WCPDF
WESTERN CAPE PROPERTY DEVELOPMENT FORUM

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ENABLING THE DELIVERY OF HOUSING IN SOUTH AFRICA

INSIGHTS FROM THE PROPERTY DEVELOPMENT & CONSTRUCTION INDUSTRY IN THE WESTERN CAPE AND RECOMMENDATIONS FOR MOVING FORWARD

INTRODUCTION

This Position Paper aims to emphasise the common areas of challenge around housing delivery in South Africa by highlighting the experiences of Western Cape property developers – ranging from micro-developers to large-scale developers. The paper has been prepared by the Housing Workgroup of the Western Cape Property Development Forum (WCPDF).[1]

Taken individually, the key findings are not new; in many instances, the issues have been debated and discussed in forums and groupings for many years, and much research has been undertaken across various sub-sectors within the housing market. However, by consolidating the essence of these experiences into one working document, this paper aims to encourage collaboration around the obstacles that unnecessarily inhibit housing delivery. Ultimately, we hope to encourage the formation of the critical partnerships between our private industry sector, financial institutions and the governing members of the public sector so that we may collectively address the challenges and work together towards finding solutions.

In particular, this paper aims ***to get the production line of property going*** – and suggests opportunities towards practical discussions on innovative financial thinking, affordability, cost, the regulatory and legislative processes, incentives, experimentation and ultimately delivery. It also highlights the need to understand the requirements of the end user across the spread of product.

During the 2024 Annual Conference of the WCPDF in June, Professor Ivan Turok[2], co-author/researcher of the ground-breaking report on *Releasing Municipal Land for Affordable Housing* spoke in a session on *What does – or does not – make housing delivery possible?*

[1] The WCPDF is a non-profit organisation (246-760 NPO) created in 2008 to address the challenges that face the property development and construction industry, and focuses on the full production line of private and public property projects and associated infrastructure provision. It lobbies for changes to policy and legislation to better enable the Built Environment and all its end users by facilitating discussion arounds the challenges that face the industry, and to be its collective voice in the Western Cape. It is governed by a Management Committee of 43 volunteers from across the industry and representing numerous industry associations and has a paid membership representing over 2 000 members from private companies, local government and civic organisations.

[2] Professor Ivan Turok is the SA DSI/NRF Research Chair in City-Region Economics, University of the Free State. The report mentioned above was a collaboration between the HSRC, Development Action Group, NASHO, the Cities Support Programme (National Treasury) and the Lincoln Institute of Land Policy.

During this session, Professor Turok outlined the six systemic challenges that face housing delivery in South Africa across all its markets. These in turn resonate with the findings of the WCPDF Housing Workgroup, to summarise:

1. **The reluctance in society to embrace property development.** Development is inherently disruptive, and this goes well beyond simply NIMBYism to the aspirations/intent of political players and organisations, to the disruption of communities.

2. **Government and the regulatory framework:** this speaks not only to the existing framework (and including the decision-making stagnation happening among many government departments), but also to the risk of moving towards even more regulations and policy frameworks, thus increasing the hurdles which developers already encounter across the full spectrum of housing delivery.

3. **Finance and the risk-aversion of financial institutions,** caused in part by government policies, but including the conservative nature of financial institutions towards innovation and to the point of ignoring viable economic markets and opportunities.

4. **The economic climate,** with instability and uncertainty in both the South African and the global environment.

5. **Infrastructure:** the condition and decay of infrastructure and the lack of resources among all sectors of government to adequately address capacity.

6. **The issue of land availability.**

KEY FINDINGS OF THIS POSITION PAPER

Adding substance to these systemic challenges as well as identifying others, the following are the key findings to date of the WCPDF Housing Workgroup (and suggested possible solutions) based on the collective experiences of WCPDF members who work to deliver across the full spectrum of housing.

Not all developers face the same challenges and/or at the same time: for some, the availability of land may be the blockage even though finance is in place while, for others, finance is simply not available for affordable land. For others still, finance becomes the barrier because of either the requirements from financial institutions around equity, or the lack of recognition by these institutions (as well as government entities) of viable projects “outside the norm”. These are all exacerbated by the unacceptable delays in production timelines due to cumbersome government red tape, legislative procedures and slow approval processes, often resulting in massive costs that risk scuppering projects even once they have broken ground.

