation.

Most stakeholders agree that IH is the right tool to use in theory, although in reality it is difficult to make it work and IH faces a lot of challenges. From the study, three major challenges with implementing IH was identified. The first two involve *social resistance* and *lack of political will*. As illustrated in the Fulcrum project, the two challenges mentioned were clearly the reason why the project was never completed. The third challenge involves *financial viability*; as it is for now, there are no reasons or incentives for a developer to be involved in the delivery of IH. A policy therefore needs to be put in place to get the private sector on board.

The stakeholders also mention the importance of engagement and collaboration to get a policy in place. To get all stakeholders on board is vital for a successful implementation of a policy where everybody can benefit from it. Together the stakeholders need to come up with a policy that is sustainable, not corrupt and that will actually work in the long run, which is not the case with for example the policy in Johannesburg.

Due to the current problems with the government subsidies programs such as FLISP, the majority of stakeholders also agree upon that the gap market is the most appropriate target group for an upcoming IH policy. Since the FLISP program which was meant to target the gap market has had a very low impact the target group is still in need of affordable housing in well-located areas. However, the definition of the gap market and what households should be included differs between the stakeholders.

The concept document developed by the City of Cape Town is a first good step in the policy formulation since it includes a lot of ideas that the stakeholders believe in for a successful IH policy. Hopefully, the future IH policy will be an improved version of the concept document that will make Cape Town an integrated city and where affordable housing is available for all citizens.

### 7.2 Further studies

When a policy is in place, a suggested research opportunity would be to evaluate the outcomes of the policy. This could be done by interviewing stakeholders in the different sectors and evaluate the policy in terms of to what extent it is used, advantages and challenges and further improvements towards a more integrated city. Another suggestion is to look at a specific project where IH has been implemented and evaluate it in terms of both the economic and social aspect.

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## **Interviews**

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Development consultant; anonymous. Interview 2020-04-08

Herron, Brett; GOOD Party. Interview 2020-03-27

McGaffin, Robert; Urban Real Estate Institute. Interview 2020-03-19

Matiashe, Willard; Development Action Group. Interview 2020-03-23

Nicks, Simon; SAPOA. Interview 2020-03-25

Parkross, Robyn; Ndifuna Ukwazi. Interview 2020-03-25

Van Zyl, Deon; Western Cape Property Development Forum. Interview 2020-03-23

Williams-Jones, Dave; developer FWJK. Interview 2020-04-01

# **Appendices**

## **Appendix 1 - Overall interview questions**

### **Overall questions**

How would you define affordable housing?

How could a city like Cape Town become more integrated?

Do you think that inclusionary housing is a tool that could help the city to become more integrated?

What is your definition of inclusionary housing? How can it be implemented in Cape Town?

What would you define as an attractive market area? In Cape Town?

What are the challenges with implementing affordable housing in higher income areas? What are the reactions from the inhabitants in these areas? How can these challenges be overcome?

What is your opinion on the current housing system regarding needs and demands for affordable housing in Cape Town?

What advantages and challenges do you see with inclusionary housing?

- From the private sector's perspective?
- From the public sector's perspective?

What are the existing incentives for a developer to adopt an inclusionary housing project?

What further incentives are needed to get developers to produce more inclusionary housing units?

A study on inclusionary housing in Montreal, Canada, showed that the presence of local activists in a city is a key element for a voluntary inclusionary housing policy to be successful.

- Do you think that activists in general have a large influence in Cape Town?
- How much are the activists involved in the planning process of the inclusionary housing policy?
- How much are the activists involved in the planning process of a development project?

### **General about IH policies**

In 2007, there was a draft on a national policy on inclusionary housing that was never legislated. What do you believe "went wrong" with this policy?

What are your thoughts on the Inclusionary housing policy implemented in Johannesburg? Do you think that something similar should be adopted in Cape Town? Why/why not?



How do you believe an inclusionary housing policy should be formed to make “the most out of it”?

If a policy is implemented, do you believe it should have a mandatory or voluntary approach, and why?

If a policy is implemented, do you believe it should have a national or more local approach, and why?

### **Target groups, selections criterias and tenure form**

If a policy is implemented, what would the target group be? For example: in California. Some policies are targeting extreme low-income households while other target low- to middle-income households.

How do you think the selection criteria for the target groups should be formed? What happens if these parameters change?

