

The City of Johannesburg Inclusionary Housing Policy

DETERMINING THE POLICY EFFECT ON
THE RESIDENTIAL PROPERTY SECTOR

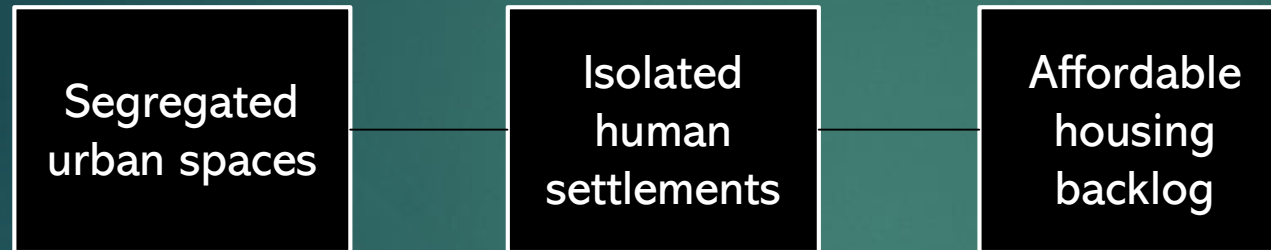
JULY 2019

1. Introduction

- ▶ Review dynamics surrounding inclusionary housing policy in the City of Johannesburg
- ▶ Examine proposed approach to policy implementation
- ▶ Gather input from property sector stakeholders
- ▶ Determine the effect of the policy implementation on developers, residential property market, property development, local economy

2. Impetus for implementation

- Unique spatial, social, human settlement context



Inclusionary housing as intervention

- Private sector participation in affordable housing
- Affordable housing supply in well-located areas
- Integrate peripheral communities in formal areas

3. Overview of inclusionary housing

3.1. Implementation approach

1

Mandatory

- Developers obliged to include units deemed affordable
- Blanket approach to implementation
- Compliance required to gain development rights
- Certain cost offsetting measures availed by public sector

2

Voluntary

- Developers incentivised by public sector to include affordable units
- Incentives to induce developer participation

3

Targeted

- Mandatory requirements applicable for developments in areas specifically delineated for inclusionary housing
- Area delineation in line with development objectives
- Outside these areas, voluntary implementation may still take place

4

Negotiated

- Requirements are negotiated on a project-by-project basis between developer and public sector
- Determined by the unique financial considerations of the project

3.2. Policy elements

a

Mode of provision

1. On-site
2. Off-site
3. Fees in-lieu

b

Inclusionary requirements

1. % units
2. % of RFA

c

Affordability definitions

1. Homogenous
2. Differentiated

d

Affordability mechanism

1. Price and rental restrictions
2. Dwelling unit size restrictions

3.3. International case studies

- **Growing demand for inclusionary housing implementation**
 - Identify approaches; instruments; and mechanisms
 - Determine factors which influence implementation
 - Relevant approach transferable to local urban context
- **NB international case studies**
 - Context; approach; mechanisms; justification; incentives; requirements
 - Developing countries: Brazil; Colombia; Turkey
 - European countries: Spain, Ireland, England
 - North American countries: USA & Canada

3.3. International case studies

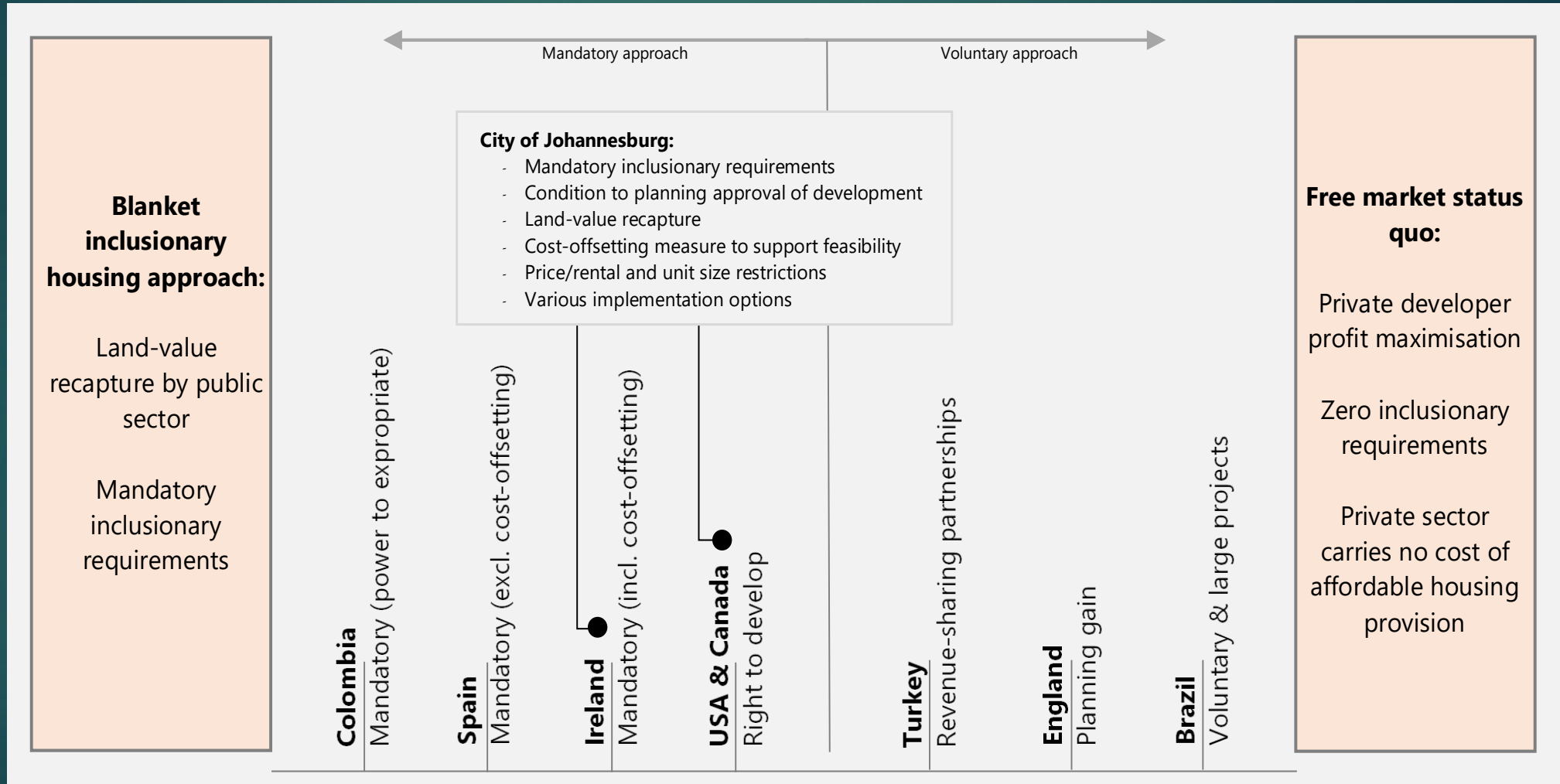
Measure toward protecting development feasibility
✓ Refraining from a blanket, city-wide implementation of rigid inclusionary requirements
✓ Inclusionary requirements are flexible based on the local context relating to the economic and property market conditions
✓ A spatially flexible approach to inclusionary housing implementation, taking cognisance of differing land values and property market conditions
✓ Provision of cost-offsetting measures and incentives to offset increased expenditure imposed on private developers
✓ Spatial flexibility in the affordability mechanism and target recipient households of the affordable units
✓ Limiting inclusionary requirements to large residential developments
✓ Feasibility of private developer participation is considered through alternative options in the provision of inclusionary housing based on the unique context of the development
✓ Consideration of the negotiation-based approach to implementation