We also note that many of the findings relate directly to the affordable market (where the greatest need obviously lies); however, these findings also reflect the overall challenges faced by the entire development community from project and infrastructure planning and legislative processes/approvals, to finance and ultimately the hand-over of keys to those who themselves encounter enormous credit-worthiness challenges.

1. **THE QUESTION OF EQUITY AND THE NEED FOR INNOVATION AROUND TRADITIONAL FINANCING**

From the outset, we must acknowledge those financial institutions that are already working towards innovative solutions in the financing (especially) of affordable housing, among them organisations such as TUHF, uMastandi, Bitprop and others.

The challenge here lies in the words "innovation" - or the lack thereof in the more traditional banking sector. We must, however, also recognise that innovative financing often comes with a high premium; nevertheless, the institutions mentioned above are stepping forward to take some risk and, along with private equity, stepping into the opportunities that traditional banks are not acknowledging. These institutions should be commended for doing so.

But there is now urgent need for traditional banking institutions in South Africa to broaden their development finance focus and look at how capital can best be mobilised towards real market demand and supply – and across both home ownership and rental models.

Traditionally, banks finance projects based on the track record and experience of the "jockey", inevitably, those developers with substantial track records who "tick all the boxes" to satisfy banks in terms of their own de-risk policies. The banks in turn hedge against risk in the housing market by assessing a project based in its entirety on retained developer equity as well as pre-sales agreements signed and end-user creditor profiles.

Should we not instead be looking at how this risk assessment can be moderated? As the WCPDF, we would welcome an opportunity to engage with the Banking Association of South Africa (BASA) to examine innovative solutions. For example:

- **Breaking finance down into sub-parts of a development**, rather than in its entirety. For example, by first approving finance for bulk infrastructure, or land rights finance - particularly where government land is involved; ie: paying for the land at the end and not at the start of a project. Would it be possible to establish mechanisms for portions of the production line/process to be accessed and financed from stage-to-stage?

- **Developing an understanding of which part of the production line of property holds the highest risk to banks.** Following the point above, and in order to reassess financing, establishing exactly where in the production line the development process holds the highest risk to banks.

- **Reconsidering the ownership of land towards establishing equity.** Prior to the mortgage crisis in the late 2000s, South African banks considered existing land ownership towards the 30% equity required by developers. However, lending criteria in South Africa changed following the global crash at the end of the 2000s, and banks are now no longer prepared to accept land ownership towards equity. Banks are fearful of banking land, even though it is a scarce resource with a natural tendency to grow in value.

- **Establishing innovative financial solutions around the micro development sector.** There is a lack of financial recognition and/or products for micro-developers, particularly those building residential property to rent, even though this sub-sector is quietly solving the housing and accommodation crisis that government is unable to do.

  Residential rentals being achieved in Cape Town's township areas are equal in R/m^2 to those being achieved for premium commercial property and yet the only finance available to micro developers lies in the balance on their credit cards or in the credit local material suppliers may be prepared to give them. Traditional development financing is a closed door for these entrepreneurs, and their equity not of value to traditional institutions. How do we capture the data and reveal the importance of this sub-sector to banks, for more inclusivity around the consideration of financing for what have become highly lucrative returns on investment?

- **The establishment of a Government Fund** which could guarantee (ie: step in as guarantor), obviously under strict guidelines, the funding of the land and/or infrastructure. This would open up many housing opportunities. Suggested guidelines could be along the following:
  - Only available for housing units under R1 million
  - The need for this housing to be on major transit routes or connected with public transport corridors
  - Location, for example, within Special Economic Zones (SEZs), Urban Development Zones (UDZs), Social Housing restructuring zones, Integrated Residential Development Programmes (IRDP), as well as in areas where FLISP is applicable, and Smart City and Strategic Development, Green Building and Sustainable Development initiatives are in place.

  It is further envisaged that the NHBRC[3] could contribute at least 50% of its extensive current existing capital base to start such a guarantee fund and act as the guarantor for such an endeavour.

A mention within the challenges must also be made about interest rates, currently so high that it has become commonplace, when projects encounter untenable delays (usually due to regulatory processes), that any profit forecast or equity secured is at severe risk.

