INCLUSIONARY HOUSING
Towards a new vision in the City of Jo’burg and Cape Town Metropolitan Municipalities 2018
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Core Definitions:

Affordable housing: Housing which is financially affordable for low-income households based on the housing affordability measure below.

Affordability measure: To sustain financial health, low-income households spend 10% of their monthly income on housing.

Inclusionary Housing: Where a proportion of market-related units within a new residential development is reallocated to affordable units for low-income households.

Income Cliff: The substantial difference between the income of the recipient low-income households and the income of the households in which the inclusionary housing development takes place.

Restructuring Zone: Areas delineated by local municipalities for social housing.

Tipping Suburbs: A residential area with a median income that is above the lower-income classification and below the middle-income classification.

Development Surplus: Private sector profit on development that can be used for affordable housing provision within a framework of inclusionary housing.

Voluntary inclusionary housing: An approach to inclusionary housing where the private developer can develop inclusionary housing on a voluntary basis, with the motivation and support of the municipality.

Mandatory inclusionary housing: An approach to inclusionary housing where the private developer is forced, by law, to develop inclusionary housing as part of any development.

Upward mobility: The movement from one social level (i.e. low income) to a higher one (i.e. middle income).

Housing System: The housing system is primarily concerned with stimulating sufficient housing provision in well-located areas of the city, catering to diverse household income distributions. Housing programmes are a product of the housing system, seeking to foster housing provision for low-income households within formalised infrastructure networks of the city.

Planning System: The planning system is the legislative norms and planning traditions which govern the way in which land is developed in any jurisdiction. The nature of the planning system, and the power balance between public planning authorities and private developers, influence the possibility and demand for inclusionary housing implementation.
The South African Property Owners Association (SAPOA) has for many decades been involved in research and providing development support to the private property sector. The institution is an influential voice, with the objective to bring concerns and opinions of the property industry to the public sector and other important stakeholders.

The City of Joburg has highlighted the intention of implementing inclusionary housing policy by 2019. The City has engaged with SAPOA on inclusionary housing policy as a means of ensuring the policy is feasible, implementable, and facilitates effective inclusionary housing developments.

The City of Cape Town has also made some effort on the inclusionary housing front, however much research and exploration on the topic is required. In addition to this, the Gauteng Province has developed the 3rd draft Inclusionary Housing Bill as a means of facilitating inclusionary housing development within the province.

Current policy on inclusionary housing has led to much debate concerning key definitions, outcomes and mechanisms required to implement. For instance, the public sector, the initiators of inclusionary housing policy, is motivated by the need to take on the housing challenge and ensure that access to housing is available to all income. The private sector, on the other hand, is concerned about the fiscal risks associated with inclusionary housing. The contrasting views and objectives of inclusionary housing policy has brought on an industry debate on the intricacies of inclusionary housing policy.

Being the largest representative of the private property sector, SAPOA identified the need for research that seeks to respond to some of the key issues associated with inclusionary housing policy. Urban-Econ was commissioned to conduct research on the existing and proposed inclusionary housing policy in South Africa, as well as to identify and define approaches to inclusionary housing internationally. As part of the research, Urban-Econ facilitated two focus group sessions, one in Cape Town and one in Johannesburg, where public and private stakeholders could discuss and deliberate on inclusionary housing policy. The objective of this report is to provide an industry perspective on inclusionary housing policy. The key findings and recommendations is intended to assist policymakers in the development of a sustainable inclusionary housing policy.
Inclusionary housing has a growing appeal in the fragmented urban structure of South Africa, with the objectives of integration and equal access to opportunities for all sections of the population being the focal point in the drive for its implementation. In human settlements, still divided on the grounds of apartheid planning policies, inclusionary housing is expectedly viewed as a tool for fostering social cohesion; an egalitarian instrument to stimulate upward mobility of previously disadvantaged communities. While several housing programmes have sought to increase the supply of dignified, affordable housing for low-income households on the urban periphery, planning systems and one-dimensional housing typologies perpetuate urban spread, leaving low-income communities isolated from centres of economic growth and opportunity. This has led to the growing appeal of inclusionary housing policy. Although the concept is in its infancy in South Africa, the City of Joburg and the City of Cape Town have made considerable strides in developing coherent policies for implementing inclusionary housing within their respective local jurisdictions.

The crux of inclusionary housing policy is the ‘inclusion’, either voluntary or mandated through policy, of affordable housing with market-oriented units as part of private sector housing developments. Affordable units in inclusionary projects are conveyed to low-income households, with the definition and income thresholds varying based on the locational context of implementation. Inclusionary housing initiatives are perceived to be a cost-effective way to increase the supply of affordable housing, while diversifying the housing stock. The concept of inclusionary housing is applied in various jurisdictions around the world, with differing objectives and motives forging unique approaches to the inclusionary concept. These differences can range from implementation of inclusionary housing through government-offered incentives, which may include tax rebates as applied in Ireland and density bonuses as applied in Brazil. Furthermore, the mandatory approach through inclusionary zoning as implemented in Australia and California, or government themselves building affordable housing components within private sector inclusionary housing projects as in Mississippi.

Although considered an important instrument in overcoming the segregated nature of South Africa’s urban areas, a barrier to the implementation of inclusionary housing in this urban context is the inherent cost associated with delivering affordable housing units in place of or in addition to market-related units in private sector housing developments. These costs may include additional capital expenditure on the part of private developers, while limiting their return on investment due to price and rental restrictions. Additionally, the opportunity cost inherent in providing affordable housing in lieu of market units may influence the profitability of developments. Consequently, private developers may place increased expenditure at the door of potential owners and tenants of the market units by increasing housing and rental rates. In this regard, the public sector may seek to avail cost-reducing incentives to private developers to offset profitability concerns and negate the cost of inclusionary housing being placed on housing consumers. However, offering incentives is not without cost to the public sector and its urban planning and development entities, placing pressure on the public purse - contrary to the initial objectives of inclusionary housing.

Therefore, central questions in this regard include: Who incurs the cost of inclusionary housing? Do the means of the policy (increased regulatory burden on housing development) justify the end (the number of affordable units delivered and social integration)? Which mechanisms can be applied to ensure the successful implementation of inclusionary housing? What is the feasibility and possibility of inclusionary housing in South African cities? Inherent to these research questions is the need to evaluate inclusionary housing in terms of addressing the pressing issues regarding affordable housing delivery in South Africa. This includes the following aspects:

- The policy’s ability to deracialise and integrate human settlements
- Its ability to increase the supply of affordable housing
- Inclusionary housing’s ability to foster upward mobility and enable housing opportunities in well-located urban areas for isolated households in peri-urban areas
- The appropriate policy approach to ensure objectives of inclusionary housing is realised, while mitigating its potential impact on the property market in areas of implementation

These aspects inform the development of a private property development industry perspective of inclusionary housing policy in South Africa, seeking to highlight factors critical to achieving socio-economic objectives of integration and affordable housing provision in areas of opportunity - alleviating the role of the state in affordable housing provision while simultaneously ensuring the feasibility of such a policy for private developers. To this end, this document provides a comprehensive view of the dynamics surrounding inclusionary housing policy by examining the public sector’s proposed approach to inclusionary housing implementation and the response provided by the private sector. In addition, the report investigates some international case studies to provide insight into inclusionary housing mechanisms and critical success factors in their implementation around the world; both in developed and developing countries. The formulated industry perspective seeks to provide a platform for additional stakeholder engagement and to extend the housing debate regarding the appropriate approach to inclusionary housing implementation.
The Road to Inclusionary Housing

“If we don’t figure out a way to create equity, real equity of opportunity and access, to good schools, housing, health care, and decent paying jobs, we’re not going to survive as a healthy productive society”

Tom Wise – American Activist and Author.

The concept of inclusionary housing as a valuable instrument in countering an urban form characterised by class and income segregation was first conceived in 1970’s America. The states of Maryland and California are at the forefront of inclusionary housing, with others, imposing inclusionary use regulations as a base for providing affordable housing to low and moderate-income households as part of higher income residential developments. The implementation of inclusionary housing has since spread to various countries and national, provincial, and local jurisdictions, with wide-ranging objectives from stimulating the supply of affordable housing in well-located areas, increasing the provision of low-income housing by the private sector, and integrating different communities. Countries including Great Britain, The Netherlands, Italy, America, Australia, Canada, and South Africa, among others, all seek to implement a form of urban inclusionary housing, for varying objectives and through different approaches. While countries like the Netherlands, America, and South Africa have contrasting affordable housing markets, inclusionary housing policies currently, and may potentially, form important parts of providing dignified housing to low and moderate-income households in these countries.

Since 1994, many housing policies have been adopted by the South African government, all of which attempt to give effect to the national housing agenda. The Housing Development policy document - Towards a policy foundation for the development of human settlements, highlights that the approach to be followed by national government in achieving the national development goals of increasing the supply of affordable housing, will be through unlocking land in the right location, including measures such as affordable housing in transit-oriented development areas, the release of public land, and inclusionary zoning. The primary consideration of housing policy in South Africa has been to address the human settlement challenges inherited from the segregationist policies of apartheid, delivering affordable and dignified housing to previously disadvantaged communities and to dismantle the divided urban dynamic.

The result – as seen in today’s housing market – is meagre access to affordable housing in areas deemed socially and economically affluent. The discriminatory policies of the apartheid regime are etched into the spatial milieu, bringing about an urban morphology that is structured around racial and income lines, constituting significant informality in the lower income housing market. In addition, there is a considerable affordable housing backlog brought on by the marginalisation of low income households in the urban periphery, exacerbating the wider societal challenges of inequality and unemployment facing South Africa.

In the face of the substantial challenges facing housing provision in divided human settlements, post-1994 housing legislation and policies recognised the need for a housing policy that challenges the status quo and inspires a national spatial transformation. The Housing White Paper of 1994 laid the foundation of post-apartheid housing policy, propagating the creation of liveable human settlements, which incorporate previously-disadvantaged communities, encourages social and economic integration, and low-income housing development in areas of economic potential. The influence of the Housing White Paper in guiding post-1994 policy is reflected in the programmes and legislation that have been passed and implemented based on the key strategies propagated in the document, including the Housing Subsidy Scheme; National Housing Programmes; Enhanced People’s Housing Process; the Housing Act (1997); as well as the establishment of the Housing Development Agency (HDA).

Major affordable housing programmes developed within the framework of the Housing White Paper, however, placed focus on maximising the supply of affordable housing, rather than on the planning of integrated human settlements and providing said housing in well-located urban areas. These included the Reconstruction and Development Programme (RDP) and the programme of Growth, Employment, and Redistribution (GEAR). Accordingly, societal inequities were further exacerbated by the development of low-income housing on the urban periphery isolated from social amenities and areas of opportunity. There was a need to refocus housing strategy on both the supply of housing for low-income households, as well as fostering upward mobility for these households through providing housing solutions in areas of formal service delivery and accessibility to central urban areas.

This approach to national housing provision was conceived in Breaking New Ground (BNG), which was adopted in 2004, signalling a profound paradigm shift in the provision of affordable housing in South Africa. BNG sought to encourage integrated human settlements, provided the policy platform for the development of housing programmes that support the development of social housing for low-income households; lower- and medium-density housing development with various typologies; and partnerships between the community, developers, and government.

Inherent to this paradigm shift was the development of several housing subsidy programmes to support the acquisition of affordable housing units by low-income households. In addition to RDP housing units, the Finance Linked Individual Subsidy Programme (FLISP) was created to serve the affordable bonded-housing market, providing subsidy for households that have acquired mortgage financing for a bonded unit. This was in recognition of the problem for low-income households exceeding income eligibility for RDP housing having access to secure mortgage financing to buy a residential unit. The social housing programme, on the other hand, was developed as a rental housing programme for low-income households. An important mechanism of social housing was restricting their development to “restructuring zones”, the delineation of which was based on access to services and proximity to areas of opportunity within the wider urban context. This mechanism sought to ensure rental housing provision for low-income households in desirable, well-located areas of the city; thereby negating the perpetuation of housing solutions on the urban periphery.