4. City's implementation context

4.1. Policy overview

Options	Inclusionary requirements	Typology details	Incentives
Option 1	<ul style="list-style-type: none"> - 30% of all units are subject to price/rental restrictions 	<ul style="list-style-type: none"> - Social housing - FLISP housing - Housing with a rental cap of R2 100 (2018 prices) 	<ul style="list-style-type: none"> - Increased FAR - Increased density (du/ha) - Reduced parking requirements
Option 2	<ul style="list-style-type: none"> - 10% of the total residential floor area is made up of smaller units - 30% of all units are subject to size restrictions 	<ul style="list-style-type: none"> - Minimum size: 18m² - Maximum size: 30m² - Average size: 24m² 	
Option 3	<ul style="list-style-type: none"> - 20% of the total residential floor area is made up of units that are 50% of the average market unit - 30% of all units are subject to size restrictions 	<ul style="list-style-type: none"> - Minimum size: 18m²; - Maximum size: 150m² 	
Option 4	To the satisfaction of City Transformation and Spatial Planning, City of Johannesburg		

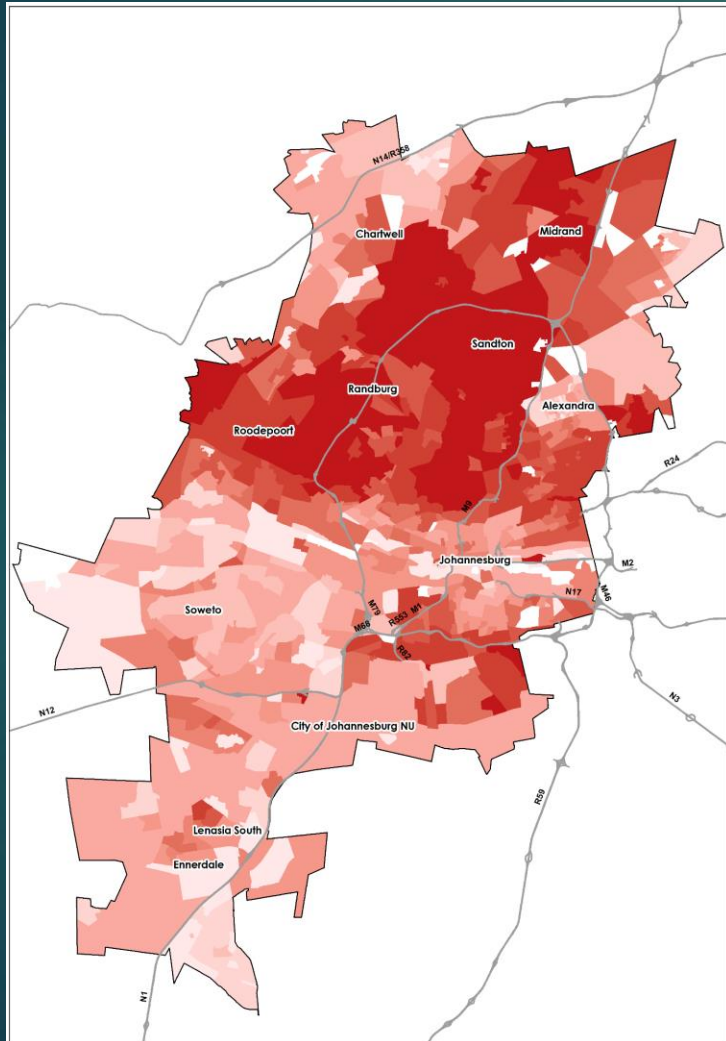
4.2. International benchmark comparison



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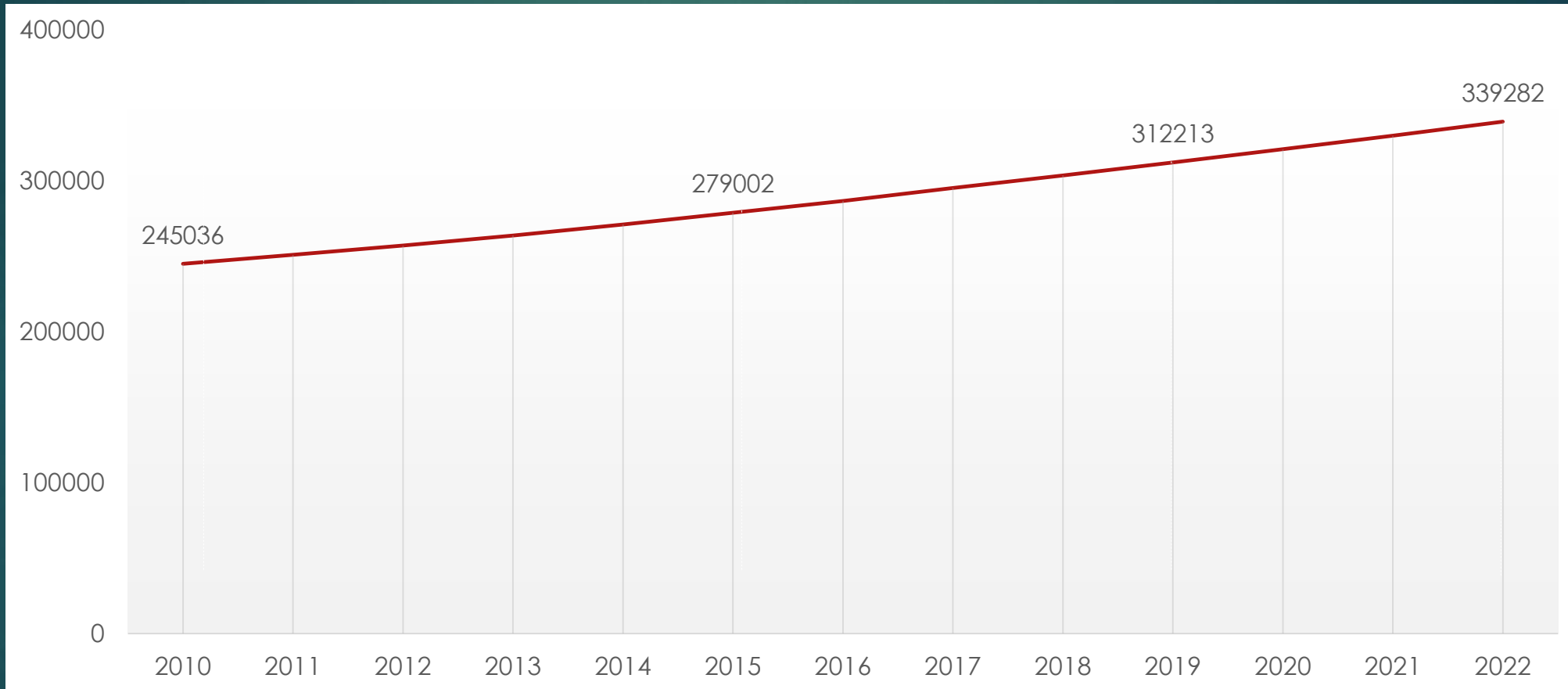
Measure toward protecting development feasibility	City of Johannesburg policy	
Refraining from a blanket, city-wide implementation of rigid inclusionary requirements	No	Blanket, City-wide implementation
Inclusionary requirements are flexible based on the local context relating to the economic and property market conditions	No	Rigid inclusionary requirements
A spatially flexible approach to inclusionary housing implementation, taking cognisance of differing land values and property market conditions	No	Rigid inclusionary requirements
Provision of cost-offsetting measures and incentives to offset increased expenditure imposed on private developers	Yes	Cost-offsetting measures provided
Spatial flexibility in the affordability mechanism and target recipient households of the affordable units	Yes	Different affordability mechanisms
Limiting inclusionary requirements to large residential developments	No	All new developments larger than 20 dwelling units
Feasibility of private developer participation is considered through alternative options in the provision of inclusionary housing based on the unique context of the development	No	On-site provision
Consideration of the negotiation-based approach to implementation	Yes	Implementation option 4