Just as the banks do, our industry is also looking for insulation against interest rates and the general risk of developing in South Africa. What we now have is a standoff between tradition financing and real market supply and demand. Capital assets such as those created by the Built Environment (eg: housing stock of any nature) should arguably retain value; however, this is near impossible in the face of current interest hikes, further encumbered by government delays impacting the property production line.

In Brazil, qualifying developments and developers under the *Minha Casa Minha Vida* programme access funding directly from the National Fiscus at the repo rate. Should this not be the logical next step for government to assume seriousness about solving the housing backlog?

[3] According to the last NHBRC Annual Report (2024), the NHBRC sits on financial assets valued at over R9.4bn, and yet paid out only R17.699m in claims. Surely this capital asset could be utilized at least in part to start and act as a Guarantee Fund?

2. THE NEED FOR DATA TO DEFINE "AFFORDABLE" MARKET DEMAND

There is a pressing need to accurately define the affordable index across South Africa, with detail ranging not just from city to town, but from suburb to community, and both in terms of "affordable" indexes as well as what government land could be made available for housing (the vision of which is also defined in the *Releasing Municipal Land for Affordable Housing* Report.

These needs are highlighted in the WCPDF's submission for comment earlier this year on the Draft White Paper for Human Settlements, wherein the WCPDF noted that there was:

- **The need to define "Affordable",** with the White Paper referring far too broadly to "various income bands", and failing to acknowledge what may be affordable among one community may be very different to another. Currently, numerous definitions exist - for example those published by:
    - The Banking Association of South Africa (BASA) in its Financial Sector Code (FSC) on Affordable Housing Standards,
    - The Department of Human Settlement, which defines income brackets for different housing brackets
    - National Treasury, which defines income brackets for different housing programmes and sets guidelines for incentivised housing programmes
    - Social Housing Regulatory Authority (SHRA), which determines the affordable housing rental criteria, and
    - South African Reserve Bank (SARB), which works with banks to regulate home loan affordability thresholds.

  Then there are also the research-driven institutions such as the Centre for Affordable Housing Finance Africa (CAHF), which regularly publishes data and reports on the affordable housing market.

  It is our opinion that the overall and definitive guardian of the definition should lie with BASA, which should then not only update the definition on an annual basis, but also take it to as granular level as possible to establish "affordable" in terms of local districts in municipalities as well as urban versus rural affordability.

It is our opinion that the Banking Association of South Africa (BASA) should be the guardian of the definition, which it would then update regularly via the Financial Sector Code (FSC) on Affordable published by the Banking Association of South Africa in ,

- **The need for a Regular Audit (and the regular release of such audit) on all government land.** The White Paper should set an objective for national, provincial and municipal departments to regularly complete a land audit and in term publish the updated results of such an audit.

Without publicly-available and regularly-updated data, it will be impossible to identify realistic thresholds from one area to another, or to influence policy across different municipalities to be accurate in their own scenario planning for future economic growth. As an economy, we play a dangerous guessing game in scenario planning when we rely on varying perceptions of "affordable" without consolidated, aligned nationwide data.

The “ask” for reliable data is not a pipedream. Imagine what could be achieved if a government-based entity such as the NHBRC (to which all recognised developers each contribute 1.5% of every unit built) made public its detailed data on the real value of builds across South Africa? Again, it would be at least one way in which the NHBRC could contribute to an industry that has helped it to accumulate over R9 billion in its coffers.

3. GOVERNMENT LEGISLATIVE AND POLICY REQUIREMENTS AROUND HOUSING DELIVERY

Overcoming Public Sector Hurdles towards Property Production-Line Obstacles
While we respectfully understand that government policy, legislation and approval processes are all absolute requirements for development (and maintain the integrity of the Built Environment), major concerns among the private sector are:

- **The continuing disconnect around what happens on the ground versus what legislation dictates in theory,** and the inability in general for such legislation to adapt to economic changes in both the Built Environment and the marketplace. We also note the disconnect when there is political will for transformation but a lack of translation – and capacitation – of this into the various levels of officialdom, where the day-to day decision-making and implementation needs to take place.

- **The inordinate timelines (ie: delays) against government’s ability to “deliver” on numerous fronts** – whether these be in: the release and final approval of government tenders; the rollout of infrastructure; the availability and release of land; and the delay in approval processes along the development/construction pipeline and across both public and private projects, and the often-staggering costs this adds to any project (which developers are then expected – and potentially cannot – absorb). IE: Higher pricing is often the result of slow government response and hugely impacts residential inflationary factors.