While these subsidies were developed to in-place in attaining support low-income households in decent housing, their success in this regard has come under considerable scrutiny:

- Between April 2012 and March 2014, only 1 696 FLISP subsidies were approved country-wide, highlighting the dysfunctional state of the subsidy programme.
- Implementation of the social housing programme is currently curtailed by funding gaps due to insufficient subsidies compared to the cost of social housing development, as well as rent restrictions limiting returns of social housing companies (development proprietor).

Although modifications to the target markets, funding, and household income brackets inherent to these programmes have been propagated, the performance of said programmes in stimulating housing provision and acquisition for low-income households has been below initial objectives. While the facilitation of housing provision for low-income households has been below expectations, the demand for affordable housing in South Africa, and the Cities of Joburg and Cape Town, is on the rise and immediate interventions are needed. Housing backlogs are estimated at over 250 000 units in the City of Cape Town, and 280 000 in the City of Joburg. The lack of sufficient supply has added to the significant backlogs. In addition to the lack of supply, affordability of housing is an additional contributing factor to the affordable housing dilemma in South Africa:
The average house price for the last 12 months (April 2016 - April 2017) for estates, freeholds and sectional schemes in the city of Joburg is over R1.7 million and around R 2.5 million in the City of Cape Town.

Households require an income of at least R50 000 per month in the City of Joburg and R62 000 per month in the City of Cape Town.

The reality however, is that the median household income in the cities of Joburg and Cape Town is between R2 254 – R4 505 per month, placing serious pressure on housing affordability.

Due to the limited capability of existing housing policies and programmes to sufficiently address the growing demand of low-income households for affordable housing in well-located urban areas, public sector entities are increasingly interested in inclusionary housing policies and the ability of these policies to provide affordable housing in areas near employment opportunities and established urban activity nodes. In addition, inclusionary housing presents a unique opportunity for the private property sector to contribute to and expand their product to affordable housing; a financial load currently the primary responsibility of government entities with public budgets under growing pressure.

Evidently, the debate and evolution of inclusionary housing policy as a viable option in affordable housing provision by policy makers has been driven by several contributing factors:

- Inability of existing policy in effectively addressing housing backlogs;
- Continued low-income housing provision in peri-urban areas;
- Existing segregated urban structure and human settlements;
- Lack of affordable housing supply in well-located areas;
- Growing financial unsustainability of the public sector being primarily responsible for affordable housing provision; and
- The need for the development of well-functioning integrated human settlements.

Accentuated by these factors, the City of Cape Town, the City of Joburg, as well as the Gauteng provincial government have taken steps in introducing concepts of inclusionary housing within their respective jurisdictions.

While divergent inclusionary concepts are being scrutinised, the nature of inclusionary housing and its implementation may fundamentally alter housing development in these areas, potentially having a wider impact on housing markets. Although the inclusionary housing concept and its potential approach in South Africa has been extensively researched, the nature of its implementation remains uncertain.

The novelty of the concept, in addition to the growing impetus for its implementation, presents a unique opportunity for contributions from relevant stakeholders and industries, including property owners, potentially affected by how the policy is to be implemented. Accordingly, to evaluate current inclusionary housing approaches in South African cities and develop meaningful contributions to its implementation, there needs to be an investigation into existing inclusionary housing approaches. This South African case study explores the nature of inclusionary housing mechanisms, and critical success factors inherent to inclusionary housing and the subsequent application of these elements in the unique planning and housing systems.

Inclusionary Housing Case Studies

"Considering Latin America does not carry a strong tradition of regulating urban restructuring, the debate on the implementation of these instruments is permeated by the fear that aspects relating to the guarantee of public interests will be neglected in regard of the profitability logic imposed by the neoliberal urban transformation."

Santoro (2015:1)

The nature of inclusionary housing provision is shaped by the unique housing system, planning practices, legislative traditions, and urban structure of distinct urban environments. These elements influence the demand and possibility for selected policy interventions with regards to the provision of affordable housing in well-located areas of cities. They influence the means of implementation, including the applicable instruments and mechanisms needed to successfully stimulate private sector participation within an inclusionary framework.

In studying inclusionary housing policies as implemented in other countries and cities, it is therefore important to incorporate the unique circumstances inherent to these jurisdictions, and seek to appropriately extract lessons and apply elements of their implementation to the South African urban milieu. While the identification of nuances in planning and housing systems may prove ambiguous, correlation in urban contexts highlight the relevance of certain case studies. In this regard, South American cities are of importance due to their comparable urban form, historical class differentiation, and socio-economic contexts of South African cities. The following section of the report explores the nature of inclusionary housing provision in developing cities and countries, including Sao Paulo (Brazil), Bogota (Colombia), and the approach to inclusionary housing in the metropolitan areas of Turkey.

Furthermore, case studies of developed countries’ implementation of inclusionary housing, including European and North American jurisdictions, are investigated.

Inclusionary Housing Evolution – Brazil

General parallels can be drawn between the evolution of Brazilian housing policy and the housing paradigm shift in post-2004 South African policy: From affordable housing provision dominated by government-led supply and subsidisation to one where the state seeks to transfer some of these responsibilities to private entities. During the initial efforts to counter the segregated urban form, authorities in Brazil and Colombia sought to provide large-scale public-financed social housing in good locations in the urban centre. This provided housing solutions for low-income households in areas of forgoing service provision, in addition to fostering social integration and cohesion.

However, in Brazil during the 1990s, a drive for policy liberalisation and promotion of “entrepreneurialism” in housing provision altered national housing policies, with rapid declining government housing subsidisation and support for urban development. What followed was a proactive policy shift away from direct government housing provision and financing at scale. Large-scale public housing projects were gradually replaced by the provision of various housing subsidy programmes designed to finance private housing production and acquisition. In addition, public-private partnerships grew into an important instrument in social housing provision in urban areas, encouraging the private sector to share the cost of providing housing solutions to low-income households in an urban framework. In Brazil, as in South Africa, changes in the approach to affordable housing provision did not immediately result in inclusionary policies being adopted, but rather the development of policies and programmes which gradually encouraged a more prominent role for the private sector in affordable housing provision. Relevant in this regard is the unique approach Brazilian authorities implemented to oversee this process, and its relevance in applying similar elements and mechanisms in the South African context.

The initial intervention developed by authorities in Sao Paulo, Brazil, was the reservation of well-located urban land supply for affordable housing provision. In this approach, appropriate zoning was utilised to delineate the so-called ‘social housing..."
provide subsidies to low-income households. In addition, through national housing subsidy programmes, the Brazilian authorities provide subsidies to low-income households to support their acquisition of social units. In Sao Paulo, and in wider Brazil, two lobbying groups are at opposing sides of the argument for social housing in well-located areas in the city, namely the elites seeking to safeguard the urban structure which perpetuates their societal standing and the hierarchical status quo; and peripheral sections of the population on the fringes of the formal urban structure, seeking integration into networks of service provision and economic opportunity. The zoning mechanism inherent to ZEIS seeks to counter market forces that both perpetuate both the provision of low-income housing on the periphery, as well as drive up housing costs and rental prices in well-located areas. In this approach to social housing provision, certain low-income households must be incorporated within developments, including the “lowest-income household” category as per local stipulation (HIS housing) and the “lower-income household” category (HMP housing). During the initial implementation of this programme, 80% of the development’s built area must be attributed to HIS (40%) and HMP (40%) housing. The remaining 20% of the built area may be utilised by the developer for other uses, including market-related housing. The latter concession was made to improve private developer profitability.

Although land available for social housing provision increased two-fold through this mechanism, demand continued to exceed the meagre, albeit growing, supply of low-income housing. Several reasons can be identified:

- Exorbitant procurement costs for the state and developers
- Financial inability of low-income households to retain units
- Limited private developer profitability increased calls for incentives

Despite notable revisions to the ZEIS mechanism, including lowering requirements for HIS housing and loosening restrictions to social housing outside delineated areas, private sector buy-in remained underwhelming. These developments placed increasing impetus on the development of an alternative housing provision increased two-fold through this framework of housing policies, and therefore contained within the spatial agenda of the ZEIS mechanism. The transfer of social housing provision through an “inclusionary” approach was partly a concession to the failure of previous programmes in stimulating low-income housing provision in areas of opportunity, and the subsequent lack of social integration between income groups. This is attributed to doubts regarding the feasibility of private developers acquiring well-located land at excessive cost, carrying the cost of developing housing, and subsequently being unable to raise sufficient returns due to price and rental restrictions. While authorities initially aimed to minimise the state’s financial burden in housing provision, the subsequent approach wholly transferred that cost to private developers, who responded with dismal participation in the programme – to the detriment of social housing provision. Accordingly, an inclusionary housing approach was developed with the objective of partly relinquishing the role of the state as primary financial proprietor, while gradually increasing the role of private developers. Inclusionary housing was to be delivered through an approach of public-private partnerships.

**Public-private Partnerships as an Inclusionary Housing Instrument**

The first concept of inclusionary housing in Brazil, focussed on increasing the role of private developers in social housing provision in partnership with the state, was known as joint urban operations (JUOs). Inherent to this programme is the identification by municipalities of areas for structural transformation to be targeted for investment. Interventions include services provision, infrastructure maintenance, and crucially - the delivery of social housing. The state is the main proprietor of these interventions, utilising public funds to ensure envisioned transformations. This is a marked policy shift in urban restructuring approach where social housing is solely delivered by private developers, as per the ZEIS programme, to municipalities being primary catalysts for social housing development. The source of the public funds to be invested illustrates both the mechanism allowing for the provision of social units, as well as the role of the private sector within these transformations. The primary mechanism applied to source interventions is “land-value recapture”, where the state seeks to recapture a portion of the value gained by the developer as a result of planning processes inherent to development that increases the value of the land, allowing profit generation on the part of the private developer. Among other processes, this includes the value-adding nature of infrastructure provision and rezoning procedures by local authorities that facilitates private sector development. In the context of JUOs, municipal authorities seek to recapture a portion of the land value of private sector developments deemed “urban transformation projects”, which housing and planning agencies work in collaboration with private developers to incentivise land use transformations (including the rezoning of industrial areas for market housing purposes). These developments require major infrastructure investments and planning capacity on the part of the public sector. Therefore, in order to gain access to these benefits, the developer must procure a building rights certificate, known as CEPACs. CEPACs is an important value-recapture mechanism for private developers to gain additional rights, and increased profit-generating capabilities of land, while funds are transferred to a municipal fund through purchasing a "land-value recapture" certificate.
It extends the land-value recapture mechanism introduced within the JUO initiative, rather than being mandated to acquire CEPACs for additional building rights and contributing to the public purse, private developers themselves must provide social housing within the market-related housing development as a condition to acquiring development rights. While Solidarity Share is an extension of the land-value recapture mechanism introduced within the JUO initiative, however, perceived as contrasting to the objectives of the policy.

The evolution of social housing provision within an inclusionary framework highlights the unique dynamic between private sector influence and public-sector policy initiatives. The provision of social housing has evolved from mass production programmes financed by the state; to private developers financing its provision within the ZEIS programme; to JUO and public-private partnerships where the private sector indirectly funds social housing within larger developments; and the Solidarity Share policy - where inclusionary requirements are applicable to large-scale developments.