4.3. Urban and human settlement context

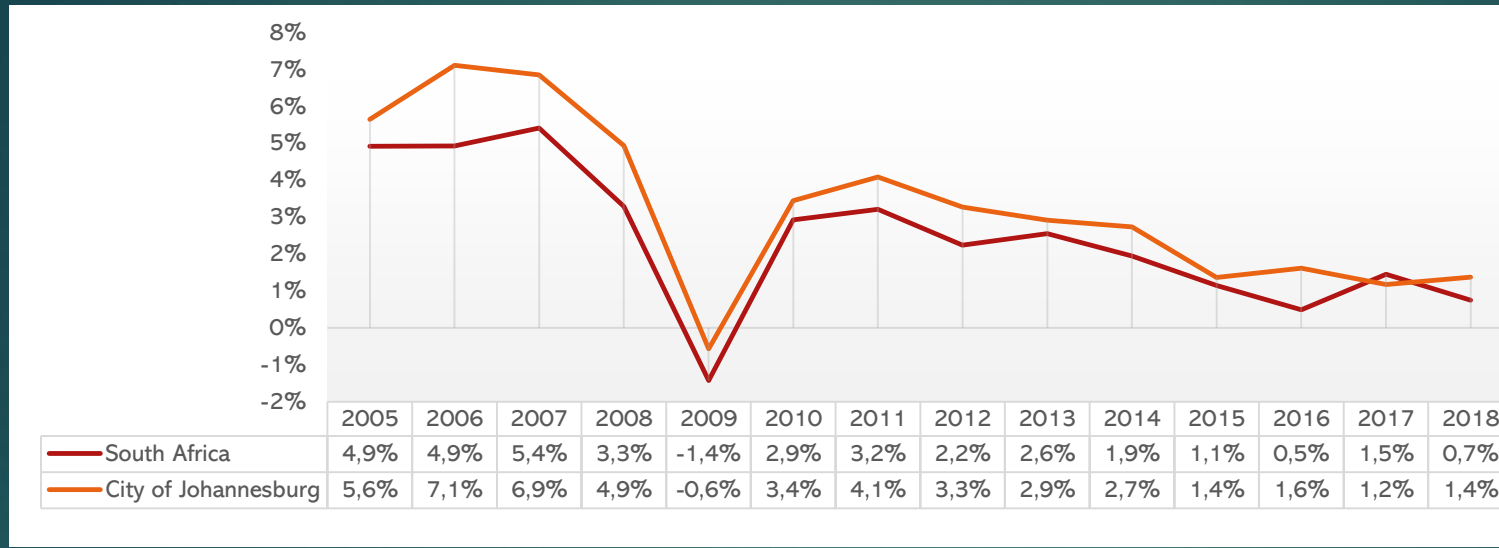


- Low-income human settlements on periphery
- Middle- to high-income areas in central areas
- Established economic nodes, with economic opportunities and access to quality social facilities spatially concentrated
- Objective to improve access to housing for households in periphery, increasing proximity to economic opportunities and social infrastructure.