- **The ongoing deterioration of implementing agents with municipalities.** Far too many South African municipalities have serious capacity challenges but most, especially outside of the Western Cape, also have serious competency issues. These have become major stumbling blocks in any attempt to shorten timelines.

Overall, to combat these hurdles, some degree of fast-tracking government decision making in terms of housing is now required. For example, in the establishment within local authorities of catalytic offices where housing (and other infrastructure projects) of more than R100 million can be fast-tracked, serviced and assisted in an effort to speed up approvals. Similarly, there could be separate but aligned catalytic project offices for micro/township developments tailored to the needs of the developers in this market segment, and utilised towards establishing home ownership, determining informal and bulk services, and with appropriate leniency towards building plans and zoning.

Urging the Use of Private Sector Expertise towards Policy Decision Making
It is certainly not the objective of the WCPDF to attack government’s *intent* to deliver housing; but intent cannot be used to hide misalignment. It is our fervent hope that

government becomes increasingly more positive and open to working with the private sector across its entire professional base, in a collaborative process, so that housing policy and legislation can become an ever-evolving process in line with market needs and future sustainability.

Beyond enabling the production line of residential development to happen, is the question of its ultimate three-dimensionally built form: the issue of which makes for a functioning Built Environment that actually meets the needs of the people required to inhabit it.

We are heartened, for instance, that the most recent Draft White Paper for Human Settlements noted in "Outcome 8" on "Delivery Agreements", that there has been "… a distinct trajectory shift towards the creation of sustainable human settlements premised on a move from quantity to the development of quality human settlements."

However, we question how the shift in policy will filter down to a change in what actually manifests three dimensionally in the nature of the built fabric. How will the change be encouraged among government officials and, again, how will they be capacitated to deliver? As we have stated previously, there is a tragic gap between political good intentions and what eventually appears on the ground. Consultation with the private Built Environment across its entirety – from developers, architects and environmental specialists to quantity surveyors, town planners, engineers and urban designers – on each and every housing scheme envisaged, is crucial to its success, longevity, sustainability and liveability.

It is the mandate of organisations such as the WCPDF (which represents the full production line of property and the consultant knowledge within it) to willing and ably partner with government to offer its expertise and experience, especially at the earliest stages of new policy formation.

We are heartened, in the Western Cape, where this has already happening to some extent, for example, with the City of Cape Town's willingness to realign its regulations around Package Plants and incorporate the right for developers to determine the time of decommissioning.

We also note the Development Action Group[4] having been consulted on the City of Cape Town's draft **Inclusionary Housing policy**, but we urge that this momentum continues with input from the private sector, as well as across all municipalities which have embarked on such policy or which are implementing existing policies. It is crucial to enable the flexibility required to regularly reassess and realign these policies if they are to move forward sustainably, and must include the development of real incentives that will enable developers to make meaningful – and willing – contributions towards inclusionary housing.

[4] The Development Action Group (DAG) is one of 13 industry-aligned associations represented on the WCPDF Management Committee – others being the Township Developers Forum of Western Cape (TDFoWC), Green Building Council of South Africa (GBCSA), Cape Chamber of Commerce & Industry, South African Property Owners Association (SAPOA), Urban Design Institute of South Africa (UDISA), Wesgro, Association of South African Quantity Surveyors (ASAQS), South African Forum of Civil Engineering Contractors (SAFCEC), South African Association of Consulting Professional Planners (SAACCP), South African Association of Civil Engineering (SAICE), South African Planning Institute (SAP) and Youth in Property Association (YIPA).

Clearly Defining the Roles: Facilitating or Enabling Housing Delivery?
Ultimately, there also appears to be lack of clarity around whether it should be the role of municipalities to *facilitate* affordable/social/inclusionary housing or simply *enable* it (with, for example, with innovation around policy, legislation and more viable incentives).

Our industry has seen a number of municipalities and regional government itself in the Western Cape, stepping forward for these discussions, and there are green shoots on the horizon. However, we urge all municipalities to do the same, and for those already doing so to embrace public/private sector relationships, interaction and feedback even further.