The inclusionary housing policy implemented in Brazil is characterised by the following:

- Although based on the spatially-linked mechanism of ZEIS, implementation of the policy is spatially flexible, and not limited to demarcated areas
- Inclusionary housing requirements are linked to the scale of developments to protect profitability and increase feasibility of private developer participation
- Housing for low-income households must be included in certain large developments (>20 000m²). This is a condition to receiving increased development rights
- It extends the land-value recapture mechanism of JUOs and CEPACs, but places responsibility of social housing provision at the door of private developers
- Alternatives to the on-site provision of low-income housing includes the purchase of an in-lieu fee and off-site provision. These alternatives are, however, perceived as contrasting to the objectives of the policy

**Mandatory Inclusionary Housing – Colombia**

While the unique regulatory context and dynamic between public sector policy initiatives and private sector influence has guided the evolution of a voluntary approach to inclusionary housing provision in Brazil, other developing countries have implemented a contrasting approach. In this regard, inclusionary housing approaches in Bogota, Colombia – which has a similar urban context to Sao Paulo and South African cities – have been influenced by the spatial isolation and marginalisation of low-income households in the urban periphery and subsequent lack of appropriate housing solutions in well-located, central areas in the city.

As in Sao Paulo, the reservation of land exclusively for affordable housing provision is enshrined in planning approaches as an instrument to designate land for the purpose of providing “housing for the lower income groups”. This approach, however, is unique to the legislative history, property law dynamics, and planning traditions of Colombia, illustrated by its ability to limit...
Accordingly, there are fewer requirements in high income areas due to higher land values and subsequent lower return when providing low-income housing in place of market-orientated housing.

Impact on land values is one of the primary policy considerations.

**LAND READJUSTMENT AND INCLUSIONARY HOUSING - TURKEY**

While the urban development and planning systems in Brazil and Colombia allow authorities in their respective jurisdictions to demarcate land according to social function, instruments to avail the land for development are not always readily available. Inclusionary housing instruments and land-value recapture mechanisms seek to catalyse low-income housing development within market-oriented projects, extracting and applying value created by planning processes for the public good. Urban areas in Turkey have experienced similar challenges in the provision of adequate affordable housing to which services will be installed. In reflection of the challenges to housing provision in Turkey, the following responses were developed:

- Authorities have sought to capacitate local planning authorities to foster social housing provision.
- Policy has restructured public and private partnerships in urban restructuring projects.
- Government seeks to support housing producers and consumers through availing certain housing credits to encourage housing uptake.

In addition, a special national agency, Mass Housing Administration, or TOKİ, was created and ensured regulatory and developmental authority in social and market-oriented housing provision. The establishment of TOKİ sought to catalyse new housing developments in former informal areas, promoting revenue-sharing initiatives with private developers through the sale of public land of which it had ownership. This special agency was tasked to undertake mass housing development, social as well as market-related, and had authority to seize private land, develop the land it owned, and to commence renewal projects of urban areas in achieving its housing provision objective. TOKİ, responsible for the delivery of 5-10% of housing in Turkey (600,000 units between 2003-2011, of which 83% is social housing) thus constitutes a crucial entity in the housing system, and highlights the potential of a sufficiently capitalised agency to catalyse low-income housing provision.

Existing instruments were, however, limited in their inclusion of social housing within market-related development; increasing the viability of inclusionary housing as an alternative approach to challenging the housing status quo in Turkey. Currently, it is envisioned that inclusionary housing be a tool for renewal of urban areas and conversion of peri-urban land. The primary instrument in the provision of inclusionary housing in Turkey is the Land Readjustment (LR) instrument. This instrument allows local planning authorities to delineate parcels of land on the urban periphery, primarily owned, and invest public funds in the provision of services and infrastructure as means of ensuring its suitability for future development.

Once a grouping of land parcels has been selected for readjustment, planning authorities prepare a land use plan according to which services will be installed and individuals parcel delineated. Included in the land use plan is the provision of public infrastructure, including schools, open spaces, and roads. Public infrastructure must be constituted 40% of the area of readjustment. After services and infrastructure are installed, land parcels are transferred back to their original owners. Albeit smaller in size due to land taken up by newly installed public infrastructure, these land parcels are now of higher value due to the land being serviced.
Inclusionary housing is thus an additional instrument that authorities can use to target housing provision for low-income households. Compared to other instruments, the LR instrument allows authorities to recoup financial benefits from a substantial development through the entire rezoning phase of development. This enables a “revenue-sharing” model, where the public sector recoups land value, while the private sector acquires additional development rights (raising value of land asset).

INCLUSIONARY HOUSING PROVISION - EUROPE:

The objectives, instruments, policies, and mechanisms inherent to social housing and inclusionary housing provision differs between countries and cities based on the inherent differences in their planning traditions, regulatory environments, legislative agendas, and systems of private and public-sector housing provision, which has developed within these policy contexts. In many cases, however, the growing prominence of inclusionary housing policies on a national and local level is due to the inability of previous housing policies to address the needs of the growing number of low-income households. This enables a “revenue-sharing” model, where the public sector recoups land value, while the private sector acquires additional development rights (raising value of land asset).

The Turkish approach to inclusionary housing constitutes the following:

- The primary instrument implemented to bring about inclusionary housing is LR, due to its revenue-generating ability, the sharing of revenue risk between private and public sector, and its subsequent fostering of partnerships between role players.
- The LR instrument allows authorities to service peripheral and rundown areas, avail land for low-income housing provision, and be directly responsible for the development of said housing within market-related developments.
- The LR instrument allows the recapture of increased land values resulting from government action, including service and infrastructure provision.
- TDKI illustrates the potential of the rezoning or development application phase of the development. Therefore, when developers seek to change the zoning of a land parcel to reflect the envisioned development density or land use, the inclusion of low-income units is an additional criterion for the application to be accepted by planning authorities. This mechanism may be applied to the entire urban area, or in areas earmarked for providing housing solutions for low-income households.

INCLUSIONARY HOUSING – SPAIN AND IRELAND:

In Spain, inclusionary zoning is the preferred approach to providing housing solutions for low-income households in well-located areas of cities. Spanish planning authorities first sought to implement inclusionary zoning in the 1990s, with the policy centred on developers channelling a fixed percentage of new housing development to affordable housing units. The sales price and rental rates are fixed by authorities, while utilising existing housing subsidy programmes to subsidise private developers and targeted households, to increase developer feasibility and support sustainable housing acquisition. In addition, due to previous affordable housing programmes and the inability of low-income households to acquire housing in well-located areas, authorities in several autonomous jurisdictions sought to implement a mandatory minimum requirement of 30% affordable units within new built housing developments, implemented through the mechanism of inclusionary zoning.

A unique feature of Spanish inclusionary housing implementation is the lack of alternatives to on-site provision available to authorities, with options of off-site provision, land transfer, and in-lieu fee payment seldom offered. This indicates a mandatory, rigid approach to affordable housing provision within an inclusionary framework. Despite its blanket implementation approach, there are suggestions that the policy has not achieved its stated objectives of affordable housing provision as low-income units that have been delivered have largely been transferred to moderate and lower-income households, rather than lowest-income households with least access to housing opportunities.

Ireland is another advocate for mandatory inclusionary housing implementation, with authorities enabled to obligate private developers to attribute up to 20% of total units in the development to affordable housing. Unlike the Spanish approach, however, private developers are offered alternatives to on-site provision, including the off-site development of affordable units or in-lieu payment. It is accepted that this inclusionary policy has contributed to an increase in affordable housing provision in Ireland’s urban areas.

Characteristics of the inclusionary zoning approach in Spain and Ireland:

- Inclusionary zoning propagates a mandatory approach to inclusionary housing provision
- Inclusionary zoning requirements are applied during development application and rezoning phase of development
- Inclusionary housing is thus an additional criterion for development rights
- In Spain, the prices and rental rights are capped by government; private developers and low-income households are subsidised; existing housing subsidy programmes are utilised (building on existing frameworks); implementation of a mandatory 30% inclusionary requirement for new developments; rigid implementation with seldom alternative options; policy has contributed to increased affordable housing provision most in need of housing solutions
- Ireland implements a 20% mandatory inclusionary requirement, with increased flexibility due to availing certain alternative options; policy has contributed to increased affordable housing provision
- In these mandatory approaches, little to no incentives are offered to private developers

INCLUSIONARY HOUSING APPROACH - ENGLAND:

- Inclusionary housing gained impetus in England due to subsidising government interventions in the housing market.
Elements to be extracted from the case study of inclusionary housing in Spain and Ireland include the following:

- Ireland implements mandatory requirements with incentives and alternatives
- Spain implements mandatory requirements without incentives or alternatives

market, especially mass scale, state-driven housing provision. While these changes were propagated by the conservative government during the drive for liberalisation in the 1980s, the nature of inclusionary housing would be formed by the UK Town and Planning Act of 1947. Hereafter, development rights were nationalised, enabling local governments to determine suitable development of privately owned land. The objective of this legislation was to “ensure adequate land and infrastructure for all households whether or not they had the capacity to pay”. Development planning in England shifted away from zoning approaches in regulating development, towards an approach where local authorities grant planning permission to certain developments in accordance with planning objectives.

Divergent planning systems of England and countries in Europe manifest in different approaches and mechanisms during inclusionary housing implementation. As “government owns the development rights to land”, local private owners want to develop their land, planning permission must first be obtained from government. This system, and the planning instruments legislated by the 1990 Town and Country Planning Act, allows local authorities to dictate the inclusion of affordable housing or not in new housing developments, with the alternatives of paying an in-lieu fee or transferring land, as a condition for development permission.

This approach is characterised by the following:

- Inclusionary requirements are flexible, with “no fixed percentage or pre-established requirement”, and are determined on a project-by-project basis through negotiations between developers and authorities.

- Inherent to this approach is a consensus being reached between planning authorities and private developers regarding the need for affordable units in relevant developments in certain areas, and the feasibility of delivering these units from the viewpoint of the private developer.

- Agreements between authorities and developers for the provision of affordable housing are legally binding, and referred to as S106 Agreements (based on section 106 of the above mentioned Act).

- The planning system in England, and its “non-prescriptive nature”, allows local authorities to apply national directives on inclusionary housing to different contexts, enabling flexible requirements that react to local market conditions.

- Local authorities have established thresholds for development size and value, citing fears that inclusionary requirements may stifle smaller, less profitable housing development and provision in smaller urban areas.

This instrument, in addition to the availing of subsidies to private developers participating in the programme, has contributed “a significant proportion” of the affordable housing solutions provided in England. In the 2009/10 period, more than half the total affordable housing units delivered in England can be attributed to inclusionary housing through planning obligations. Despite this success, the number of affordable units delivered is still seen to be below expectations, with the following contributing factors:

- Problems in negotiations due to the “poorer negotiating capacity and market awareness” on the part of local authorities.

- Insufficient monitoring of agreements that result from negotiations.

- Problems in the formalisation of these agreements.

- “Recurrent renegotiation” of terms in the agreement.

- In addition, the profitability of private developers and feasibility of inclusionary housing is linked to and dependent on the local housing markets. When the market is in a downturn, private developer willingness to provide affordable housing subsides, complicating negotiations and lowering inclusionary requirements.

Characteristics of the inclusionary housing approach in England:

- Affordable housing provision as a condition to gaining planning permission for development.

- Flexible approach to inclusionary housing, with requirements based on need in local context and feasibility of affordable housing provision by developer.

- Negotiation between authorities and developers on a project-by-project basis; subsequent agreements are legally binding.

- Local authorities determine the nature of local implementation, with regards to requirements, development size thresholds subject to requirements, and household target markets.

- Several challenges remain, including government capacity and negotiation knowhow, and monitoring of developer compliance.

- No incentives are offered to private developers in this approach.