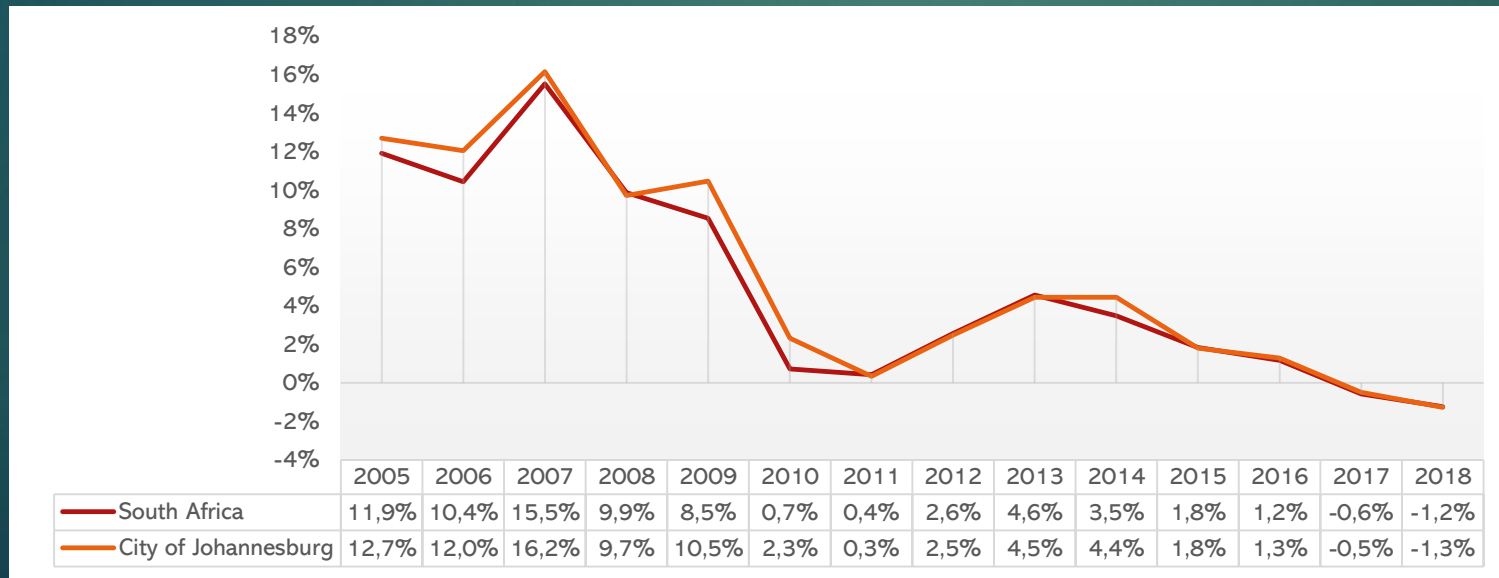
4.4. Housing context



4.5. Economic and sectoral growth

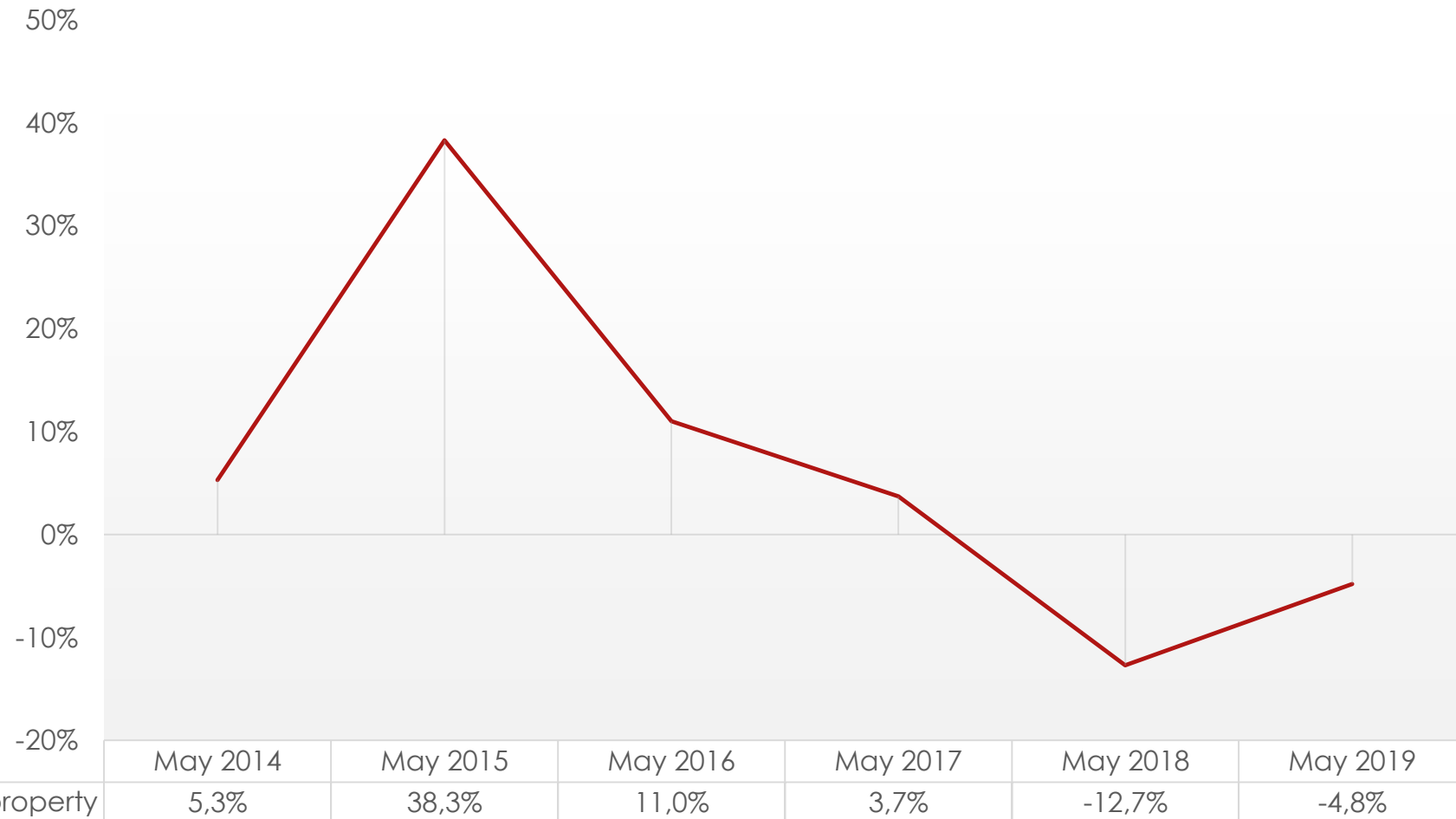


- Economic growth



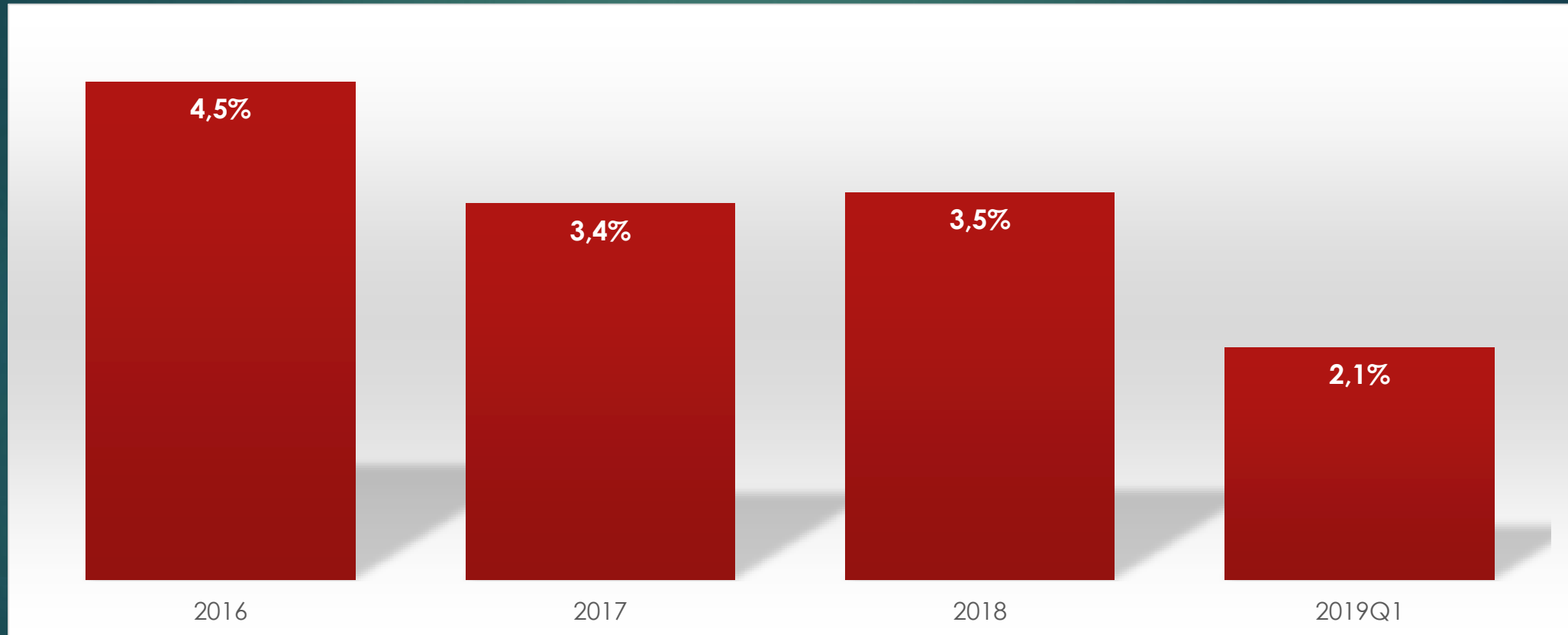
- Sectoral growth

4.6. Property development industry context



4.7. Residential property market context

- Annual growth in nominal house prices in the City of Johannesburg



5. Inclusionary housing and the private sector