4. THE URGENT NEED TO ADDRESS HUMAN CAPITAL IN THE INDUSTRY

A final and unanimous challenge raised across all sub sectors of the WCPDF, is human capital and it falls within two major concerns:

- **The lack of skills and capacity**
  Constructions sites across the Western Cape are increasingly witnessing the severe impact of the lack of trained artisans (ie: non-tertiary skills), and a Catch-22 situation is fact developing.

  The Master Builders Association Western Cape (MBA WC) has previously outlined its own challenges in getting construction sites to accept trainees who had already completed a three-month apprentice programme with training funded by the MBA WA. Following the three-month training, construction sites are then asked to pick up trainee wages for the next nine months on site, and provide the necessary supervision required. The stumbling block is that sites simply do not have budgets to do this, largely due to the escalating costs that result from government approval process delays during the production stage. Mentorship on site is a critical part of skills development, and companies are just not able to accommodate the costs at present.

  Imagine, for example, if existing vehicles such as the Employment Tax Inventive (ETI) for 18-to-29 year olds could be expanded to include subsidies to both the MBA and possible employers to train young artisans. This would massively encourage the hiring of young people for training and work opportunities. In an ideal world, this could also be accomplished through working relationships with TVET Colleges, but a fast-tracking approach is critical right now, and this would best be achieved working with private institutions such as the MBA.

  It must be acknowledged that, wherever possible, developers who are still able to do so, are stepping into the gap by setting up their own in-house training academies on site with contractors. But this can be described as a “drop in the ocean” compared to the skills training required by the industry.

  However, the lack of capacity from those fulfilling administrative roles within entities such as the NHBRC and municipal councils, and whose job it is to investigate and sign off on compliance obligations, is equally concerning. In terms of the latter, construction sites experience delays on issues as basic as officials not having the simplest of facilities

available to print enrolment certificates (one Western Cape site reported this had resulted in months of delays); and an inordinate number of council officials neither being in possession of senior grades nor formal training, thus unable to fulfil their roles on site.

- **The haemorrhaging of professions and skills out of South Africa**. Over the past three years, due primarily to the stagnation of government tenders, the WCPDF has lost many highly-skilled members to opportunities abroad, among them quantity surveyors and civil engineers closing local businesses and emigrating to other countries. Our industry is being actively recruited by countries from Ireland ("Ireland on a massive recruitment drive for skilled South Africans", *businesstech.co.za*, 23 June 2023), to mega-projects in the Middle East.

5. THE CONSTRUCTION MAFIA

Of course, one of the biggest challenges to the development of affordable public sector-enabled housing projects as well as other public infrastructure projects over the past few years, has been the construction mafia.

So much has been written about this challenge already, including in numerous media reports to which the WCPDF has contributed over the years, and our own original Position Paper published in 2023 ("Community Engagement and the Construction Mafia").

There is finally work being done at government level to attempt to combat it, and the WCPDF has continued to meet with local, provincial and national government officials as well as industry organisations such as Business Against Crime Western Cape, to find solutions. We therefore do not delve further into this topic in this paper, other than to highlight what the WCPDF has always stood behind:

- **The need for our property development and construction industry to call it by its name: Extortion**. And to further urge comprehensive reporting of all criminal activity to SAPS, as it is only through the reporting of these matters that the matter can be escalated to what it is in the eye of the law: a Schedule 5 Crime. We cannot claim such disruptions to be as massive as they are, and we are not adequately doing justice to our crews on sites, if we are not reporting them to our law enforcement agencies.

- **The responsibility of our industry members to engage in comprehensive community engagement.** Reactive may be one answer, but proactive is better, beginning with community engagement. While it is critical to have reactive measures to the very clear and present danger on construction sites, it is also imperative that our industry mobilises towards such engagement. Comprehensive engagement, long before our crews hit the site, must become part and parcel of every development toolkit: the evolution and adaptation of a process that sees community engagement built into each and every public and private project from conceptualisation to turnkey.

6. FINALLY: THE NEED FOR SELF REFLECTION BY THE PRIVATE INDUSTRY SECTOR

With this all said, it is also crucial for our private sector members to hold each other accountable for the challenges which we create for ourselves, such as when we challenge the awarding of tenders, or where companies know capacity does not exist in their own operations to tender in the first place. Or where the quality of tender submissions are simply not good enough.

As we call on government and financial institutions, it is also crucial that we call on the professionals within our industry to not only uphold professional standards, but actively work together to grow and transform the industry.

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