Elements to be extracted from the case study of inclusionary housing in England include the following:

- Implementation of the “planning gain” mechanism
- Implementing a condition to planning permission
- Limited incentives, while there are alternatives available
- Flexible approach based on local context and market conditions
- Project-by-project negotiations: inclusionary requirements

Inclusionary zoning in North America

“I have come to regard zoning as so anti-egalitarian and hostile to low and middle income folk that I have become hostile to zoning. Zoning, thy name is exclusion.”

Hagman (1982)

An intrinsic feature of European approaches to inclusionary housing implementation is the recapture of land-value; value which is determined and predominantly influenced by government planning actions, including service provision, infrastructure contributions and planning process. The central justification of inclusionary housing, and the capturing of private developer revenue in the development process, is that the land value from which the private developer generates return is the product of government processes and not developer actions; validating recapturing of land-value by authorities to invest for the public good – i.e. affordable housing units delivered by private developers. Accordingly, when developers seek to upzone a land parcel to allow higher-density development, the value of the land increases. In this regard, inclusionary zoning seeks to ensure a portion of that increased value by incorporating inclusionary requirements as a condition to said up-zoning. This justification of inclusionary approaches as land-value recapture mechanisms are apparent in the South American case studies, as well as in the Spanish and Irish examples. In England, land-value recapture is referred to as “planning gain”. This justification of inclusionary zoning contributes to the rebuke of availing incentives to private developers.

INCLUSIONARY ZONING IN USA

Inclusionary housing in America is predominantly influenced by a housing and planning system which embraces a more “right to develop” paradigm inherited to private property rights. This approach propagates private owners and developers as proprietors of development, with increased land value and returns gained seen as a product of landowners’ actions, rather than government planning processes. Therefore, when government spending on services provision decreased in the 1980s, inclusionary housing approaches on state and local levels largely included initiatives...
Cost-offsetting incentives with the availability of alternatives

Accordingly, while certain states in America also implement the mechanism of inclusionary zoning to obligate private sector affordable housing provision in certain areas, it is propagated that private developers be compensated through cost-offsetting incentives to negate negative effects on housing production and its significant economic multiplier effect. Therefore, the public sector extracts gain from private development through the provision of affordable housing, while increased costs attributed to the developer are minimised through incentives.

**Characteristics of the inclusionary zoning approach in North America**

- The “right to develop” approach to planning and land development ensures private developers are offered “cost-offsetting” incentives to ensure profitability and feasibility.
- Inclusionary zoning approach with mandatory requirements for affordable housing provision.

**Canadian approach to inclusionary zoning**

In accordance with the American approach, inclusionary zoning initiatives in most Canadian jurisdictions oblige the provision of affordable housing units within new housing developments. In the Canadian approach, when the developer applies for urban zoning changes, such as applications for higher development densities, or rezoning to residential usage, or subdivisions; a condition to these changes is the provision of affordable housing. Comparable to the American approach, authorities are encouraged to offer cost-offsetting incentives – predominantly density bonuses – to negate additional costs undertaken by developers in this process.

**Inclusionary zoning initiatives in major cities include**: 
- Vancouver mandates that affordable units constitute 20% of all units in major developments as a condition to approving increased development rights.
- The concept in Montreal is based on the mandatory provision of affordable housing with a regulated 30% of the developed units allocated to affordable housing. This concept offers both affordable rental and bonded units for low-income households.
- In Toronto, inclusionary housing is solely provided on properties larger than five hectares. These properties are zoned with affordable housing and high-density requirements.
- Elements to be extracted from the case study of inclusionary housing in North America include the following: 
  - Implementation within the “right to develop” paradigm.
  - Mandatory, rigid inclusionary requirements.
  - Cost-offsetting incentives with the availability of alternatives.

**Elements to be extracted from the case study of inclusionary housing in North America include**: 
- Implementation within the “right to develop” paradigm.
- Mandatory, rigid inclusionary requirements.
- Cost-offsetting incentives with the availability of alternatives.

Evident from the case studies is that local planning and housing systems, planning traditions, and legislative frameworks influence housing policy and approaches to inclusionary housing provision. In most cases, the need to increase the role of the private sector in low-income housing provision in well-located areas stems from declining government spending on public housing provision. In America in the 1970’s, England in the 1980’s, and Europe and Brazil in the 1990’s; inclusionary housing approaches developed as an instrument to increase the supply of affordable housing, as well as achieving increased social integration through unlocking access to housing solutions for low-income households in areas of opportunity in cities.

The planning and housing system in Brazil perpetuated the provision of affordable housing in peripheral areas, exacerbating urban inequality and class-segregated cities. The reaction of authorities was to develop housing policy based on social housing provision within pro-actively zoned locations, evolving in time to an inclusionary housing approach with mandatory requirements for large developments. A dualistic housing market in Turkey was preserved by a planning and housing system which catalysed the development of informal settlements in peri-urban areas and central locations in the city. Policy responses included the establishment of a special housing agency to drive affordable housing provision through partnerships with private developers, under the guise of the land readjustment mechanism to ensure the delivery of social infrastructure – including affordable housing.

The unique legislative history and planning system of Colombia allows for the expropriation of land when mandatory inclusionary housing requirements are not met in demarked social housing zones. Decreased government spending on housing provision provoked divergent responses in European and North American cities. Inherent to the non-prescriptive nature of the English planning system, authorities sought to negotiate with private developers for the inclusion of low-income units in market developments; with requirements influenced by profitability and feasibility.

In this regard, mandatory inclusionary housing requirements are placed on private developers as a condition to increased development rights; implemented through the mechanism of inclusionary zoning.

Divergent planning and housing systems lead to the development of wide-ranging approaches to inclusionary housing provision, as illustrated in Figure 8 for the relevant case studies. In addition, Figure 8 scales the case studies’ approaches to inclusionary housing in terms of their nature of implementation. Approaches are placed between the “free market” status quo, where private developers are subject to zero inclusionary requirements, and a blanket inclusionary housing approach, where rigid inclusionary requirements are obligated in every new housing development.

Unique local contexts influence approaches to implementation, mechanisms to achieve said objectives, and paradigms that justify implementation. Despite divergent approaches, certain constant factors can be identified in the majority of inclusionary housing case studies, as indicated in Table 1. These include unique local context, approach, mechanism, justification, incentives, and inclusionary requirements.

In addition, there are several defining aspects of any inclusionary housing policy, involving the measure of affordability, target income groups, and measurement of inclusionary requirements.

- As inclusionary housing seeks to provide “affordable”, or low-income, housing, defining affordability is an important aspect of policy.

The appropriate determinant of “affordability” is the cost of housing.

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*Calavita & Mallach, 2009:18*
*Wicky, Stroutewart, & Thadum, 2014*
*Miley, 2009:162*
*Shap, 2016*
The inclusionary housing concept differs considerably from local, provincial, and national jurisdictions across the world. Unique planning and housing systems are the fundamental influence in the approach to the inclusionary housing concept, and the source of contrasting concepts of inclusionary housing between countries. While the motives for inclusionary housing may vary between countries (e.g., negate spatial poverty concentration; integrate excluded groups; and prioritising the supply of affordable housing), it is the broader mechanisms regarding property rights and land development that shape the unique inclusionary concept of an area. In this regard, the following section seeks to investigate the envisioned inclusionary housing approach in South African cities, and the influence unique planning and housing system may have on the approach, objectives, mechanisms, and justification of inclusionary housing within this urban context.

Inclusionary housing - 2018
The South African Inclusionary Housing Concept and Policy Status Quo

Apparent in the case studies of inclusionary housing implementation in South American, European, and North American countries and jurisdictions is the substantial influence presiding planning and housing systems have on partnerships between private developers and the public sector in increasing the role of the former in housing provision for low-income households while simultaneously decreasing government expenditure on housing development. In South Africa, where urban areas are characterised by substantial inequality and segregation of different communities – a product of previous planning policies – the planning and housing systems are important determinants that shaped our cities and are now utilised to promote social integration, stimulate low income housing provision, and garner upward mobility for peripheral communities. The instrument earmarked to foster these changes is inclusionary housing, a concept fundamentally shaped by the unique planning and housing systems within its areas of implementation.

In response to the growing housing backlog and limited success of existing housing policies in stimulating decent housing solutions for low-income communities and the resultant impetus for low-income housing solutions within an inclusionary framework, the 2005 Housing Indaba was convened where a Social Contract for Rapid Housing delivery was signed between government and key private sector stakeholders (including property owners). This initiated engagement between the National Department of Human Settlements and the private sector, with dial on the fragmented urban form to the delivery of affordable housing. In this regard, several international implementation mechanisms to guide the conversation regarding inclusionary housing were referenced, contributing to the formation of a national policy framework for South Africa, which was released in 2007.

Inherent to these contextual factors are the challenges that both partially obstruct inclusionary housing provision while also encouraging developers to consider the local context and the unique characteristics of human settlements and their spatial manifestations in the discussion regarding approaches to inclusionary housing in South African cities. Only through these contextual considerations and acknowledging that the success of the inclusionary housing concept is shaped by the intricacies of society and its institutions – including the housing and planning systems – can there be endeavoured to develop an inclusive housing policy that can truly be an instrument to counter societal challenges centred on housing provision for low-income households in well-located areas, emphasising social integration in a society that is profoundly divided on a spatial and economic sense.

In investigating inclusionary housing, which was released in South African cities, it is important to determine the driving factors behind the growing demand for its implementation to understand the fundamental objectives of such an approach within the local context. In this regard, it is suggested that demand for inclusionary housing is a product of the ability of the planning and housing systems to avail (or not avail) land for low-income housing provision in well-located areas of cities.

The planning system and the legislative traditions, norms, and relationship this has garnered between planning authorities and private developers substantially influences the demand and possibility for inclusionary housing provision within any jurisdiction, impacting the manner in which the public and private sectors perceive inclusionary housing. The planning system determines the way property and development rights are allocated, influencing the value captured by private developers through land development and the possible mechanisms and justification that can be utilised by the public sector to redistribute development gains towards social investment and, specifically, affordable housing provision. When this planning system accentuates peripheral development and fragmented human settlements, the demand for inclusionary housing will increase:

- In South African municipalities, the structure of rates and taxes contributions encourage urban spread as centrally located land parcels are subject to substantially higher property rates payable to municipalities.
- Accordingly, as peripheral rates and land values are considerably lower, development is primarily channelled to these areas.
- The planning system thus contributes to peripheral development, perpetuating the fragmented urban form and stimulating sufficient housing solutions in opportune urban locations, driving increased demand for an inclusionary housing approach to provide said housing.

An additional factor in the demand for an inclusionary housing concept is the size of the development surplus, i.e. the difference between the price of the housing output and the cost of the inputs in the development process, referring to the size of private sector returns on the development. The development surplus is substantially influenced by the performance of the economy, reflecting the state of the property market and the appetite for development.

When the development surplus – the private sector returns on development – is sizable, public sector demand for inclusionary housing will increase as a means of mitigating public expenditure on affordable housing, as will the willingness of private sector participation.
The larger the developer profit and rate of return, the more financially feasible it is for private revenue to be partially channelled towards low income housing, regardless of the inherent opportunity cost.

The economic downturn has placed significant downward pressure on the national housing market and, subsequently, on the returns of South African property developers, decreasing the development surplus.

The perception, however, remains that there is a substantial development surplus that can be used for affordable housing provision.

Accordingly, while public sector demand exists to recapture land value through inclusionary housing, potential private developer participation in such a programme is likely to be subdued.