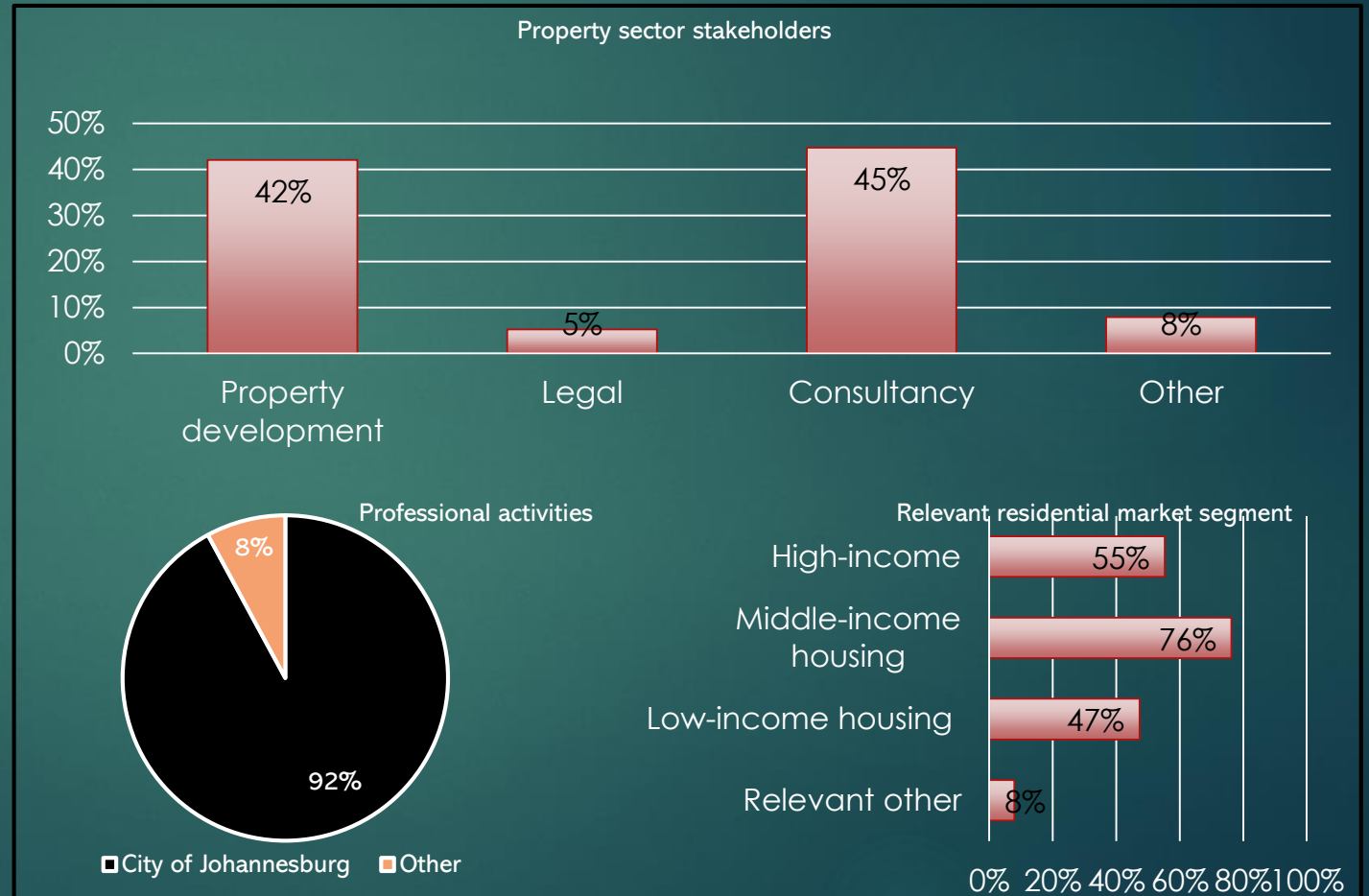
5.1. Research methodology

- ▶ Primary sources:
 - Data collected from property sector stakeholders (including consultants, property developers, etc.) through targeted questionnaires and engagements.
- ▶ Secondary sources:
 - Secondary academic sources; existing SAPOA report

5.2. Sample overview

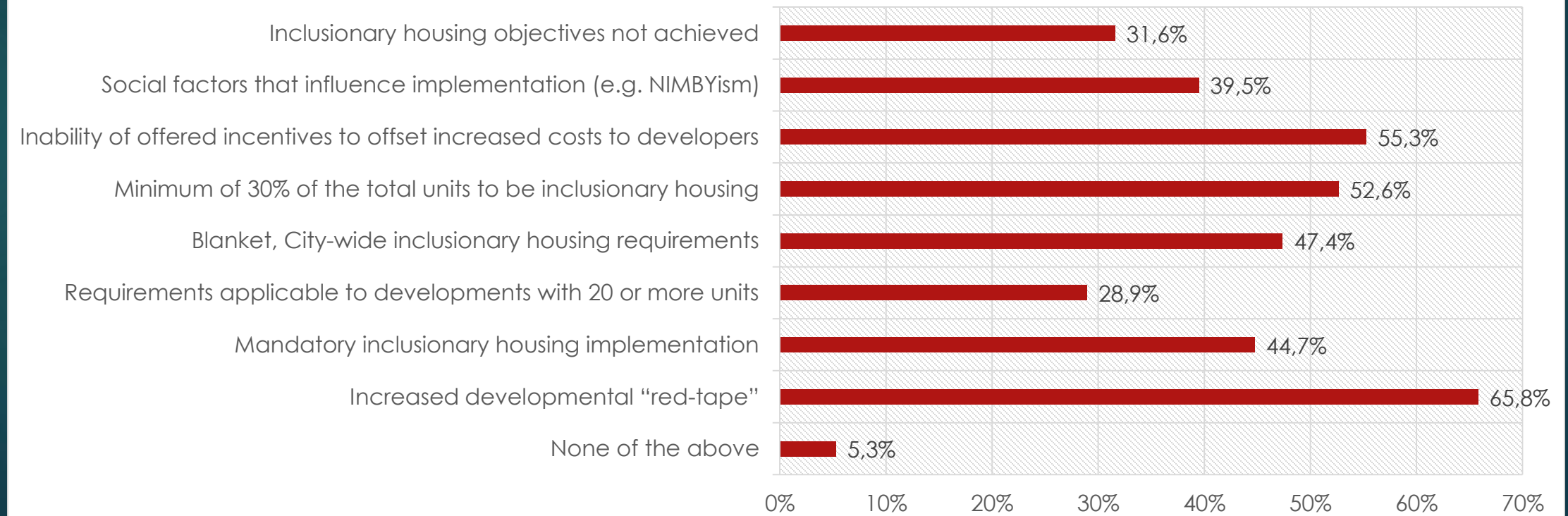
Property sector stakeholders:

