



MEDIA RELEASE

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INCLUSIONARY HOUSING POLICY MUST MAKE BUSINESS SENSE TO DEVELOPMENT & CONSTRUCTION INDUSTRIES

This week, the City of Cape Town finally announced it would be undertaking a feasibility analysis in the new year towards drafting its inclusionary housing policy.

In the meantime, there is much speculation about how the private development community will embrace – or balk – at a policy to include more affordable units within every residential development proposed.

However, Deon van Zyl, chairperson of the Western Cape Property Development Forum (WCPDF), has expressed his organisation's relief that the City of Cape Town is once again actively pursuing the policy. For some time, the WCPDF has been calling for certainty on the topic so that it could quantify the impact it will have on the development and construction community.

"It is vital that such a policy be established to at least in some way address the backlog of accommodation in Cape Town," says Van Zyl. "But, at the same time, it also needs to give certainty to the development and construction sector in terms of how it will impact that sector in terms of feasibility.

The City has stated that it will continue to engage with industry and sector stakeholders in the development of such a policy, another move welcomed by the Forum.

"The outcomes of such a policy will only be successful if the model makes business sense to the sector. This is one of the reasons we have been very keen to be involved in the policy formation with the City as we believe our sector can give great insight into the production line of property, and assist in forming a policy that both the development community can embrace and that will also satisfy the expectations of the various civil society organisations calling for the policy."

The concept of inclusionary housing is neither new, nor is the topic unique to Cape Town. An accepted form of providing affordable housing across the globe, inclusionary housing originated in the USA in the early 1970s, to accommodate people in urban areas from which they have been displaced as a result of economic disparities widening on the one hand, accompanied by rising costs of housing on the other. According to the Grounded Solutions Network that tracks the emergence of affordable housing solutions, there are already 866 jurisdictions in the USA with some form of inclusionary zoning.

Also referred to as "land value capture", inclusionary housing policies seeks to extract value on behalf of society as payment for additional development rights being granted to a developer.

"This is always in addition to the standard development application fees and development contributions already paid by the industry," explains Van Zyl.

Inclusionary housing policies assist to create affordable housing by encouraging or, in some instances, requiring developers to set aside a percentage of housing units within a development to be sold or rented at below-market prices. Or, alternatively, to make a contribution towards the development of affordable housing off site.

Bringing together all the major organisations involved in development and construction across the Western Cape, the WCPDF has already been engaging with the City and various social activist groups for close on two years to ensure that the built environment community is consulted and involved in the policy-making process.

Says Kabous Fouche, WCPDF management committee member and convenor of the organisation's Inclusionary Housing Policy Workgroup: "The property and construction industry has been caught in the crossfire between the City of Cape Town, which grants permission for developments, and social activist groups who have continually objected to residential developments based on these developments' lack of affordable units.

"The result is that new developments are being delayed for even more years, now locked in litigation to accompany the years of legislative red tape through which developments have to wade in the first place.

"This is causing enormous uncertainty and a loss of economic confidence among investors who would then rather take their projects outside the City. Meanwhile, the industry haemorrhages jobs particularly at the poorest level of society – construction workers."

The WCPDF believes that the consequential rise of the unemployment rate and even the collapse of local companies have been seen as no more than 'collateral damage' as government and civil society fight it out.

"Meanwhile, our industry is bleeding," says Van Zyl. Nonetheless, he has no doubt that property developers in the Cape would embrace an inclusionary housing policy, and the sooner it is formulated the better: "Not only to stop the uncertainty of objections and the huge and costly delays that these cause, but to have certainty in black and white exactly what the conditions and incentives will be for incorporating inclusionary housing into all residential developments."

He stresses, however, that the model must make business sense to developers, with viable incentives as would be found anywhere else in the world where inclusionary policies exist.

"What it cannot be," states Van Zyl adamantly, "is yet another tax on developers, who are already under enormous obligation and financial pressure due to nonaligned legislative frameworks and the time it takes to get any development approved.

Van Zyl believes that financial contribution towards inclusionary housing should ideally come from one of two sources: "Savings through optimised statutory application processes and assistance from employers to fund housing key employees essential to their businesses. In the USA, for example, companies like Amazon and Google assist in the funding of inclusionary housing for their employees. Businesses in South Africa will have to follow suit. The banks and big financial service organisations in Cape Town should set the example in co-funding inclusionary housing for their staff," argues van Zyl.

Speaking recently at an inclusionary housing workshop hosted by the Development Action Group (DAG) and the WCPDF, Rick Jacobus, principal of Street Level Urban Impact Advisors (renowned consultants on inclusionary housing programmes and policy throughout the USA), stressed the need for viable incentives for any inclusionary housing policy to be adopted by developers.

Noting the most popular incentive to be allowing for density on site, Jacobus also said that tax incentives were a close second: “In other words, if you provide affordable units on site, you get a tax abatement – a reduced property tax assessment. Seattle, for example, offers a 15-year waiver of property taxes on all projects that include affordable units.”

Other incentives included reductions in on-site parking requirements, or the approval of applications that include inclusionary units being allowed to go through an expedited process of approval.

“Another incentive,” says Jacobus, “is just cash, with a city providing funding from other tax revenue into projects to help offset the costs.”

Rob McGaffin of the University of Cape Town’s Urban Real Estate Research Unit (URERU) agrees that any inclusionary housing policy must make business sense, particularly at a time when the majority of development and construction companies have cut their profits to the bone in order to survive.

Speaking recently with Cape Talk radio presenter Refilwe Moloto in an interview around spatial planning in the City of Cape Town and the incorporation of affordable housing, McGaffin noted that if a development could not be financially feasible to start with, “all other conversations are mute, as the development is never going to take place.”

Adding that profit margins in the current market were “slim” for developers, McGaffin also noted the assumptions that there were “huge profit margins being made” in development and “huge amounts of money” that could cross subsidise inclusionary housing projects, were extremely erroneous.

Research undertaken by the URERU recently revealed that developments which had previously taken three to four years just to get through the standard approval processes even before breaking ground were now taking anywhere between five and eight years instead.

“It’s very difficult to make any development viable at this point in time,” says McGaffin. “We’ve estimated that for every year a project is delayed, you decrease the project’s affordability by 15%.

“There’s this idea that there are these super profits being made, and that all developers drive 4X4s and live in Camps Bay. This is just not the case”.

Adding that the development community was far bigger than just the handful of big-name brands recognised by the public, McGaffin stressed that the industry also included large numbers of SMEs across the entire metropole, as well as many government departments responsible for infrastructure development.

Nevertheless, notes Van Zyl: “A viable inclusionary housing policy that fast tracks approval on projects incorporating affordable units, and offers reasonable incentives along the lines of those found internationally, will not only be embraced by local developers. It could also be the very thing that kickstarts the industry once again and puts food on the table of those many construction workers now sitting unemployed at home.”

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