### Table 2: Demand for inclusionary housing in South Africa

<table>
<thead>
<tr>
<th>Influencing factor</th>
<th>South African context</th>
<th>Nature of demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning system</td>
<td>Peripheral development due to certain planning system lacks is in isolated communities</td>
<td>Demand for inclusionary housing</td>
</tr>
<tr>
<td>Housing system</td>
<td>Insufficient affordable housing provision leads to un-economic challenges</td>
<td>Demand for inclusionary housing</td>
</tr>
<tr>
<td>Development surplus</td>
<td>Public sector driven demand for inclusionary housing</td>
<td></td>
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The peripheral development encouraged by the planning system, the limited success of housing programmes in stimulating housing solutions for low-income households, and the perception of sizable returns and a healthy development surplus have catalysed support for inclusionary housing – the latter primarily among public sector entities. Unique housing and planning systems have influenced the growth of inclusionary housing implementation in South America, North America, and Europe, and are inherent to the local drive for inclusionary housing implementation.

While demand for inclusionary housing implementation in South Africa does exist, the question remains: How do the unique planning and housing system and the development surplus influence the possibility of implementing such a policy? Influencing factors in the South African context in this regard are illustrated in Table 3. Table 3 illustrates the critical characteristics inherent to the planning and housing systems and the nature of the development surplus needed to ensure the possibility of inclusionary housing implementation within South African cities. Aspects of the local planning system conducive to inclusionary housing implementation are the availability of mechanisms supporting the provision of housing for low-income households; the policy objective and growing ability to ensure increased private sector participation in low-income housing provision; and the ability of local municipalities to formulate and implement planning rules and mechanisms for local implementation. A possible challenge to the possibility of inclusionary housing is the limited institutional and policy-making capacity of smaller local municipalities. In addition, as a prelude to the envisioned South African approach to inclusionary housing, target household income groups to be granted housing opportunities through inclusionary housing are primarily based on nationally set income brackets derived from existing housing subsidy programmes, thereby negating the delineation of target income groups relevant to local economic and market conditions. The South African housing subsidy programme is based on income groups, without determining an approach to implementation. Inclusionary housing implementation is considerably demand for inclusionary housing implementation in South Africa.

Initial indications suggest that, while the housing and planning systems are primarily conducive to inclusionary housing implementation, downward pressure on the development surplus and private developer returns may be an essential element to consider in any potential inclusionary housing policy.

### Table 3: Possibilities of inclusionary housing in South Africa

Table 3 illustrates the critical characteristics inherent to the planning and housing systems and the nature of the development surplus needed to ensure the possibility of inclusionary housing implementation within South African cities. Aspects of the local planning system conducive to inclusionary housing implementation are the availability of mechanisms supporting the provision of housing for low-income households; the policy objective and growing ability to ensure increased private sector participation in low-income housing provision; and the ability of local municipalities to formulate and implement planning rules and mechanisms for local implementation. A possible challenge to the possibility of inclusionary housing is the limited institutional and policy-making capacity of smaller local municipalities. In addition, as a prelude to the envisioned South African approach to inclusionary housing, target household income groups to be granted housing opportunities through inclusionary housing are primarily based on nationally set income brackets derived from existing housing subsidy programmes, thereby negating the delineation of target income groups relevant to local economic and market conditions. The South African housing subsidy programme is based on income groups, without determining an approach to implementation. Inclusionary housing implementation is considerably demand for inclusionary housing implementation in South Africa.

Initial indications suggest that, while the housing and planning systems are primarily conducive to inclusionary housing implementation, downward pressure on the development surplus and private developer returns may be an essential element to consider in any potential inclusionary housing policy.

### South African approaches to affordable and inclusionary housing

Considering the demand and possibility for inclusionary housing policy in the South African context, the City of Joburg, the City of Cape Town, and the Gauteng Provincial Government have attempted to develop, or are in the process of developing, an approach to inclusionary housing provision in their respective jurisdictions. The envisioned approach to implementation – including mechanisms, justifications, incentives, and requirements – is comparable to those identified within the case studies of implementation in developing and developed country jurisdictions. Their approaches, however, are substantially determined by previous local housing programmes and developed to incorporate existing housing subsidy programmes, as illustrated in Figure 9.

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1. Planning entities have necessary capacity to develop inclusionary housing mechanisms
2. Policy-making capacity limited to larger municipalities
3. Available mechanisms for affordable housing provision
4. Existing housing subsidy programmes
5. Ability to formulate planning rules and mechanisms for local implementation
6. SPURMA allows for municipal by-laws for local spatial planning approaches
7. No national policy position on inclusionary housing policy
8. Increasing developer participation in low-income housing provision through inclusionary housing
9. Limitation of developer participation in low-income housing provision
10. Initiatives to offset costs of developers
11. Power of developers versus planning authorities
12. Housing prices influence development surplus
13. Affordability and target income range
14. Development surplus and private developer returns
15. Flawed approach to offset cost of developers
16. Planning entities have necessary capacity to develop inclusionary housing mechanisms
17. Policy-making capacity limited to larger municipalities
18. Available mechanisms for affordable housing provision
19. Existing housing subsidy programmes
20. Ability to formulate planning rules and mechanisms for local implementation
21. SPURMA allows for municipal by-laws for local spatial planning approaches
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34. Existing housing subsidy programmes
35. Ability to formulate planning rules and mechanisms for local implementation
36. SPURMA allows for municipal by-laws for local spatial planning approaches
37. No national policy position on inclusionary housing policy
38. Increasing developer participation in low-income housing provision through inclusionary housing
39. Limitation of developer participation in low-income housing provision
40. Initiatives to offset costs of developers
41. Power of developers versus planning authorities
42. Housing prices influence development surplus
43. Affordability and target income range
44. Development surplus and private developer returns
45. Flawed approach to offset cost of developers

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*In Kam, Ahmed, & Buchman, 2013
**Point of Discussion - City of Joburg Focus Group Session*
Accordingly, target household income groups for incorporation into inclusionary developments are based on the income groups referenced within the various existing housing subsidy programmes, which provide access to subsidies for affordable units to end-users. There are various household income groups eligible for affordable housing provision, ranging from very low-income households (R0 – R1 500), serviced by the Redistribution and Development Programme (RDIP), to CRU (R800 – R1 500) and social housing (R3 500 – R7 500), which deliver rental units to low and middle-income households, and FLISP, which supports housing acquisition of upper-middle income households (R12 501 – R15 000). Mentioned housing programmes and their target household incomes are illustrated in Figure 9. Inclusionary housing is seen as an instrument to implement these programmes within market-related housing developments. In the South African context, housing “affordability” is defined at 30% of monthly household income. In the absence of national guidelines on inclusionary housing implementation and empowered by planning legislation, the City of Joburg and the City of Cape Town have sought to develop inclusionary approaches relevant to their respective local contexts.

**City of Joburg inclusionary housing approach**

The growing momentum in the City of Joburg to approach the housing backlog and fragmented nature of urban areas in the municipality within an inclusionary framework is based on the principles inherent to the Housing White Paper and BNG, as represented in the Joburg 2040 Growth and Development Strategy. This strategy propagates the creation of sustainable, liveable, and affordable human settlements with reliable service delivery and social amenities. Therewith, several housing objectives constitute the foundation of urban development planning in the City, including the following:

- Creating sustainable human settlements through integrated housing development
- Promoting a people-centred housing policy
- Transforming the urban structure through housing based on principles of inclusion and integration
- Community participation in the development process to create liveable human settlements

Principles of a people-centred housing approach are implemented in the City of Joburg, with the focus being on ensuring that housing developments are incorporated with the provision of socio-economic services and opportunities. The levels of serviced stands, low and medium density, ensures diversity in housing typology. Ultimately, integration and inclusivity are core themes of the housing approach in the City. This housing approach seeks to transform the urban structure from one exacerbating societal inequalities to one sustaining liveable human settlements with opportunities for its residents. Inspired by this policy background, the City of Joburg (SDF 2016) sought to highlight the vision for inclusionary housing implementation in its urban areas:

- The envisioned approach called for the inclusion of affordable, low-cost, and social housing within all new housing developments.
- The presented objective was that affordable housing should ultimately make up 20-50% of residential floor area in all neighbourhoods.
- This approach propagated a shift from peripheral greenfield developments to high-density, mixed-use brownfield developments near to jobs, economic activity, public transport and services.
- The focus of inclusionary housing is to be on transformation zones such as the Corridors of Freedom, the Inner City and mixed-use nodes.

Through its spatial policies, the City of Joburg emphasises that inclusionary housing should be part of all new developments and should be introduced into existing nodes. The development of inclusionary housing is a key priority to ensure that the City’s residents are housed adequately, near job opportunities, public transport and social amenities. Inclusionary housing policy in the City of Joburg aims to:

- Contribute towards achieving a better balance of income groups in new residential and mixed-use developments and redevelopments
- Provide accommodation opportunities for low-income and lower middle income households in well-located areas, which they might otherwise be excluded from
- Improve the supply of affordable housing opportunities for low income service delivery zones
- Mobilise the private sector to provide last mile solutions in the delivery of affordable housing opportunities across all income groups in the City

While the City of Joburg (SDF 2016) presents a mandatory inclusionary housing approach that obligates developers to include affordable units within market related developments, the current approach propagated by the City and its representatives is based on the voluntary provision of inclusionary housing, with inclusionary requirements limited to larger developments. Accordingly, the City of Joburg views inclusionary housing as a land-use policy, rather than a housing policy, with inclusionary requirements incorporated within applications for higher development rights. The following is a summation of the City of Joburg’s approach:

- Requirements are currently limited to selected large housing developments, the scale of which supports the feasible inclusion of housing units for low-income households. Accordingly, inclusionary requirements are obligated as a condition to attain higher development rights.
- In order to offset the increased cost to developers, a multitude of incentives are being developed in an effort to increase participating private developer feasibility.
- Importantly, the City of Joburg seeks to negotiate with private developers for the provision of low-income units in exchange for cost reducing incentives.
- These negotiations take place on a project-by-project basis, with inclusionary requirements and availed incentives influenced by an individual project’s feasibility and profitability forecasts.

The City of Joburg is aiming to incorporate low-middle income households (R3 501 – R7 000 per household per month) in primarily social housing units in market-related developments. Based on the 30% affordability measure, rental rates are to be capped at a maximum of R2 100 per month.

Accordingly, the City of Joburg seeks to implement a voluntary, project by project, negotiation-based approach to inclusionary housing, availing incentives to increase feasibility and profitability of private developers while basing inclusionary requirements on the envisioned development surplus. This approach seeks to increase private developer participation in the inclusionary programme and protect developer returns. In addition, the voluntary nature of the approach allows private developers to proactively negotiate with necessary authorities for the availment of incentives and exchange for affordable housing provision. An exception to the voluntary, negotiation-based approach is apparent when housing development takes place in specially delineated zones, including in social housing restructuring zones, in the TOD corridors, and restructuring, and the inner City. In these areas, an increased mandatory approach is being considered to negate the forces of gentrification inherent to urban renewal projects. The justification of both approaches is land-value recapture for the provision of social infrastructure, i.e. low-income housing solutions.

After negotiations have taken place and inclusionary requirements have been established within the voluntary approach, private developers have the following options to ensure low-income units’ inclusion in the development:

- a) Private developers may design, develop, and manage the low-income units themselves. To ensure prices and rental rates of the low-income units are within relevant target household...
income ranges, audited statements must be provided to the relevant City of Joburg authorities by the private developer on an annual basis.

b) Private developers may also collaborate with social housing institutions (SHIs). Development of social housing stock with market-oriented units can be undertaken through the following process:

1. An agreement is undertaken between the private developer and the SHI for the provision of social housing.
2. The private developer is responsible for the development of all the residential units in the inclusionary housing, including the social housing units.
3. After completion and based on a pre-development agreement, the social housing stock is transferred to the SHI.
4. The SHI would be able to buy these units using national subsidies availed by government.
5. The SHI leases the units to income eligible households while paying levies and managing the units.
6. The SHI represents the social housing tenants on the body corporate of the development.