- Property development
- Legal (Conveyancer, etc.)
- Consultancy (Town planning, architecture, etc.)
- Other (Property related)



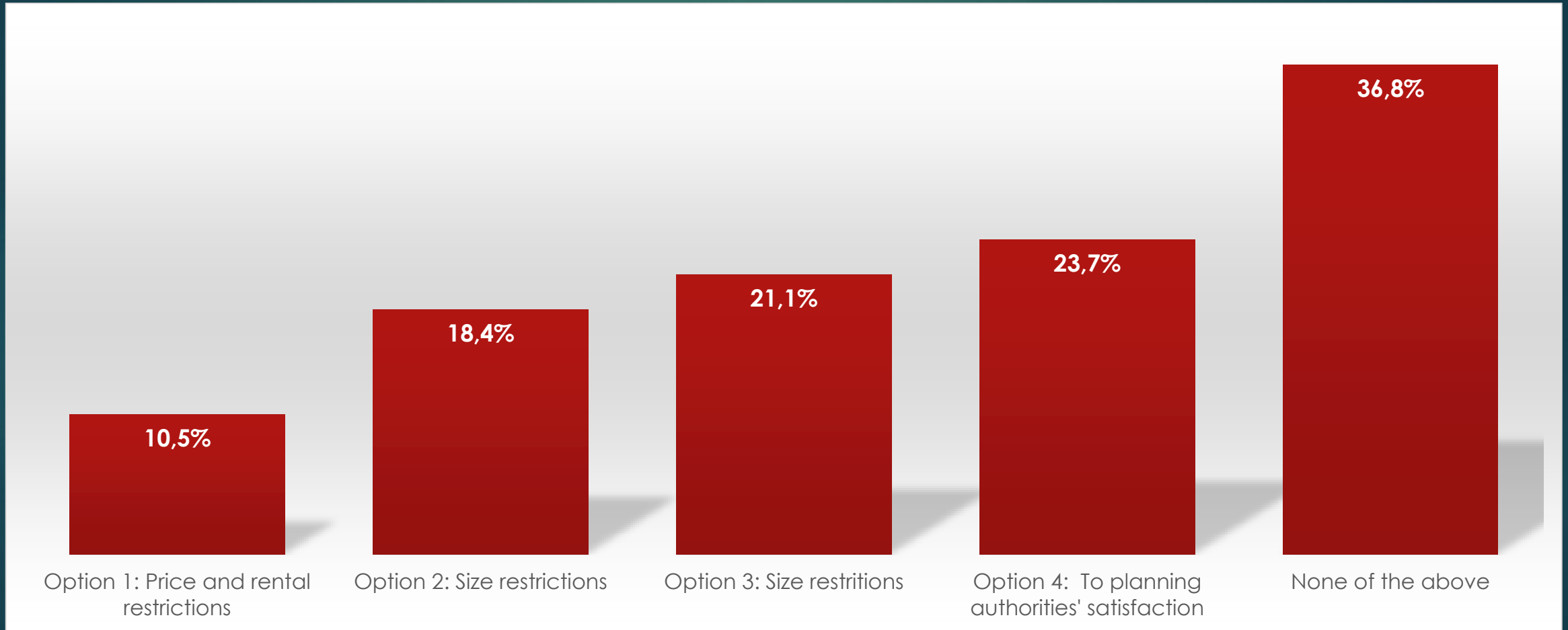
5.3 Private sector policy reception

Questions		Private sector response	
1.	Should the private sector play a more prominent role in alleviating the affordable housing backlog?	Yes	65,8%
2.	Should private developers be mandated to provide affordable housing as part of market-orientated residential developments?	Divided	44,7%
3.	Will the implementation of this policy have a positive or negative effect on the residential property market?	Negative	55,3%