What/which tenure form would be more suitable for inclusionary housing units?

### **Price adjustment and exchange of ownership**

How should the prices on the units be set? What do you count as affordable in Cape Town?

What do you count as affordable in Cape Town?

How should the exchange of ownership (buying and selling) of the housing units be regulated?

- Should the seller get profit from the reduced housing unit?

### **Future outlook**

As we understand a policy draft for inclusionary housing in Cape Town is on its way. What will be the focus in this policy? How will it be formed?

How do you think the distribution and extent of inclusionary housing will look like in Cape Town in 15 years?

## **Appendix 2 - Interview questions, Non-Governmental Organizations**

### **Ndifuna Ukwazi's role and work**

Tell us a bit about Ndifuna Ukwazi's work with affordable housing and inclusionary housing. What is your role?

What is your strategy to be involved in the affordable housing development in Cape Town?

Have the city been talking to you about the ongoing policy?

### **Development Action Group's role and work**

What is your strategy to be involved in the affordable housing development in Cape Town?

Do you experience that you have enough influence and are largely involved in the planning process of development projects in Cape Town?

How do you contribute to safe and affordable housing for inhabitants in Cape Town?

What have you learned from previous case studies with communities that you have brought in your current and further work?

### **Stakeholder engagement and collaboration**

How do you collaborate with other stakeholders such as the private sector and the City?

How much do you bring locals in your work and decisions, and what does it mean to you?

## **Appendix 3 - Interview questions, Public sector**

### **City of Cape Town's role and work**

How does the City of Cape Town work with the housing affordability problem and inclusionary housing?

How do you believe the City should tackle the housing affordability problem?

### **Stakeholder engagement and collaboration**

How is the cooperation and dialogue between the City and different stakeholders (such as developers and NGO's) regarding inclusionary housing?

## **Appendix 4 - Interview questions, Development companies**

### **Construction and development**

Is it more profitable to build a new development or a redevelopment project?

What costs do you think could be minimized due to the total costs of a development that affects the property values in the end?

### **Stakeholder engagement and collaboration**

What is needed to change to get developers in general to include more affordable units in development projects? What do you wish that other stakeholders (such as the public sector and NGOs) were more aware of that could lead to developers being more engaged?

Do you feel that you, as a quantity surveyor/ development consultant or developer, are involved in the debate regarding inclusionary housing?

Do you see yourself as a stakeholder that could be more involved in the field work of inclusionary housing?

What do you wish that other stakeholders (such as the public sector and NGOs) were more aware of that could lead to developers being more engaged?

### **Future Outlook**

As we understand a policy draft for inclusionary housing in Cape Town is on its way.

- How much has the private sector been involved in the process of adopting the inclusionary housing policy?
- Do you think that the private sector should have a more prominent role in the discussions of affordable housing in Cape Town?

Do you see yourself as a stakeholder that could be more involved in the field work of inclusionary housing in 15 years? What needs to happen in order for you to get more involved?

### **Specific questions regarding Berman Brothers Fulcrum project**

#### **About the project**

Short background regarding the Berman Brothers Fulcrum project.

What was the main goal and purpose for Berman Brothers to implement the concept of inclusionary housing in the development project?

#### **Target group and selection criteria**

What was the target group for the IH units in the project?

How was the selection criteria for the target groups formed? What would happen if these parameters change?

Do you think the target groups and selection criteria should have been formed in another way? How should it be formed in a policy?

### **Tenure form**

As we understand the inclusionary housing units would have been rental, but there were discussions regarding homeownership units as well. Which tenure form do you believe is most suitable for inclusionary housing?

### **Price adjustment and exchange of ownership**

What was the average selling price/ rent level in the project?

How would the housing price/rents be adjusted during the housing unit's life cycle?

If homeownership: How would the exchange of ownership (buying and selling) of the housing units be regulated?

- Would the seller get profit from the reduced housing unit?

Do you think it should be regulated in another way? How should it be regulated in a policy?

### **Completion**

How did the project turn out in the end? We heard that it was never completed. What was the main reason?

What was the response from the public sector, private sector, activists and the surroundings of the project?

Do you think anything should have been done differently in the project?

### **Extra**

What is your opinion regarding the inclusionary housing project in Sea Point that Berman Brothers are planning to develop?

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