This approach holds benefits for both the SHIs, the private developers, and the public sector; the SHI benefits when the cost of acquiring the completed units is less than developing new units while utilising social housing subsidies; the private developer recoups a portion of the development cost while transferring operational and administrative cost of the rental units to the SHI. In addition, the private developer gains indirect access to government funding through the established social housing funding structure. In addition, social housing has existing mechanisms to ensure rental units remain affordable over time, ensuring government objectives of providing rental units to low-income households within inclusionary housing developments are achieved. The establishment of partnerships between private developers and SHIs may, however, prove to be an ongoing challenge in this regard. In addition, the requirement of social housing provision to be limited to demarcated restructuring zones poses an additional challenge.

As this approach from the City of Joburg is centred on incentivising inclusionary housing delivery for increased private sector buy-in, several time and cost saving measures are developed. Inclusionary housing - 2018

Faster plan approval - A substantial contributor to the challenges in the property development process are the time delays in obtaining land rights through development applications and building plan approvals. The delay in these application processes reflects in the opportunity cost carried by the private developers, while taxes and levies accumulate to make up considerable holding costs for the property. Streamlining plan approval will save developers time and money while ensuring fast-tracked property development, including housing provision. The City of Joburg is developing a mechanism to quicken the planning application approval to inclusionary housing developments through ensuring projects that better meet the mandate of the City are put “on top of the pile”. This is meant to present a substantial incentive for private developers to participate in housing provision to affordable housing provision. The successful implementation of this incentive necessitates improved synchronisation of application procedures between municipal departments to truly fast-track development.

Connection time - An additional measure being developed by the City of Joburg is decreasing the time it takes to connect a development to the bulk services infrastructure. When this connection is fast-tracked, faster returns on investment can be generated by the developer, raising revenues that can be reinvested in additional developments. Similar to the case of faster plan approvals, reducing connection time saves the developer time and money.

Bulk services infrastructure payment “holiday” - To be connected to the bulk services infrastructure by the municipality, the private developer must pay an initial connection fee as well as a monthly contribution thereafter. Decreasing the time it takes to be connected to bulk infrastructure saves the developer time; however, offering a “holiday” to the payment of the connection fee can make a considerable difference to the delivery model of the developer and increase the feasibility of an inclusionary project. Due to the cost that is undertaken by the developer to get the development off the ground and the housing units ready for occupancy, delaying this bulk payment helps curb the initial expenses of the developer. An additional advantage of this incentive is that the municipality still receives a financial contribution, albeit delayed, from the developer, negating a decline in municipal revenue.

Bulk services and parks contribution - The first of these cost-cutting incentives is to decrease the bulk services contributions payable by developers for inclusionary housing projects. Bulk services are payable to the City when rezoning takes place to increase the rights and built intensity of properties. The cost is designed to upgrade the bulk infrastructure in the area to accommodate higher intensity development. While this mechanism is still being developed, the current idea for the City of Joburg is that the rent affordable units included as part of an inclusionary housing development, the greater the proportionate decrease in the bulk services contributions. This bulk services contribution includes the “park contribution”, which is for the development of green open spaces within the City. In its current implementation, the developer wins the rights to developing the land. An alternate approach is envisaged where the developer is no longer incentivised to develop parks and open spaces within the City. In its current implementation, the developer is paid a developer rebate significantly alter the delivery model for inclusionary housing developments. Rates rebates are made available to private developers, substantially cutting expenses and increasing the development surplus.

Releasing publicly owned land - This is an important aspect of the City of Cape Town, where publicly owned land targeted for housing development in the CBD is made available to private developers through a tendering process: The developer providing the optimal amount of affordable housing wins the rights to develop the land. In some cases, after a developer provides the minimum amount of affordable housing, they are entitled to develop privately-owned land towards the provision of affordable housing and the potential loss in revenue that this may represent. Special agreements may be set up with selected, established social housing companies to give them preference in tender processes as it is in the public interest. Here, tenders would be released for bids from established social housing companies only, with requirements for them to work with less established social housing companies to build capacity and for skills transfer. Negotiations around this, with support from the City’s Department of Social Housing, Organisations (NASHO), are taking place in Joburg and Cape Town.
An additional cost-reducing incentive that can be availed by the public sector is the delineation of urban development zones (UDZ) for development on private land. The purpose of the UDZ is to incentivise investment in inner city property development through offering tax rebates to private developers. This tax rebate mechanism is accessible when developers build, expand, or upgrade existing buildings with a minimum size of 1 000m². Through considering the development of inclusionary housing projects in the UDZ, participating developers will be eligible for this tax rebate, incentivising delivery.

Parking requirements - Altering the parking requirements per residential unit. Within any residential development, a certain number of parking spaces is required for owners or occupants as well as for visitors to the development. Parking spaces, however, take up a considerable amount of space and cost. Relaxing parking requirements will thus avail space for affordable housing units in inclusionary developments. However, parking space does serve an important purpose in the vehicle-orientated cities of South Africa. This highlights the potential of encouraging inclusionary housing projects with transport-orientated development, decreasing the household need for parking space when public transport facilities are close by. In addition, developer creativity is an important aspect of confronting the challenges of making inclusionary housing feasible. An example of developer creativity in this regard is the provision of bicycles in developments where fewer parking spaces are provided14. The City of Joburg aims to develop a mechanism for altering parking requirements as part of the rights and conditions attached to inclusionary housing developments (COJ, Inclusionary housing interview, 2017).

Density bonus15 - Awarding a density bonus allows private developers to provide units in addition to the prescribed land-use density. In the City of Joburg’s implementation, the bonus density awarded correlates with the number of affordable housing units the developers seek to include within the development. For example, if the maximum development density on the property is 80 units/ha, and the developer wants to provide an additional 20 affordable units, an equivalent density bonus is awarded, allowing the developer to provide these affordable units without decreasing the number of market-oriented units. Although extra costs are incurred by the developer with the provision of affordable units, revenue from the market units are retained. This increases the feasibility of inclusionary housing projects. It is also clear, however, that there are limitations to the awarding density bonuses. For the public sector, increased density increases the demand for bulk services and places stress on existing infrastructure (although contribution cost may be paid by the developer). For the private developer, building at higher vertical densities considerably increases development costs, while the payable rates and contributions still increase with higher densities (Point of Discussion – Focus Group).

The development of a further 414 units is envisioned for this project. This development includes a variety of social amenities and communal facilities, including a gym, supermarket, children play areas, a launderomat, recreational areas, and digital functions (Wi-Fi and plug-and-play DSTV). The objective of the Fleurhof development is to be one of the largest integrated housing developments in the Gauteng Province. The 440-hectare land area comprises several types of residential units and forms of tenure that have specific economic target markets. The development caters for all income groups including the low-middle income households. In addition, the Fleurhof development consists of four business centres, seven creches, five religious sites, one community centre, three schools and 20-30 parks. The developers of Fleurhof indicated that the Fleurhof project is well received by the community; however, social and economic integration will remain a challenge in South Africa’s foreseeable future.

Another example of affordable housing provision in Joburg is the LIVE EASY project. This project is entirely funded and facilitated by private developers. In the first phase of development, 136 affordable rental units are provided for low income households. The units range from 12m² to 24m² in size, with rentals varying from R1 950 to R3 650 per unit. This development includes a variety of social amenities and communal facilities, including a gym, supermarket, children play areas, a launderomat, recreational areas, and digital functions (Wi-Fi and plug-and-play DSTV). The development of a further 414 units is envisioned for this project16. Although not inclusionary housing per se, the LIVE EASY project illustrates the potential for private developers to take part in the affordable housing market. This illustrates that there are opportunities to provide for the substantial demand which exists for affordable housing. A potential ground-breaking development, named the Sandton State Building, catalysed by FWJK, is envisioned in the City of Joburg. This high-density residential development will consist of 80 – 85 storeys of residential units. Critically, included in this development is 240 social housing units, with rental rates tauted at R2 500 per month. FWJK is partnering with JOSHCOb, to which these units will be transferred and managed. An important factor in this partnership is the quantity of social housing units delivered. Feasible management of social housing units within market-related developments is determined by scale (feasibility increases with scale). FWJK negotiated with the City of Joburg for the availing of incentives in return for social housing provision. Accordingly, the developer received a density bonus and had bulk infrastructure contributions waved for the social housing units. In addition to the incentives, important design aspects were incorporated in this development to increase the feasibility of offering said quantity of social housing units. These units are of relatively small floor area17 to limit capital and operational expenditure for the developer. However, social spaces provided for low income households. The units range from 12m² to 24m² in size, with rentals varying from R1 950 to R3 650 per unit. This development includes a variety of social amenities and communal facilities, including a gym, supermarket, children play areas, a launderomat, recreational areas, and digital functions (Wi-Fi and plug-and-play DSTV). The development of a further 414 units is envisioned for this project16. Although not inclusionary housing per se, the LIVE EASY project illustrates the potential for private developers to take part in the affordable housing market. 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The City of Cape Town’s approach to inclusionary housing provision is summarised in Table 4.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>City of Joburg</th>
<th>City of Cape Town</th>
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<tbody>
<tr>
<td>Context</td>
<td>Inclusionary housing - 2018</td>
<td>Inclusionary housing provision in priority projects</td>
</tr>
<tr>
<td>Approach</td>
<td>Voluntary/negotiations Mandatory on certain projects</td>
<td>Mandatory on certain projects</td>
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<tr>
<td>Mechanism</td>
<td>Conditional on increased development density</td>
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<tr>
<td>Justification</td>
<td>Affordable housing and land value capture</td>
<td></td>
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<tr>
<td>Incentives</td>
<td>Likely to be provided in the form of bonds or other incentives</td>
<td></td>
</tr>
<tr>
<td>Requirements</td>
<td>Project by project basis</td>
<td>Bonded and rental units</td>
</tr>
<tr>
<td>Target household income group</td>
<td>R3 500 – R15 000 per month</td>
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The City of Cape Town’s approach is to transform the segregated urban structure.

The City of Cape Town recognises that although it has made great strides in housing provision, it needs to develop an innovative approach that will be sustainable well into the future. Based on abovementioned vision and objectives, the Integrated Human Settlements five-year plan for the City of Cape Town provides various strategic objectives that focus on the delivery of housing. Currently, the City of Cape Town seeks to avail strategic land parcels for the provision of inclusionary housing and does not seek to impose any city wide mandatory requirements in terms of allocating a certain percentage of new developments to affordable housing provision. Comparable to the City of Joburg’s approach, the City of Cape Town believes that each inclusionary housing development should be based on the viability of each project individually. Project viability is highly dependent on demand and location; the City does not intend to implement a blanket approach. The City encourages the private developers to identify new and creative ways of delivering affordable housing with characteristics of innovative design technologies. The bidder with the best proposal (i.e. the most affordable housing units) should get the project. The City will then use this project as a case study for developing implementing mechanisms for inclusionary housing.

The City of Cape Town’s approach to inclusionary housing provision is summarised in Table 5.

The predominant inclusionary housing approach currently being developed in South Africa is thus based on the voluntary, negotiation-driven approach where developers provide affordable housing with characteristics of innovative design technologies. The bidder with the best proposal (i.e. the most affordable housing units) should get the project. The City will then use this project as a case study for developing implementing mechanisms for inclusionary housing.
The Draft Inclusionary Housing Bill (2012) is, however, important to note in this regard as it propagated an inclusionary housing approach more akin to the mandatory, blanket approach to Ireland and Spain, with a rigid inclusionary requirement for all new housing developments. Incentives and alternatives are, however, offered to off-set private developer feasibility concerns. Due to considerable critique to its mandatory, rigid nature of implementation, this draft bill is being revised.