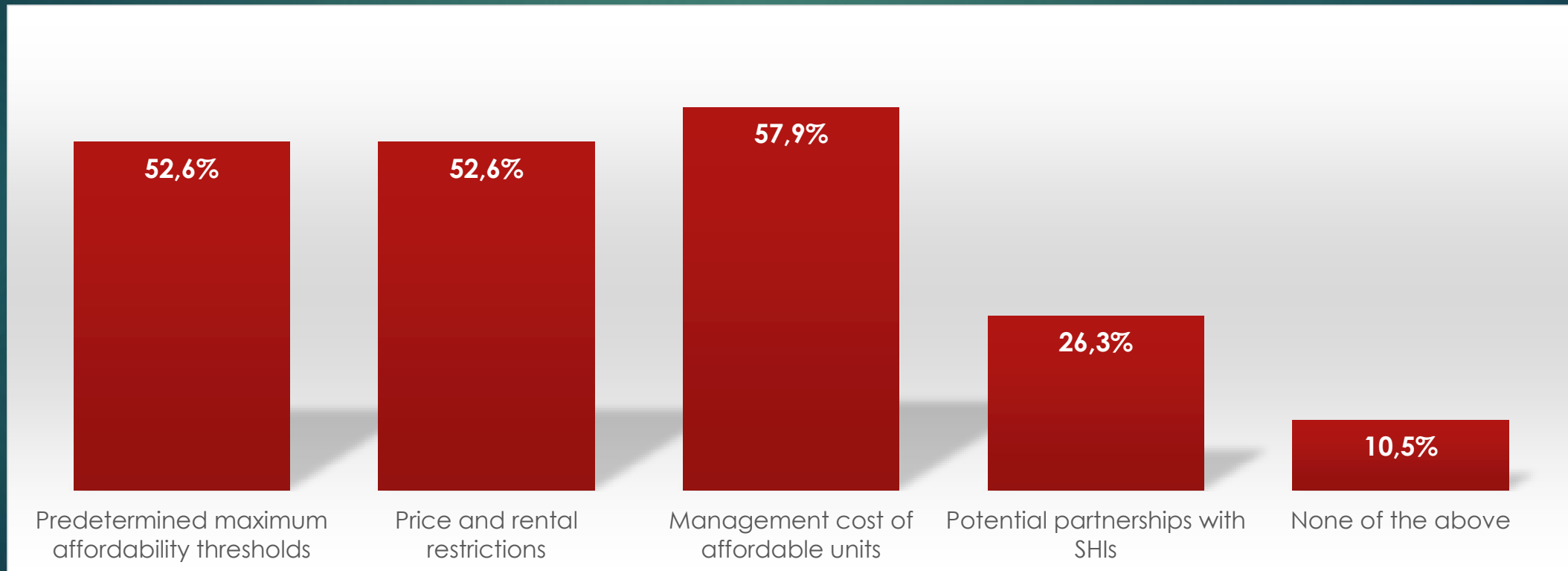
5.4. Implementation options

- Preferred options of implementation



Option 1: Price and rental restrictions

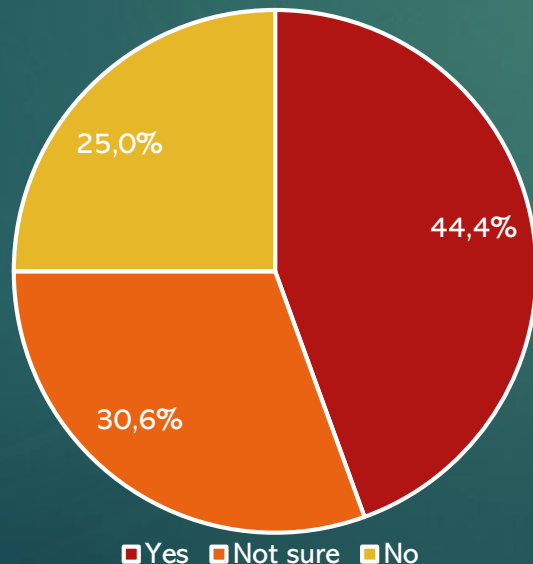
Typology		Monthly household income	Maximum affordability threshold
Rental	Capped rental	R3 500 – R7 000	R2 100
	Social housing	R1 500 – R15 000	R5 550
Bonded	FLISP	R3 500 – R22 000	R410 000



Options 2 and 3: Size restrictions

Options	Inclusionary requirements	Typology details
Option 2	<ul style="list-style-type: none"> - 10% of the total residential floor area is made up of smaller units - 30% of all units are subject to size restrictions 	<ul style="list-style-type: none"> - Minimum size: 18m² - Maximum size: 30m² - Average size: 24m²
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Do size restrictions add to development feasibility?



- a) Dwelling unit size and financing access
- b) Market demand
- c) Construction cost
- d) Contrary to policy objectives

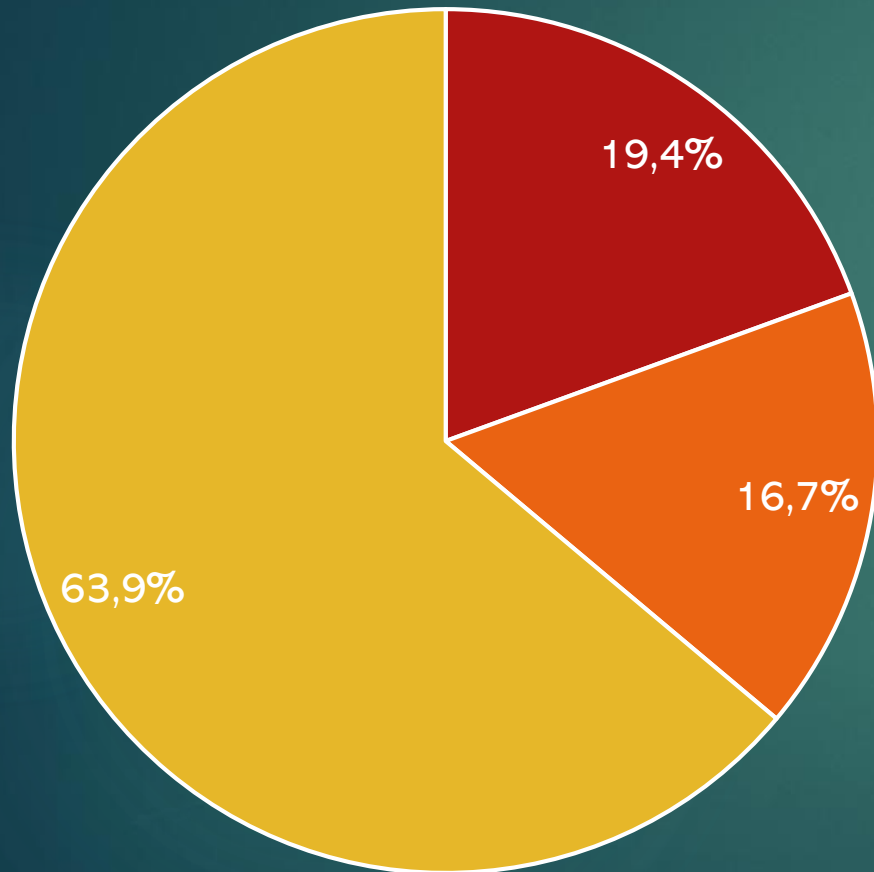
Option 4: To the satisfaction of Council

Implementation mechanism		Property sector response
1.	Option 1: Price and rental restrictions in perpetuity	11,4%
2.	Options 2 and 3: Restricting the size of residential units	17,1%
3.	Option 4: Negotiation-based approach on a project-by-project basis	60,0%
4.	None of the above	22,9%

- a) Time delays of negotiation process
- b) Degree of negotiability
- c) Lack of guidelines

5.5. Cost-offsetting measures and incentives

Sufficient incentives?



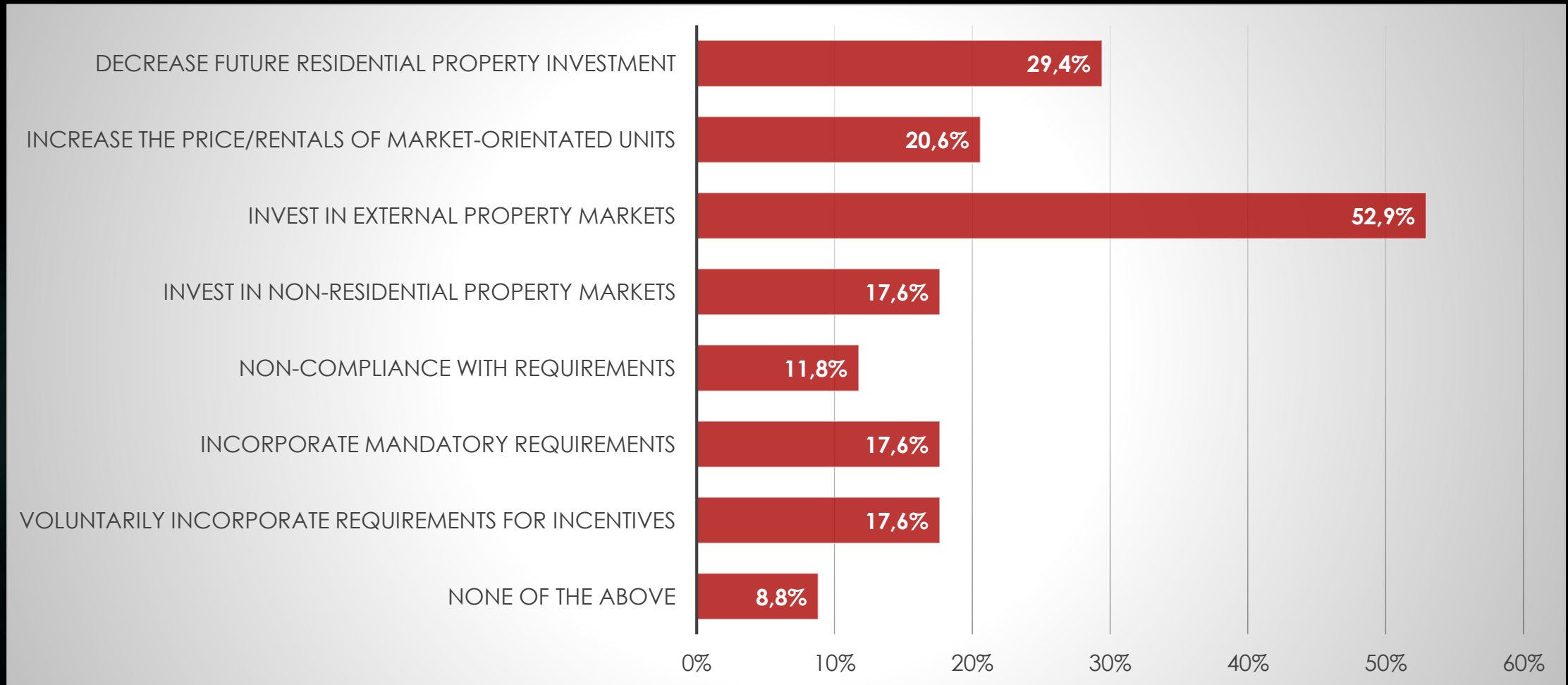
■ Yes ■ Not sure ■ No

1. Increased FAR
2. Increased density (du/ha)
3. Reduced parking requirements

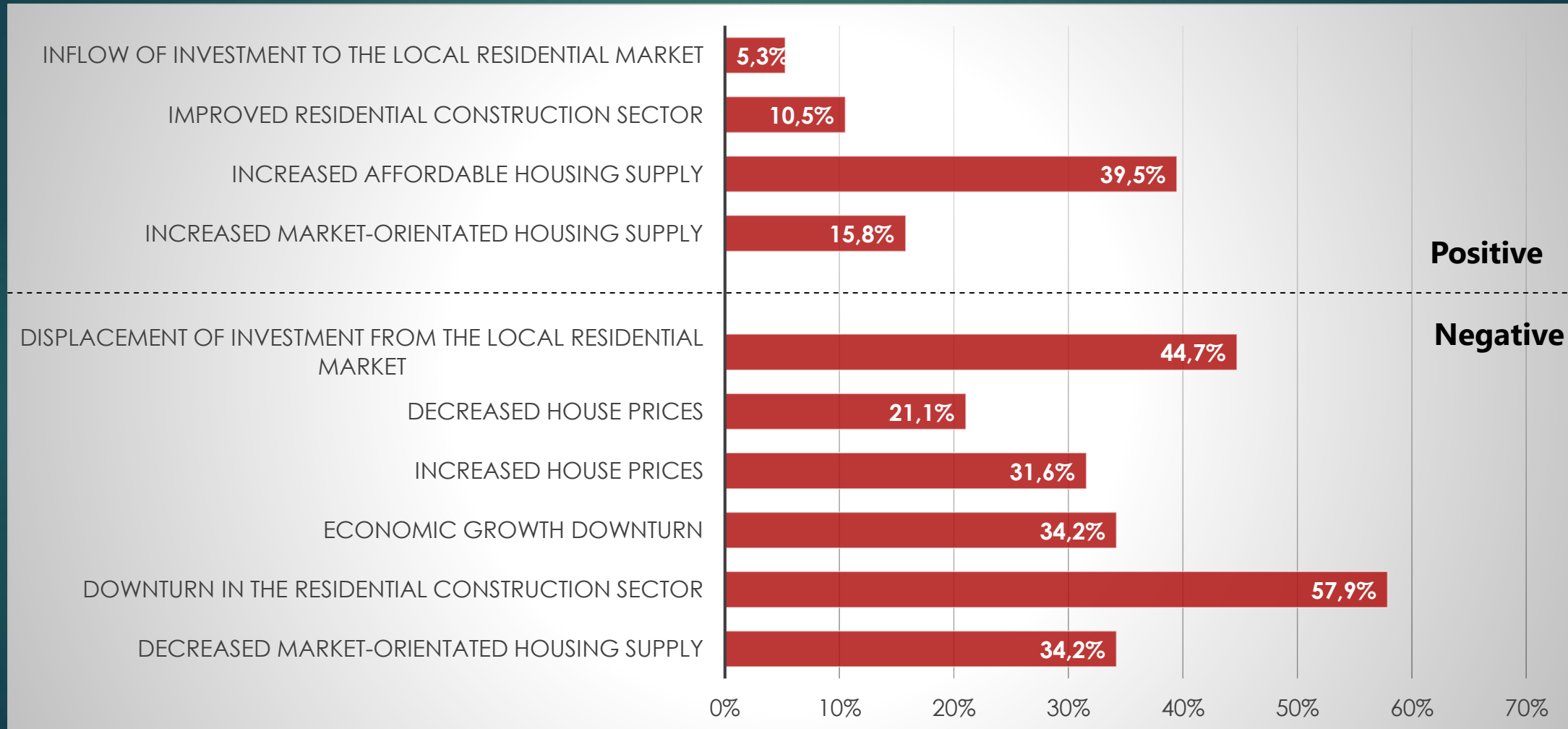
- Increased development costs
- Bulk services contribution
- Parking requirements

6. Potential effect of implementation

6.1. Stakeholder reaction to implementation



6.2. Potential effects of implementation



7. Towards feasible policy implementation

7.1. Preferred implementation

Policy feature	Stakeholder input
1. Approach	- Voluntary approach (65,8% of stakeholders) - Targeted approach (42,1% of stakeholders)
2. Inclusionary requirements	- Negotiation-based (52,6% of stakeholders) - Flexible requirements: Spatial fluctuations in market and economic conditions (39,5% of stakeholders)
3. Incentives	- Reduced bulk services contributions (76,3%); reduced municipal rates (73,7%); decreased bulk infrastructure connection time (44,7%); favourable lending rates (42,1%); and bulk services infrastructure payment holiday (34,2%)
4. Delivery of inclusionary units	- Stakeholder identified on-site provision (34,2%), off-site provision (39,5%), and fees in-lieu (28,9%) as possible modes of delivery
5. Affordability thresholds	- Spatially flexible based on fluctuations in land and property values, market characteristics, and economic conditions (65,8% of stakeholders)
6. Typology	- Combination of rental and bonded units (39,5% of stakeholders)

- Additional incentives as cost-offsetting measures
- Housing mechanisms to support housing affordability
- Context-driven inclusionary requirements
- Flexible affordability thresholds