Figure 14 offers a comparison between the approaches to inclusionary housing in the case studies of developing and developed countries and the envisioned approaches of the City of Joburg and the City of Cape Town. Apparent is the mandatory approach propagated in the Draft Gauteng Inclusionary Housing Bill; the voluntary approaches of the City of Joburg and the City of Cape Town anchored in negotiations, akin to the mechanisms inherent to the Solidarity Share programme in Brazil and the "planning gain" paradigm inherent to inclusionary. Incorporated into the voluntary, incentivised approaches of the City of Joburg and City of Cape Town is the consideration of private developers and the limited development surplus to recapture for the provision of low income households. This approach recognises the demand for inclusionary housing in the fragmented urban areas and to stimulate affordable housing provision, but incorporates cost-offsetting measures to ensure the property market is not negatively impacted in the process of implementation. The following section investigates the potential impact of divergent inclusionary housing approaches as identified in the case studies and local implementation initiatives. This investigation will inform suggestions regarding the nature of inclusionary housing implementation in the South African urban context.

**Figure 14: International and local inclusionary housing case studies**
Policy Implications

Inherent to inclusionary housing is the added cost of developing and managing low-income units in addition to the market-related units. A central theme in the investigation of inclusionary housing implementation – and an important factor influencing its feasibility – is determining who will carry this extra development cost. Often, a primary public sector objective in implementing inclusionary housing is increasing the role of the private sector in affordable housing provision, propagating that the added costs be covered by private developers. This objective is justified by the recapturing of unearned land-value by the public sector. The private sector, however, highlights profitability and feasibility concerns of added inclusionary requirements, propagating the need for cost reducing incentives to encourage developer participation in the inclusionary space. When limited incentives are offered by the public sector, private developers may raise prices of market-related units or place downward pressure on land prices, transferring the added cost of inclusionary housing to housing consumers or landowners. When incentives are, however, offered to private developers, it is the public sector that will carry some of the cost of inclusionary housing provision.

In investigating inclusionary housing implementation in South Africa, it is essential to consider the potential implications of an inclusionary approach on private developers; the housing market; public sector financial sustainability; low income households; and whether the objectives of such an approach, namely increased affordable housing supply in well-located areas, social integration, and private sector affordable housing provision will be sufficiently achieved.

Sufficient affordable housing provision: voluntary or mandatory?

A fundamental factor influencing the approach to implementing inclusionary housing is whether the provision of incentives alone is sufficient encouragement for the private sector to develop affordable units or whether a government mandate must be developed to achieve the objectives of inclusionary housing. The appropriate approach to inclusionary housing is investigated in accordance with the following research questions:

- Will incentives generate the necessary buy-in from the private sector to ensure sufficient supply of affordable housing and related inclusionary objectives?
- In the jurisdictions where a mandatory approach to inclusionary housing is implemented, does the private sector development and negatively affect the property market, negating the primary objectives of stimulating affordable housing supply and spatial integration?

In reference to North American case studies, the mandatory approach is found to be the most efficient in stimulating both market-related and affordable housing, increasing rather than stifling housing supply through ensuring certainty and stability of the investment environment for the private sector. In addition, it is found that the mandatory approach to inclusionary housing produces more affordable housing units in terms of the percentage of units in the development as well as the total number of units, compared to the voluntary approach. In California, a state at the forefront of the inclusionary zoning implementation, it is found that the inclusionary housing programmes that generate the most affordable housing units form part of mandatory programmes. With the implementation of the voluntary approach, substantial government subsidy is required to increase the viability of private sector participation, placing a financial burden on both the state and private developers.

The mandatory approach, combined with measures to mitigate the expenses of the private sector, including selected incentives, sets uniform standards and requirements for inclusionary housing, ‘establishing a level playing field for all developers’.

In the jurisdictions where a mandatory approach is not applied, the voluntary approach may be seen as a hindrance to the provision of affordable housing. Reasons for this include:

- In a voluntary approach, affordable housing requirements and incentives are negotiated between the state and private developers on a project-by-project basis, creating uncertainty and delays in the project planning and development process.
- Political influence, maladministration, and favouritism may undermine the process of negotiating incentives.
- In this implementation context, the voluntary approach to developers regarding unit requirements and possible cost offsetting measures seem to be the most efficient approach to affordable housing provision within a policy of inclusionary housing.

The impact of inclusionary housing on the housing market

While the envisioned approach from the City of Joburg and the City of Cape Town is of a voluntary, negotiation-based nature, the successful implementation of inclusionary housing, either mandatory or voluntary, is fundamentally influenced by the financial feasibility of private developers providing affordable housing units in lieu of certain market-oriented housing. An important consideration in the implementation of inclusionary housing is the feasibility of private developers forgoing potential returns by providing low-income, affordably-priced units or whether a government mandate must be developed to achieve the objectives of inclusionary housing. The appropriate approach to inclusionary housing projects, the residential property market, will be impacted, slowing down housing – affordable and market-oriented – delivery and potentially displacing investment and development as developers move elsewhere. In addition to potential revenue loss, there is substantial risk involved in developers catering to households with a severely limited income base, increasing the chance of non-payment and default. When return on investment cannot be guaranteed, developers take on substantial risk.

Considering the limited development surplus available in the current market contexts of South Africa, implementing a blanket, mandatory approach to inclusionary housing, where all new residential developments are subject to affordable housing requirements, may have the following consequences:

- This approach may be burdensome to private developers within the current economic climate of declining revenue and shrinking margins.
- This approach is widely considered to increase legislative ‘red tape’, increasing the time and cost of development.
- Developers place increased cost on the end-user, increasing pricing of market-oriented units in an attempt to cross subsidisation and offsetting opportunity cost inherent to inclusionary housing.
- The blanket mandatory approach thus has the potential to stifle investment from private developers in the residential property market.
- Housing provision halts as developers move their money to areas with less stringent affordable housing requirements, leading to disinvestment.
- There is competition between municipalities regarding inclusionary requirements, attracting investment from private developers.
- This will impact the residential property market and have a detrimental multiplier effect on economic growth and development.

To maximise the development surplus and increase the feasibility of inclusionary housing provision, the factors which affect the revenue and cost of housing development must be considered. The larger the private sector revenue, the greater portion can be channelled towards affordable housing provision by the developer. However, when private sector returns are marginal, the additional loss in revenue through the provision of low-income, affordable housing
would raise questions regarding the financial feasibility of the project. As illustrated in Figure 15, several forces and counter forces may influence the development surplus.

Counter force 1: Increase the price of market-orientated units

Illustrated in Figure 15, the primary factor influencing revenue return is a decrease in the cumulative housing price: the development surplus, and private sector revenue, will decrease with the provision of low-income units for the target household incomes as the price and rent of the units will be lower than that of the other market-based in the development as well as the market units replaced by the low-income units. In addition, the private developer has limited control of the price of affordable units as this is determined by the affordability measure for the target household income groups. As to counter the resultant loss in revenue, the primary mitigating factor that the private developer uses is to increase the price of the market-orientated units in order to cross-subsidise the affordable units. While generating a portion of the revenue that is lost due to affordability requirements, this approach will have an adverse effect on housing prices, placing upward pressure on the cost of housing and passing the bill to end-users, rather than private developers shouldering the expenses of affordable housing provision as per the objectives of inclusionary housing.

Counter force 2: Low-income household financial security

While the provision of affordable units in market-orientated developments can be quantified through its impact on developer revenue and the size of the development surplus, the financial risk of catering to low-income households may be an additional influence on the willingness of private developers to participate in inclusionary housing projects. The availability of housing subsidy programmes to assist low-income end-users in acquiring affordable units through financial support mechanisms constitutes an important aspect in mitigating the risk of private developers. These mechanisms ensure that the households have the means to acquire housing in a financially feasible and sustainable manner, ensuring a timely return on investment for the developer.

Counter force 3: Target household income flexibility

The affordability range of low-income households places increasing downward pressure on both the price of affordable units and the dwindling revenue margins due to the unavoidable income threshold differences between affordable and market units, the greater the so-called “income cliff” and feasibility pitfalls for private developers. In the North American context, the price difference in affordable and market units is minimised by measuring affordability in terms of the median income in the area of implementation and thus incorporating location differences in the cost of housing development. However, in the South African context, target income groups for affordable and social housing is fixed and does not consider spatial fluctuations in income.

With the implementation of inclusionary housing, this fixed affordability income threshold will expose private developers to certain areas to substantial revenue loss and financial risk. In this regard, an inclusionary housing simulation model was developed to explore the effect of income cliffs – the difference in income between low-income households and the median income in which they will be located through inclusionary housing. This simulation illustrated the following:

- The opportunity cost incurred by the private developer decreases as the income cliff – and the difference between the low-income household affordability and area income levels – decreases.
- Target household income flexibility protects the financial security of the end-user and decreases the risk of private developers and loss in revenue otherwise incurred.

For the purpose of increasing the feasibility of inclusionary projects, the target affordability threshold must be location flexible and incorporate a broader income range. This will ensure smaller income differences between affordable and market units, mitigating potential private developer revenue loss.

Counter force 4: Flexible inclusionary requirements

A central aspect to the feasibility of inclusionary housing is the inclusionary requirement, i.e. the number of affordable units to be provided as a proportion of the total units in the development. Inclusionary requirements must be developed based on the underlying economic conditions and health of the residential property market: When the economy and housing market display stability in growth, the buoysant development surplus would have different effects on mitigating opportunity cost incurred by the developer. It is illustrated that the bulk services payment holiday and reductions in the bulk services contribution payment have a small, yet still potentially significant effect on the internal rate of return on the individual project. The municipal rates rebate incentive, however, has a larger impact on recouping lost revenue for the developer compared to the bulk services related incentives. It is found that offering a density bonus and availing publicly owned land to the private developer has the most significant impact on offsetting the opportunity cost incurred in the process of providing inclusionary housing. It is thus clear that the financial feasibility of inclusionary housing provision by the public sector may be lightened by the developer’s burden of expense during the development process and offset opportunity cost incurred. In the voluntary approach as propagated by the City of Joburg and the City of Cape Town, incentives offered by the public sector constitute an important aspect of implementation, not only encouraging private sector buy in but ensuring long-term financial feasibility of the inclusionary projects, private developers, and the inclusionary programme.

Evident from the inclusionary housing simulation model, which seeks to determine the effect of selected incentives on developer returns, is that the various incentives availed by the City of Joburg and Cape Town have different effects on mitigating the opportunity cost incurred by the developer. It is illustrated that the bulk services payment holiday and reductions in the bulk services contribution payment have a small, yet still potentially significant effect on the internal rate of return on the individual project. The municipal rates rebate incentive, however, has a larger impact on recouping lost revenue for the developer compared to the bulk services related incentives. It is found that offering a density bonus and availing publicly owned land to the private developer has the most significant impact on offsetting the opportunity cost incurred in the process of providing inclusionary housing. It is thus clear that the financial feasibility of inclusionary housing provision by the public sector may be lightened by the developer’s burden of expense during the development process and offset opportunity cost incurred. In the voluntary approach as propagated by the City of Joburg and the City of Cape Town, incentives offered by the public sector constitute an important aspect of implementation, not only encouraging private sector buy in but ensuring long-term financial feasibility of the inclusionary projects, private developers, and the inclusionary programme.

Incentives offered by the public sector aim to lighten the developer’s burden of expense during the development process and offset opportunity cost incurred. In the voluntary approach as propagated by the City of Joburg and the City of Cape Town, incentives offered by the public sector constitute an important aspect of implementation, not only encouraging private sector buy in but ensuring long-term financial feasibility of the inclusionary projects, private developers, and the inclusionary programme.
private sector is influenced by several factors. The development surplus is central to this feasibility, with numerous mitigating measures applied by developers and the public sector in order to offset the opportunity cost and risk to developers inherent to inclusionary housing. It is accepted that for the successful implementation of inclusionary housing, the opportunity cost and risk of affordable housing provision placed on private developers is to be partly – or fully – offset by specified public sector support mechanisms, including certain cost-reducing incentives (15).

Incentives and public sector sustainability

While incentivising private developers may be sufficient in offsetting opportunity cost incurred in developing affordable housing, as is the approach from the City of Joburg, an important consideration is the financial cost of incentives to local government entities, influencing the feasibility and sustainability of a voluntary approach which prioritises incentivisation. However, it is the nature of incentives within the framework of voluntary implementation which influence its success. The following factors influence the suitability of the voluntary approach:

- Well-capitalised government planning and housing entities, which are committed to achieving inclusionary housing objectives
- Fostering the “mandatory housing provision” of a voluntary approach, through rigorous marketing strategies for inclusionary programmes and streamlining planning processes for inclusionary developments; prioritising and marketing inclusionary housing development fosters a sense of compulsory buy-in from private developers
- Offer financial incentives sustainable for the government entities, while increasing feasibility of inclusionary housing for private developers

Accordingly, inherent to this approach is the additional financial consideration of the sustainability of the public sector incentivising inclusionary housing and foregoing a substantial amount of revenue in the process (15). An important pillar in the successful implementation of inclusionary housing is thus ensuring the approach does not negatively affect the financial security of the public sector, either through stymieing development or an unbalanced approach to the provision of incentives.

Protecting low-income households

In addition to the financial considerations of the public and private sector, financial aspects of households eligible for affordable housing provision within the inclusionary housing projects is an important pillar of inclusionary housing implementation. The current housing affordability measure is 30% of monthly income for low-income households. However, often the reality is that low income households spend less on housing while spending a substantial amount of monthly income on transport cost (15). Accordingly, many low-income households are subject to significant financial pressure once acquiring an affordable housing unit, either due to maintenance cost, monthly rent, or mortgage payments (15). In order to ensure that a formalised unit does not constitute a financial “noose” around low-income households, the provision of housing assistance through subsidy programmes is an important aspect. This is also true for households acquiring affordable units in inclusionary housing projects. To ensure the ability of households to meet payment requirements, maintain current living standards, and mitigate developer risk, financial support mechanisms must be developed. Therefore, the effective functioning of existing housing programmes is of critical importance for the initial private sector project feasibility aspects as well as the eventual acquisition of affordable units by low-income households.

Additional concerns for low-income households include the following:

- While the objective of inclusionary housing may be to garner integration, the potential exists for low-income households to be socially isolated in high-income, market-orientated developments, with limited access to social amenities and affordable education and medical facilities. The reality is that not all new, market-orientated residential developments will be in well-located areas with good access to public transport stations and other facilities (15), negating access to economic opportunities and opposing the core social objectives of inclusionary housing. In terms of the spatial dynamics, accessibility to affordable public facilities (schools, hospitals, etc.) is lower in higher income areas, leading to further isolation for the low middle income households. The income cliff constitutes a considerable barrier to the entry of low-income households into higher income areas.
- With regard to the social implications of inclusionary housing, the certain negative, preconceived notions surrounding the nature of affordable housing and the potential of NIMBYism (15) may hinder the successful implementation of inclusionary housing. The lack of platform for community engagement to dispel these ideas may generate resistance to inclusionary housing implementation in middle- and high-income areas.
- Cross-subsidisation and the perception that some households are footing the bill to ensure the affordability of units for low-income households (15) may cause resentment among residents, contrary to the social cohesion objective of inclusionary housing. While such a policy has the potential to stimulate bottom-up decision-making by communities, the necessitated buy-in from a range of stakeholders for effective implementation, including wide-ranging participation from private developers, may foster a top down approach to implementation.
- In addition, the vertical movement of low-income households to affluent residential areas may at times seem to be a leap rather than a gradual upward progression. Often, there is a stark difference between recipient low-income households and the accommodating middle- and high-income areas, constituting an income cliff seldom considered in the inclusionary housing policy. This income cliff is a unique aspect of inclusionary housing implementation in South Africa.

Will inclusionary housing have the desired impact on affordable housing provision?

Both the City of Joburg and the City of Cape Town highlight the need for partnerships with the private sector in their approaches to inclusionary housing. It is important to understand the reasoning behind this objective. The feedback from the focus group sessions is concurrent with the view of Tomlinson (15) – that housing policy has become almost too complicated to implement and applies enormous capacity constraints on the public sector. Many respondents from the focus group sessions highlighted that the number of residential units currently being built is not high enough to make any impact on the inclusionary housing target. However, public sector institutions disagree and believe that inclusionary housing will, in fact, make a difference in the housing backlog and could possibly ignite momentum in the housing development market. Statistics South Africa published the 2016 selected building statistics for the private sector, which provides some indication of the number of residential units built in January 2016 and 2017. Diagram 2 indicates the potential impact that the private sector could have on reducing the housing backlog in the Cities of

15Hughen & Read, 2013
16Point of Discussion – City of Joburg Focus Group Session
17Point of Discussion – City of Cape Town Focus Group Session
18Point of Discussion – City of Joburg Focus Group Session
19Point of Discussion – City of Cape Town Focus Group Session
20“Not in my back yard”
21“Point of Discussion – City of Cape Town Focus Group Session”
22Tomlinson, 2013

Diagram 2: Private Sector Development Impact
Conclusions and Recommendations

“We are scratching the surface of the possibilities offered by inclusionary housing. Through the appropriate bill, we will be able to better understand how people live and want to occupy space. Currently, we have preconceived notions of how we plan spatially and separate land use; We must develop flexible approaches to the planning of efficient urban spaces.”
Nico Venter, ARUP

There is a need for radical change in the affordable housing market of South Africa. The concept of inclusionary housing is not without its challenges; however, if it can be tailored by all stakeholders involved in the market it could in fact contribute to meaningful change. Policy makers have, for many decades, struggled to provide a comprehensive approach to affordable housing delivery, one that considers all aspects of the human need. Not to mention the fact that there are many financial considerations to made as well.

The overarching objective is to facilitate enhanced development integration with equal housing opportunities for all. Inclusionary housing is about creating better functioning cities with vibrant and dynamic human settlements. Achieving this objective will yield urban areas with comprehensive social and economic benefits for its residents. The housing status quo of South Africa calls for another intervention akin to 1994 and 2004, one that has a bigger and longer lasting effect on the trajectory of urban environments. It is evident that the South African vision for inclusionary housing policy is aligned with the global objectives; however, due to our unique social, economic, and political characteristics, it is vital that our approach is catered to the South African market requirements. We need to stimulate a more dynamic and diverse housing market. This will unlock a wide range of economic opportunities for all involved. The City of Joburg, Cape Town and the Gauteng Provincial Government are the pioneers of sustainable inclusionary housing policy in South Africa. It should not be a case where incentives are merely provided to the private developer and the developer in turn is responsible for the entire development. It should be a joint venture. The public sector should position themselves as the implementer – with the assistance of the private developer. There needs to be a paradigm shift in the relationship between the private and public sector.

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<thead>
<tr>
<th>Action</th>
<th>Deliverables</th>
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<tbody>
<tr>
<td><strong>PUBLIC SECTOR – National housing vision and guidelines</strong></td>
<td>Comprehensive national vision for inclusionary housing</td>
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<tr>
<td>1. Develop national inclusionary housing vision and policy guidelines</td>
<td>Coordinated public and private sector objectives</td>
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<td></td>
<td>Promote inclusionary housing policies in municipalities</td>
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<td>Inclusive housing policies based on local context</td>
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<td>Completeness of standards and requirements</td>
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<td>2. Entrench a vision of household upward mobility through inclusionary housing</td>
<td>Ensure housing typologies and tenure status</td>
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<td>Cater to changing needs of low-income households</td>
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<td>Youth generations and improved living standards</td>
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<td>3. Align national, provincial, and local policies</td>
<td>Coordinated governance policy objectives</td>
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<td></td>
<td>Coherent implementation of inclusionary housing policy</td>
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<tr>
<td><strong>Local inclusionary housing policy approach</strong></td>
<td>Implemented for Cape Town developments</td>
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<tr>
<td>4. Inclusionary housing requirements must be a condition for the private developer to gain higher density rights</td>
<td>Ensures management of social housing acts for SHI</td>
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<td>Support feasibility of developments</td>
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We need an [inclusionary housing] approach that encourages upward movement. Currently, we’re standing on the wrong platform in viewing the inclusionary housing question. Instead of mandating private developers to provide affordable housing, we must prioritise the empowerment and upward mobility of the low-income individual within the economic chain. From this viewpoint, the private developer sees the low-income household as an asset to the development: Regardless of the price of the product, be it R 1 500 a month or R 30 000 a month, the developer will create a product which will cater to this market. Over time, these household will acquire more space at an increasing rate from the developer. This is upward mobility.”
Nico Venter, ARUP
### Conclusions and Recommendations

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<td><strong>Local Inclusionary housing policy approach</strong></td>
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<td>5. Mandatory inclusionary requirements must be implemented in existing delineated special development zones.</td>
<td>Implemented in existing delineated areas (CBD zones, UDZs, restructuring areas)</td>
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<td>6. The envisioned approach needs to be formalized and developed into coherent policies.</td>
<td>Utilise existing incentive mechanisms</td>
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<td>7. Local housing must be an applied instrument through which existing housing subsidy mechanisms are implemented.</td>
<td>Ensure financial security of low-income households</td>
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<td>8. Inclusionary housing policy should not excessively prescribe design aspects of low-income units within inclusionary developments.</td>
<td>Allow developer creativity in design</td>
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<td>9. Inclusionary housing policy should incorporate flexibility in the target household income market.</td>
<td>Reflect local economic and market conditions</td>
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<td>10. Limit inclusionary housing provision in peri-urban areas.</td>
<td>Utilise existing social housing mechanisms</td>
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<td><strong>Incentives and negotiations</strong></td>
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<td>11. Avail incentives to offset developer’s cost.</td>
<td>Support financial feasibility of inclusionary projects</td>
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<td>12. Increased clarity regarding incentives.</td>
<td>Support financial feasibility of inclusionary projects</td>
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<td>13. Appoint and capacitate a panel overseeing negotiation process.</td>
<td>Facilitate interaction between stakeholders</td>
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<td>14. Ensure transparency in the agreements between public and private sector.</td>
<td>Ensure financial security of low-income households</td>
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<td>15. Ensure agreements produced through negotiations are legally binding.</td>
<td>Ensure sustainability of low-income households</td>
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<td>16. National government to capacitate local government to develop local approaches to inclusionary housing provision.</td>
<td>Ensure financial security of low-income households</td>
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<td><strong>Strategies to monitor compliance</strong></td>
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<td>17. B.R.O.S. regarding inclusionary housing policy.</td>
<td>Facilitate interaction between stakeholders</td>
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<td>18. Marketability of inclusionary housing policy.</td>
<td>Ensure financial security of low-income households</td>
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<td>19. Investigate the role of the HDA in facilitating the acquisition of state-owned land for inclusionary housing provision.</td>
<td>Ensure financial security of low-income households</td>
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<tr>
<td><strong>PRIVATE DEVELOPERS</strong></td>
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<td>20. Catalyse pilot inclusionary housing projects.</td>
<td>Ensure financial security of low-income households</td>
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<td>21. Develop relationship with relevant public sector entities.</td>
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“If we want affordable housing, we need only one thing from all these toolkits and road maps, and best practices: a political theory of how to advocate for change as fiercely as other special interests oppose them”  
McArdle, 2016
INCLUSIONARY HOUSING 2018
Towards a new vision in the City of Jo’burg and Cape Town Metropolitan Municipalities